bauhaus

Bauhaus International (Holdings) Limited

包浩斯國際(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 483)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX-MONTHS ENDED 30 SEPTEMBER 2010

- ➢ Total turnover of the Group increased by about 17.8% to about HK$383.8 million (2009: HK$325.7 million).
- ➢ Gross profit increased by about 17.1% to about HK$270.6 million (2009: HK$231.0 million).
- ➢ Gross margin dropped slightly by about 0.4 percentage points to about 70.5% (2009: 70.9%).
- ➢ Net profit for the period increased by about 34.5% to about HK$23.0 million (2009: HK$17.1 million).
- ➢ Net margin increased by about 0.7 percentage points to about 6.0% (2009: 5.3%).
- ➢ Basic and diluted earnings per share increased by about 33.3% to about HK6.4 cents (2009: HK4.8 cents).
- ➢ An interim dividend of HK2.0 cents (2009: HK2.0 cents) per ordinary share was declared.

The board of directors (the "Directors") of Bauhaus International (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2010, prepared on the basis set out in note 1 to the Interim Financial Statements below, together with the comparative figures for the corresponding period.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2010

		Six months ended 30 September	
		2010	2009
	Notes	***(Unaudited)***	*(Unaudited)*
		HK$'000	*HK$'000*
REVENUE	*3*	**383,819**	325,668
Cost of sales		**(113,252)**	(94,710)
GROSS PROFIT		**270,567**	230,958
Other income and gains	*4*	**1,881**	1,362
Selling and distribution costs		**(194,353)**	(171,220)
Administrative expenses		**(44,831)**	(38,851)
Other expenses		**(722)**	(2,506)
PROFIT BEFORE TAX	*5*	**32,542**	19,743
Income tax expense	*6*	**(9,507)**	(2,635)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		**23,035**	17,108
OTHER COMPREHENSIVE INCOME:			
Currency translation differences		**3,226**	665
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		**26,261**	17,773
EARNINGS PER SHARE – BASIC	*7*	**HK6.4 cents**	HK4.8 cents

Details of the dividends are disclosed in note 8 to the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

	Notes	**As at 30 September 2010 *(Unaudited)* *HK$'000***	As at 31 March 2010 *(Audited)* HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**55,674**	47,986
Prepaid land lease payments		**12,040**	12,177
Intangible assets		**1,777**	1,725
Held-to-maturity debt securities	*9*	**1,637**	1,603
Deferred tax assets		**19,007**	13,893
Rental, utility and other non-current deposits		**62,610**	50,210
Total non-current assets		**152,745**	127,594
CURRENT ASSETS			
Inventories		**198,233**	124,604
Trade and bills receivables	*10*	**25,311**	23,258
Prepayments, deposits and other receivables		**17,099**	16,684
Prepaid land lease payments, current portion		**272**	272
Tax recoverable		**231**	461
Held-to-maturity debt securities, current portion	*9*	**–**	1,949
Cash and cash equivalents	*11*	**143,991**	220,615
Total current assets		**385,137**	387,843
CURRENT LIABILITIES			
Trade and bills payables	*12*	**44,411**	13,753
Other payables and accruals		**63,344**	58,230
Tax payable		**21,056**	12,842
Total current liabilities		**128,811**	84,825
NET CURRENT ASSETS		**256,326**	303,018
TOTAL ASSETS LESS CURRENT LIABILITIES		**409,071**	430,612
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**5,398**	4,674
NET ASSETS		**403,673**	425,938
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*13*	**35,945**	35,945
Reserves		**360,539**	341,467
Proposed dividends		**7,189**	48,526
TOTAL EQUITY		**403,673**	425,938

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2010

1. BASIS OF PRESENTATION AND PREPARATION

These unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Bauhaus International (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2010 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "*Interim Financial Reporting*", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted in the preparation of the Interim Financial Statements are the same as those used in the annual financial statements for the year ended 31 March 2010, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") (which also include HKASs and Interpretations) in current period for the first time as disclosed in note 2 below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

These Interim Financial Statements have not been audited, but have been reviewed by the Company's audit committee and should be read in conjunction with the 2010 annual report.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted in the preparation of these Interim Financial Statements the following new and revised HKFRSs, amendments and interpretations (the "New Standards") which are mandatory for accounting periods beginning on or after 1 April 2010.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a Subsidiary*
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
Improvements to HKFRSs (May 2009)	Amendments to a number of HKFRSs

The adoption of these New Standards has had no material effect on the Group's accounting policies, results of operations or financial position.

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

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [1]
HKFRS 9	*Financial Instruments* [3]
HKAS 24 (Revised)	*Related Party Disclosures* [2]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [2]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [1]
Improvements to HKFRSs (May 2010)	Amendments to a number of HKFRSs

[1] Effective for annual periods beginning on or after 1 July 2010
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

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

For management purposes, the Group is organised into business units that offer products to customers located in different geographical areas and has four reportable operating segments as follows:

(a) Hong Kong and Macau

(b) Mainland China

(c) Taiwan

(d) Elsewhere

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources 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 and unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, time deposits, held-to-maturity debt securities, and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities and tax payable as these liabilities 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.

3. **OPERATING SEGMENT INFORMATION** (continued)

	Hong Kong and Macau *HK$'000*	Mainland China *HK$'000*	Taiwan *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
For the six months ended 30 September 2010 (Unaudited)					
Segment revenue:					
Sales to external customers	237,894	75,795	54,004	16,126	383,819
Intersegment sales	–	921	37,774	–	38,695
	237,894	76,716	91,778	16,126	422,514
Reconciliation:					
Elimination of intersegment sales					(38,695)
Revenue					383,819
Segment results:	25,535	13,726	3,612	4,891	47,764
Reconciliation:					
Interest income					322
Unallocated expenses					(15,544)
Profit before tax					32,542
As at 30 September 2010 (Unaudited)					
Segment assets:	205,765	126,578	54,801	7,904	395,048
Reconciliation:					
Deferred tax assets					19,007
Held-to-maturity debt securities					1,637
Tax recoverable					231
Time deposits					18,573
Unallocated assets					103,386
Total assets					537,882
Segment liabilities:	66,665	34,741	6,055	294	107,755
Reconciliation:					
Deferred tax liabilities					5,398
Tax payable					21,056
Total liabilities					134,209

3. **OPERATING SEGMENT INFORMATION** (continued)

	Hong Kong and Macau *HK$'000*	Mainland China *HK$'000*	Taiwan *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
For the six months ended 30 September 2009 (Unaudited)					
Segment revenue:					
Sales to external customers	211,104	53,771	43,565	17,228	325,668
Intersegment sales	–	1,004	18,889	–	19,893
	211,104	54,775	62,454	17,228	345,561
Reconciliation:					
Elimination of intersegment sales					(19,893)
Revenue					325,668
Segment results:	11,185	12,635	6,106	3,928	33,854
Reconciliation:					
Interest income					168
Unallocated expenses					(14,279)
Profit before tax					19,743
As at 31 March 2010 (Audited)					
Segment assets:	127,545	128,408	50,659	5,734	312,346
Reconciliation:					
Deferred tax assets					13,893
Held-to-maturity debt securities					3,552
Tax recoverable					461
Time deposits					3,480
Unallocated assets					181,705
Total assets					515,437
Segment liabilities:	42,315	26,198	3,401	69	71,983
Reconciliation:					
Deferred tax liabilities					4,674
Tax payable					12,842
Total liabilities					89,499

4. OTHER INCOME AND GAINS

	Six months ended 30 September 2010	2009
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Other income:		
Interest income	**322**	168
Others	**1,018**	829
	1,340	997
Gains:		
Foreign exchange gains, net	**541**	365
	1,881	1,362

5. PROFIT BEFORE TAX

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

	Six months ended 30 September 2010	2009
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Cost of inventories sold	**99,852**	87,120
Provision for slow-moving and aged inventories, net (included in cost of sales)	**13,400**	7,590
Depreciation	**11,279**	13,019
Loss on disposal of property, plant and equipment, net	**413**	497
Recognition of prepaid land lease payments	**137**	129
Amortisation of intangible assets	**170**	162
Write-off of intangible assets	**8**	–
Write-off of rental deposits	**131**	–
Write-off of trade and bills receivables	**–**	4
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	**94,275**	85,009
Contingent rents	**14,755**	11,274
	109,030	96,283
Rental expenses under operating leases in respect of equipments:		
Minimum lease payments	**299**	199
Contingent rents	**63**	–
	362	199
Employee benefits expenses (including directors' remuneration):		
Wages, salaries and other benefits	**68,362**	59,497
Pension scheme contributions	**3,738**	3,085
	72,100	62,582

6. INCOME TAX EXPENSE

	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Current tax		
– Hong Kong	**4,625**	2,025
– Elsewhere	**9,206**	341
Deferred tax charge/(credit)	**(4,324)**	269
Total tax charge for the period	**9,507**	2,635

Hong Kong profits tax has been provided at a rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2010. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions, in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the parent of HK$23,035,000 (2009: HK$17,108,000) and the weighted average number of ordinary shares in issue during the period under review of 359,450,000 (2009: 359,450,000).

The Group had no potentially dilutive ordinary shares in issue during those periods.

8. DIVIDENDS

A final dividend and a special dividend of HK$30,553,000 (2009: HK$19,770,000) and HK$17,973,000 (2009: HK$10,783,000) respectively for the year ended 31 March 2010 were paid in September 2010.

	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Interim – HK2.0 cents (2009: HK2.0 cents) per ordinary share	**7,189**	7,189

The Directors declared to pay an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 September 2010 (2009: HK2.0 cents) payable on or about Friday, 21 January 2011 to shareholders whose names appear on the register of members of the Company on Thursday, 6 January 2011. The interim dividend is not reflected as a dividend payable as of 30 September 2010, but will be reflected as an appropriation of retained earnings of the Company for the year ending 31 March 2011.

9. HELD-TO-MATURITY DEBT SECURITIES

	As at 30 September 2010 *(Unaudited)* *HK$'000*	As at 31 March 2010 *(Audited)* *HK$'000*
Unlisted bonds, at amortised cost	**1,637**	3,552
Current portion	**–**	(1,949)
Non-current portion	**1,637**	1,603

These unlisted bonds have an aggregate nominal value of RMB1,390,000 (31 March 2010: RMB3,080,000), bear interests at rates ranging from 2.25% to 2.70% (31: March 2010: from 2.25% to 3.35%) per annum and will mature between 2011 and 2012.

10. TRADE AND BILLS RECEIVABLES

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

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

	As at 30 September 2010 *(Unaudited)* *HK$'000*	As at 31 March 2010 *(Audited)* *HK$'000*
Within 90 days	**25,215**	23,219
91 to 180 days	**76**	33
181 to 365 days	**20**	6
	25,311	23,258

The carrying amounts of trade and bills receivables approximate their fair values.

11. CASH AND CASH EQUIVALENTS

	As at 30 September 2010 *(Unaudited)* *HK$'000*	As at 31 March 2010 *(Audited)* *HK$'000*
Cash and bank balances	**125,418**	217,135
Non-pledged time deposits with original maturity of less than three months when acquired	**18,573**	3,480
Cash and cash equivalents	**143,991**	220,615

12. TRADE AND BILLS PAYABLES

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

	As at 30 September 2010 ***(Unaudited)*** ***HK$'000***	As at 31 March 2010 *(Audited)* *HK$'000*
Within 90 days	**43,722**	13,509
91 to 180 days	**406**	65
181 to 365 days	**232**	179
Over 365 days	**51**	–
	44,411	13,753

The carrying amounts of trade and bills payables approximate their fair values.

13. SHARE CAPITAL

Shares

	Company	
	As at 30 September 2010 ***(Unaudited)*** ***HK$'000***	As at 31 March 2010 *(Audited)* *HK$'000*
Authorised:		
2,000,000,000 (31 March 2010: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
359,450,000 (31 March 2010: 359,450,000) ordinary shares of HK$0.1 each	**35,945**	35,945

Shares options scheme

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

During the six months ended 30 September 2010, no option has been granted or agreed to be granted pursuant to the Scheme.

14. CONTINGENT LIABILITIES

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

	As at 30 September 2010 (Unaudited) HK$'000	As at 31 March 2010 (Audited) HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**6,132**	7,696

The Group or the Company had no other significant contingent liabilities at 30 September 2010 (31 March 2010: Nil).

15. COMMITMENTS

(i) Commitments under operating leases

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

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

	As at 30 September 2010 (Unaudited) HK$'000	As at 31 March 2010 (Audited) HK$'000
Within one year	**188,581**	146,618
In the second to fifth year, inclusive	**224,766**	136,632
Over five years	**12,170**	2,963
	425,517	286,213

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

No operating lease arrangements were engaged by the Company as at 30 September 2010 (31 March 2010: Nil).

(ii) Other commitment

In addition to the operating lease commitments detailed in note 15(i) above, the Group or the Company had no material capital commitments in respect of the acquisition of items of property, plant and equipment contracted, but not provided for in the financial statements as at 30 September 2010 (31 March 2010: Nil).

16. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Six months ended 30 September	
	2010	2009
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Computer system maintenance charges paid to related companies	**634**	334
Purchases of computer equipment from related companies	**852**	51

(b) Compensation of key management personnel of the Group

	Six months ended 30 September	
	2010	2009
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Short term employee benefits	**2,502**	2,016
Post-employment benefits	**28**	27
Total compensation paid to key management personnel	**2,530**	2,043

17. EVENTS AFTER THE REPORTING PERIOD

(a) On 13 October 2010, the Group entered into four provisional sales and purchase agreements with independent third parties to acquire certain properties situated in Hong Kong for a cash consideration of HK$39,800,000 in aggregate. Those transactions are scheduled to be completed on or before 31 March 2011. The properties acquired will be used as warehouse and car parking spaces of the Group.

(b) On 6 November 2010, the Group entered into a provisional sales and purchase agreement with an independent third party to acquire a property situated in Hong Kong for a cash consideration of HK$4,950,000. This transaction is scheduled to be completed on or before 31 December 2010. The property acquired will be used as warehouse of the Group.

18. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current period's presentation and accounting treatment.

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Directors on 25 November 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded an aggregate turnover of about HK$383.8 million (2009: HK$325.7 million) in the six months ended 30 September 2010, a fast growth rate of about 17.8% over the corresponding period in 2009. The Group's net profits also increased significantly by about 34.5% to about HK$23.0 million (2009: HK$17.1 million) and the half-year profit margin improved from about 5.3% to about 6.0%.

The retail markets and consumer sentiment in the regions within which the Group operates experienced a gradual recovery, improving continuously during the period under review. Accordingly, the Group more aggressively expanded its self-managed retail networks to realise the immense potential of these markets. During the period under review, the Group added 26 sales outlets, increasing from 193 as at 31 March 2010 to 219 as at 30 September 2010. Instead of focusing on short-term results, the Group has continuously committed to expand the Group's business at a healthy pace and to establish a solid business foundation to achieve sustainable development.

As at 30 September 2010, the Group's self-managed retail outlets and franchised outlets were located in Hong Kong, Macau, Mainland China and Taiwan as outlined below. These include outlets under the brand names of "BAUHAUS", "TOUGH Jeansmith", "SALAD", "80/20", "ELITE", "ATTACHMENT", "TWISTEDMIND" and "SUPERDRY".

	As at 30 September 2010	**As at 31 March 2010**	**Changes**
Self-managed outlets			
Hong Kong	66	57	+9
Macau	4	3	+1
Mainland China			
– Shanghai	14	14	–
– Beijing	11	8	+3
– Guangzhou	6	2	+4
– Nanjing	2	–	+2
	33	**24**	**+9**
Taiwan	49	39	+10
	152	**123**	**+29**
Franchised outlets			
Mainland China	**67**	**70**	**-3**
TOTAL	**219**	**193**	**+26**

Hong Kong and Macau

Turnover from Hong Kong and Macau is mostly contributed by the self-managed retail business. Retail operation in Hong Kong, which accounted for about 56.1% (2009: 58.5%) of the Group's turnover, achieved double-digit growth in sales of about 13.0% to about HK$215.2 million (2009: HK$190.4 million) during the period under review. Moreover, retail sales in Macau also increased by about 9.7% to about HK$22.7 million (2009: HK$20.7 million) in the six months ended 30 September 2010. During the period under review, the Group not only expanded aggressively its self-managed retail networks by adding 10 stores in Hong Kong and Macau, but also enriched its retail portfolio by introducing a well-performing licensed brand, "SUPERDRY", to these markets. The results were well-received during the period under review. The new brand is considered as a potential growth driver to the Group's business, especially in some mature markets such as Hong Kong and Taiwan. The Group remains committed to build a robust and diverse network to fuel its growth in the long term.

Mainland China

The Group has penetrated the Mainland China markets through a "dual-channel" model, namely its self-managed retail operation to cover first-tier cities including Beijing, Shanghai, Guangzhou and Nanjing as well as its franchised networks to cover over 30 prime cites in Mainland China with huge market potentials. During the period under review, the turnover from Mainland China continued as the principal growth engine of the Group with a surging increase of about 40.9% to about HK$75.8 million (2009: HK$53.8 million).

Self-managed Retail Operation

During the period under review, retail sales in Mainland China recorded a significant growth of about 48.1% to about HK$47.7 million (2009: HK$32.2 million). The Group has speeded up its pace to expand its self-managed retail networks during the period under review by aggregately adding 15 new shops in the targeted first-tier cities. Instead of focusing merely on the scale of retail networks, the Group has taken higher priority on the profitability and operating efficiency of its shop portfolio as a whole. During the period under review, the Group also closed 6 non-performing shops. The Group has aimed to improve its profitability and cost structure in the region in order to build a solid and healthy foundation to capture the immense potential of the growing market. Therefore, the Group also proactively reallocated certain shops to other prime shopping areas with lower rental costs.

Franchise Business

The franchise business model is an important and efficient strategic tool to rapidly penetrate the Mainland China market. After about a year of consolidating, the Group eliminated some non-performing franchisees, reducing the total number of franchised shops from 70 as at 31 March 2010 to 67 as at the end of the reporting period. On the other hand, the overall operating efficiency was gradually enhanced and the turnover contributed by the franchise business rose strongly by about 30.1% to about HK$28.1 million (2009: HK$21.6 million) during the period under review. Although the Group expected that the growth in franchise sales still would be more volatile than the retail business in the near future, the Group remained cautiously optimistic to maintain growth in this business segment in the long term. Therefore, the Group invested more resources in streamlining the operations and providing more training and technical support to franchisees to weather the challenges in the marketplace.

Taiwan

The Group has engaged in self-managed retail operations in Taiwan for years. Taiwan's retail operations again recorded an encouraging result with turnover increased by about 23.9% to about HK$54.0 million (2009: HK$43.6 million). Due to its dedicated management efforts, tactful sales teams and extensive and well-positioned retail networks, the Group was able to achieve rapid and continued sales growth in the segment. With a solid foundation in Taiwan built over ten years and effective branding efforts, the Group's in-house branded products were well-received generally in the trendy casual wear market. The Group gradually penetrated deeper into the major cities of Taiwan to capture more market shares. In addition to extending its footprint through in-house labels, the Group is also introducing the growing licensed brand, "SUPERDRY", to the Taiwan market. During the period under review, together with 10 newly added outlets in the region, there was a total of 49 outlets in Taiwan as at 30 September 2010, which mostly located within reputable department stores in the largest cities of Taiwan.

Elsewhere

The Group extended its business coverage over many overseas countries through wholesale operations. Since the last fiscal year, the Group has started to downsize the business operation in Europe in view of the gloomy economic outlook in the region and has re-directed its resources to develop its business in Asia region. Hence, the overall sales contributed by the segment dropped from about HK$17.2 million during the corresponding period in 2009 to about HK$16.1 million for the six months ended 30 September 2010, a decrease about 6.4%. However, the Japanese market, the largest overseas wholesale market of the Group, recorded growth in sales of about 8.4% to about HK$11.6 million (2009: HK$10.7 million) during the period under review. By offering solid technical support, the Group tried to gradually expand its penetration in the region by aiding its distributors to extend their retail networks. In addition, the Group was also proactively seeking new business partners for its wholesale business.

FINANCIAL REVIEW

Turnover

The aggregate turnover of the Group rose by about 17.8% to about HK$383.8 million (2009: HK$325.7 million) for the six months ended 30 September 2010, which comprised about HK$339.5 million (2009: HK$286.8 million) in sales from retail operations, about HK$28.1 million (2009: HK$21.6 million) in sales from the franchise business and about HK$16.2 million (2009: HK$17.3 million) in sales from the wholesale business. The retail business, accounting for about 88.5% of the total turnover and expanding by about 18.4%, was the major sales growth contributor.

Operating Segment Information

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

Gross Profit

The Group's gross profit increased by about 17.1% to approximately HK$270.6 million (2009: HK$231.0 million) in the six months ended 30 September 2010 and the gross margin has been successfully maintained at almost an identical level of about 70.5% (2009: 70.9%) as compared with the same period last year despite an significant amount noted for the provision for slow-moving and aged inventories of about HK$13.4 million (2009: HK$7.6 million), increased by about 76.3%, incurred in the period under review.

Even through the provision on slow-moving and aged inventories imposed considerable pressure on the Group's gross margin in the period under review, the Group enacted certain effective measures to compensate for the adverse effect on the margin. During the period under review, the Group slightly increased the retail price of in-house branded products in general and reduced the extent and frequency of sales discounts to the customers in the wake of the continued improvement in consumer sentiment and retail performance. The sales mix of the Group's in-house branded products increased to about 88% (2009: 85%) during the period under review. Generally, the Group's in-house branded products offer higher gross margin to the Group than internationally branded merchandise and other vendors' brands. As a result, the Group was capable of managing its overall gross margin at a relatively high and stable level.

Operating Expenses

The Group's stringent cost control measures have taken effect during the period under review. The Group's operating expenses increased moderately by about 12.8% to approximately HK$239.9 million during the six months ended 30 September 2010 (2009: HK$212.6 million), equivalent to about 62.5% of the total turnover (2009: 65.3%), a drop of about 2.8 percentage points.

Rental cost of land and buildings, which accounted for about 45.4% (2009: 45.3%) of the Group's total expenses in the review period and equivalent to about 28.4% (2009: 29.6%) of the Group's turnover, rose by about 13.2% to approximately HK$109.0 million (2009: HK$96.3 million) mainly because of an increase in the number of stores and gross shop areas leased by the Group. In past years, the Group strategically reallocated and consolidated certain shops to reduce an unreasonably high rental burden and to enhance sales areas utilisation. These measures have gradually taken effect during the period under review as the upward pressure on rent-to-sales ratio has been gradually alleviated and hence the profit margin has improved as expected. The Group more aggressively expanded and enriched its shop portfolio during the period under review, but higher priority was placed on improving the profitability as a whole rather than merely expanding the scale of the operation.

Staff cost was another major operating cost, and increased moderately by about 15.2% to approximately HK$72.1 million during the six months ended 30 September 2010 (2009: HK$62.6 million). The staff cost-to-sales ratio dropped slightly from about 19.2% in 2009 to about 18.8% in 2010. The Group's effective cost control measures were in place. Besides, the Group continued to enhance its procedures to motivate sales staff, monitor their performance and ensure high accountability and efficiency to confront competition and rapidly changing operating environments in different regions.

Depreciation charges dropped by about 13.1% to approximately HK$11.3 million for the six months period ended 30 September 2010 (2009: HK$ 13.0 million). Marketing expenses, including advertising, promotion and exhibition expenses, jumped to approximately HK$9.3 million (2009: HK$6.6 million) for the period under review, an increase of about 40.9%, and were aimed at enhancing brand building efforts and exposure of the Group's in-house brands to the target consumer markets, especially in Mainland China.

Net Profit

The Group's net profit attributable to shareholders was increased drastically by about 34.5% from approximately HK$17.1 million in 2009 to approximately HK$23.0 million for the six months ended 30 September 2010. Net profit margin also improved from about 5.3% to about 6.0%.

CAPITAL STRUCTURE

As at 30 September 2010, the Group had net assets of approximately HK$403.7 million (31 March 2010: HK$425.9 million), comprising non-current assets of approximately HK$152.8 million (31 March 2010: HK$127.5 million), net current assets of approximately HK$256.3 million (31 March 2010: HK$303.1 million) and non-current liabilities of approximately HK$5.4 million (31 March 2010: HK$4.7 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2010, the Group had cash and cash equivalents of about HK$144.0 million (31 March 2010: HK$220.6 million) and had no bank borrowings at the end of the reporting period (31 March 2010: Nil). As at 30 September 2010, the Group had aggregate banking facilities of about HK$22.0 million (31 March 2010: HK$22.0 million) comprising interest-bearing bank overdraft, rental and utility guarantees as well as import and export facilities, of which about HK$15.3 million had not been utilised at the end of the reporting period.

CASH FLOWS

For the six months ended 30 September 2010, net cash outflow from operating activities was approximately HK$13.6 million (2009: net cash inflow of HK$15.7 million), which was mainly attributed to a substantial increase in inventory level in view of the optimistic outlook in retail markets and the continuous rapid expansion of the Group's retail networks. Net cash outflow from investing activities increased significantly from approximately HK$5.9 million in the corresponding period of 2009 to approximately HK$17.5 million in the review period, mainly because of more capital expenditure invested for the fast expansion of the retail shop network in the period under review. Net cash outflow from financing activities during the period under review was due to the payment of the 2009/10 final and special dividends totaling approximately HK$48.5 million (2008/09: HK$30.5 million).

SECURITY

As at 30 September 2010, the Group's general banking facilities were secured by certain of its leasehold buildings and prepaid land lease payments with aggregate carrying value of approximately HK$6.2 million (31 March 2010: HK$6.3 million) and about HK$3.2 million (31 March 2010: HK$3.3 million), respectively.

CAPITAL COMMITMENT

As at 30 September 2010, both the Group and the Company had no material capital commitments contracted but not provided for in the financial statements (31 March 2010: Nil).

CONTINGENT LIABILITIES

As at 30 September 2010, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$6.1 million (31 March 2010: HK$7.7 million). The Company had no material contingent liabilities as at the end of the reporting period (31 March 2010: Nil).

HUMAN RESOURCES

Including all directors, the Group had 1,500 employees as at 30 September 2010 (31 March 2010: 1,442). To attract and retain high performance 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 them on external training programmes.

FOREIGN EXCHANGE RISK MANAGEMENT

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

PROSPECTS

With the global economy gradually recovering, the overall retail market in the Greater China area is expected to sustain growth in the second half of the financial year. As consumption sentiment improves, particularly in Mainland China, demand for high-quality apparel will increase. Presented with such opportune development, the Group is confident in its ability to capitalise via strategic expansion plans, and thus allow it to continue on its mission of promoting quality fashion to different parts of the world.

To further penetrate into the region to achieve sustainable growth, the Group will continue to open new self-managed retail stores in already established areas of Mainland China. In this regard, the Group will adhere to its target of opening approximately 20 to 30 self-managed retail stores in FY2010/11 in prime cities, including Beijing, Shanghai and Guangzhou, as well as neighbouring cities, such as Nanjing, where the Group has already established its presence.

With many years of success in the industry, the Group has already established a strong foundation for its in-house labels. Drawing from its experience in launching "TOUGH Jeansmith", "SALAD" and "80/20", the Group will strategically select popular labels that have been tested in the market and proven to possess huge growth potentials for development. Such labels will thus form the basis from which specialty stores will be created, including distinctive lines of branded shops. During the review period, the Group leveraged a popular imported label, "SUPERDRY", to open a total of eight self-managed retail stores in Hong Kong and Taiwan. Employing a "shop-in-shop" strategy as in previous years, "SUPERDRY" was first introduced among the Group's prime-location stores, subsequently receiving positive market response. The sales performance of these newly opened stand-alone shops during the period under review were satisfactory and as opportunities arise, the Group will further promote the new brand to enhance its popularity.

Whether through in-house or imported brands, both are paramount for allowing the Group to diversify its market presence and expand its customer base. Accordingly, the Group will step up efforts to promote brands with strong appeal by using innovative marketing campaigns, and in doing so, enhance its position in the region.

Adhering to its strategy of focusing on profitability and operating efficiency rather than mere turnover growth, the Group will closely monitor the latest trends and adjust its product mix to satisfy the needs of different markets. Besides expanding its product mix from a wide array of fashions to include accessories, the Group will enhance this mix by increasing the proportion of high-value popular items, such as series of colourful leather jackets; thus acting as catalyst for stimulating sales growth.

To acquire and retain a sufficient quality workforce is always a great challenge to a fast growing entity. The Group also encountered such problem of shortage in skillful management personnel and sales staff in some rapid developing regions, which may lead to stifle the Group's rate of expansion. To ensure that local staff is of the highest calibre and in sufficient numbers to support its expansion objectives, particularly in Mainland China, the Group will employ effective coaching and secondment programmes to train both management personnel and front line sales staff with regional exposure. Through these measures, the Group can nurture its staff to become regional leaders and allow the Group to benefit from flexible human resource management, which is essential for realising long-term development.

Aside from business expansion, the Group is dedicated to maintaining a healthy financial position. As such, biannual warehouse sales will be held to reduce slow-moving and aged inventory. The Group will also adopt stringent cost control measures, which includes closely monitoring store operations. In the face of mounting pressure brought on from rising rent, and to enhance its assets base, the Group entered into provisional sales and purchases agreements to acquire certain properties situated in Hong Kong subsequent to the end of the reporting period, and are expected to be used as warehouse and car parking spaces. The Group has also streamlined its operational structure, strategically relocated shops and renegotiated with landlords for more flexible rental arrangements, in an effort to enhance profitability.

Looking forward, the management is cautiously optimistic about the Group's growth potential, spurred on by robust economic development in Asia, and in particular, Mainland China. With a healthier cost structure and strategic expansion measures in place, the Group is ready to embrace every opportunity ahead.

DIVIDEND

The Directors declared to pay an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 September 2010 (2009: HK2.0 cents) payable on or about Friday, 21 January 2011 to shareholders whose names appear on the register of members of the Company on Thursday, 6 January 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4 January 2011 to Thursday, 6 January 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 3 January 2011.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provision of Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2010 except for not having a separate Chairman and Chief Executive Officer. Both positions are held by Mr. Wong Yui Lam ("Mr. Wong").

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, as founder of the Group, Mr. Wong has substantial experience in the fashion industry and the Directors are satisfied with the present leadership structure which they believe can provide the Group with strong and consistent guidance that can facilitate effective development and smooth execution of the Group's business strategies and plans. The Directors believe that it is in the best interest of the shareholders that Mr. Wong continues to assume the roles of the Chairman and Chief Executive Officer.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiries with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months period ended 30 September 2010.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2010.

AUDIT COMMITTEE

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

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and, also discussed internal control and financial reporting matters, including review of the Interim Financial Statements for the six months ended 30 September 2010.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement for the six months ended 30 September 2010 is published on the website of the Company (www.bauhaus.com.hk) and the Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The Company's 2010/11 interim report will be dispatched to the shareholders of the Company and made available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders, business partners and customers for their unstinting support. I would also like to extend my sincere appreciation to all the Group's employees for their dedication.

By Order of the Board
Wong Yui Lam
Chairman

Hong Kong, 25 November 2010

BOARD OF DIRECTORS

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