

The Style Merchants Limited

Unaudited Financial Statement And Dividend Announcement for the Half Year Ended 30 September 2011

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF HALF YEAR RESULTS

- 1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

Unaudited consolidated income statement for the six months ended 30 September 2011:

	Note	6 months ended 30-Sep-11 US\$'000	(Restated) 6 months ended 30-Sep-10 US\$'000	% increase/ (decrease)
Continuing operations				
Revenue		2,425	739	228
Cost of sales		(1,058)	(314)	237
Gross profit		<u>1,367</u>	425	222
Administrative expenses		(1,355)	(562)	141
Other operating expenses		(2,834)	(728)	289
	1	<u>(2,822)</u>	(865)	226
Finance income - bank interest income		1	4	(75)
Finance cost		-	(10)	(100)
Finance income/(costs), net		<u>1</u>	(6)	(117)
Loss before income tax		<u>(2,821)</u>	(871)	224
Income tax credit		27	-	N/M
Loss for the period from continuing		<u>(2,794)</u>	(871)	221
Discontinued operations				
Loss for the period from discontinued	2	-	(904)	(100)
Loss for the period		<u>(2,794)</u>	(1,775)	57
Attributable to:				
Equity holders of the Company		(2,380)	(1,428)	67
Non-controlling interests		(414)	(347)	19
		<u>(2,794)</u>	(1,775)	57

Unaudited consolidated statement of comprehensive loss for the period ended 30 September 2011

	6 months ended	6 months ended	<i>% increase/</i>
	30-Sep-11	30-Sep-10	<i>(decrease)</i>
	US\$'000	US\$'000	
<u>Comprehensive loss:</u>			
Loss for the period	(2,794)	(1,775)	57
<u>Other comprehensive income/(loss):</u>			
Currency translation differences	235	87	170
Translation reserve released on disposal of a subsidiary	-	(13)	(100)
Total comprehensive loss for the period	<u>(2,559)</u>	<u>(1,701)</u>	50
Total comprehensive loss attributable to:			
- Equity holders of the Company	(2,147)	(1,369)	57
- Non-controlling interests	(412)	(332)	24
	<u>(2,559)</u>	<u>(1,701)</u>	50

N/M = not meaningful

Notes:

1. Expenses by nature:

	(Restated)		
	6 months ended	6 months ended	<i>%increase/</i>
	30-Sep-11	30-Sep-10	<i>(decrease)</i>
	US\$'000	US\$'000	
Continuing operations:			
Cost of inventories sold	1,058	314	237
Advertising costs and marketing expenses	447	240	86
Exchange losses / (gains), net	87	(460)	(119)
Depreciation of property, plant and equipment	264	55	380
Amortisation of intangible assets	108	70	54
Reversal of provision for impairment of inventories	(15)	-	N/M
Provision for impairment of trade receivables	14	1	1,334
Gain on disposal of a subsidiary	-	(104)	(100)
Loss on disposal of property, plant and equipment	31	34	(9)
Discontinued operations:			
Cost of inventories sold	-	100	(100)
Other cost of sales	-	403	(100)
Advertising costs and marketing expenses	-	268	(100)
Exchange gains, net	-	(51)	(100)
Depreciation of property, plant and equipment	-	10	(100)

Notes (Cont'd)

2. Loss for the year from discontinued operations

	(Restated)		
	6 months ended	6 months ended	<i>%increase/</i>
	30-Sep-11	30-Sep-10	<i>(decrease)</i>
	US\$'000	US\$'000	
Total comprehensive loss attributable to:			
- Equity holders of the Company	-	(841)	<i>(100)</i>
- Non-controlling interests	-	(63)	<i>(100)</i>
	<u>-</u>	<u>(904)</u>	<i>(100)</i>

3. On 19 April 2010, the Company disposed of the entire issued and paid up share capital of a subsidiary of NeteLusion (Hong Kong) Limited (“NHKL”), Qian Wan Technology Co., Ltd which was engaged in operating an online game, to an independent party for a consideration of RMB600,000 (or equivalent to US\$104,000).

Subsequently, on 31 March 2011, the Company disposed of the entire issued and paid-up share capital of NHKL group, which was engaged in online gaming business to an independent party for a consideration of US\$250,000. In accordance with International Financial Reporting Standard (“IFRS”) 5, “Non-current Assets Held for Sale and Discontinued Operations”, the disposal of NHKL group is considered as discontinued operations.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	<u>Group</u>		<u>Company</u>	
	<u>30-Sep-11</u>	<u>31-Mar-11</u>	<u>30-Sep-11</u>	<u>31-Mar-11</u>
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
ASSETS				
Non-current assets				
Investments in subsidiaries	-	-	1,918	1,866
Goodwill	1,019	991	-	-
Intangible assets	1,322	1,393	-	-
Property, plant and equipment	392	385	-	-
	2,733	2,769	1,918	1,866
Current assets				
Amounts due from subsidiaries	-	-	5,298	5,155
Financial assets at fair value through profit or loss	-	-	1,305	1,341
Inventories	1,614	1,517	-	-
Trade receivables	223	341	-	-
Deposits, prepayments and other receivables	884	834	-	4
Cash and cash equivalents	610	2,659	16	117
	3,331	5,351	6,619	6,617
Total assets	6,064	8,120	8,537	8,483
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	8,821	8,821	8,821	8,821
Reserves	(4,596)	(2,449)	(382)	(522)
	4,225	6,372	8,439	8,299
Non-controlling interests	(906)	(494)	-	-
Total equity	3,319	5,878	8,439	8,299
LIABILITIES				
Non-current liabilities				
Loans from shareholders, unsecured	433	424	-	-
Deferred income tax liabilities	330	348	-	-
	763	772	-	-
Current liabilities				
Trade payables	777	273	-	-
Other payables and accruals	1,205	1,197	98	184
	1,982	1,470	98	184
Total liabilities	2,745	2,242	98	184
Total equity and liabilities	6,064	8,120	8,537	8,483

Note to Balance Sheet

During the period, there was a loss of US\$2,794,000 (2011: 1,775,000) from the operation and cash and cash equivalents amounted to US\$610,000 as at 30 September 2011 (31 March 2011: US\$2,659,000). The Group has performed an assessment on its ability to continue its operations as a going concern for the next twelve months from the balance sheet date. The assessment has considered the management's plans on new business initiatives, cost control measures and other financing alternatives, including a committed stand-by loan facility of not less than RMB10 million (Or US\$1.5 million) provided by substantial shareholders. Based on the assessment, the Directors are of the opinion that the Group will be able to meet its obligations as and when they fall due. Accordingly, the consolidated financial information was prepared on a going concern basis, which assumes, among other things, the realization of assets and satisfaction of liabilities as and when they fall due.

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Loan from shareholders of US\$433,000 are unsecured, repayable on demand without collateral and non-interest bearing. Their carrying amounts approximate their fair values due to their short term maturities.

- 1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	6 months ended 30-Sep-11 US\$'000	6 months ended 30-Sep-10 US\$'000
Cash flows from operating activities		
Loss before income tax	(2,821)	(1,775)
Adjustments for:		
Depreciation of property, plant and equipment	264	65
Amortization of intangible assets	108	70
Loss on disposal of property, plant and equipment	31	34
Reversal of provision for impairment of inventories	(15)	-
Provision for impairment of trade receivables	14	1
Interest expenses	-	10
Interest income	(1)	(4)
Gain on disposal of a subsidiary	-	(104)
Changes in working capital (excluding the offsets of exchange differences on consolidation):	(2,420)	(1,703)
Inventories	(82)	(526)
Receivables	53	(595)
Payables	512	254
Net cash used in operating activities	(1,937)	(2,570)
Cash flows from investing activities		
Purchase of property, plant and equipment	(301)	(251)
Disposal of a subsidiary - net of cash disposed	-	59
Acquisition of subsidiaries - net of cash acquired	-	4
Purchase of intangible assets	-	(104)
Net cash used in investing activities	(301)	(292)
Cash flows from financing activities		
Interest paid	-	(10)
Interest received	1	4
Proceeds from issue of shares - net of expenses	-	6,837
Net cash generated from financing activities	1	6,831
Net (decrease) / increase in cash and cash equivalents	(2,237)	3,969
Cash and cash equivalents at beginning of the year	2,659	2,556
Effect of exchange rate changes on cash and cash	188	87
Cash and cash equivalents at end of the year	610	6,612

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Attributable to equity holders of the Company						Non-	Total
							controlling	equity
	Share capital	Share premium	Merger reserve	Exchange reserve	Share-based compensation reserve	Accumulated losses	interests	US\$'000
US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
Group								
Balance at 1 April 2011	8,821	6,063	-	164	67	(8,743)	(494)	5,878
<u>Comprehensive loss</u>								
Loss for the period	-	-	-	-	-	(2,380)	(414)	(2,794)
<u>Other comprehensive income</u>								
Currency translation differences	-	-	-	233	-	-	2	235
Total comprehensive income/(loss) for the period	-	-	-	233	-	(2,380)	(412)	(2,559)
Balance at 30 September 2011	8,821	6,063	-	397	67	(11,123)	(906)	3,319
Group								
Balance at 1 April 2010	1,804	4,666	(221)	(6)	194	(5,144)	-	1,293
<u>Comprehensive loss</u>								
Loss for the period	-	-	-	-	-	(1,428)	(347)	(1,775)
<u>Other comprehensive income</u>								
Currency translation differences	-	-	-	72	-	-	15	87
Translation reserve released on disposal of a subsidiary	-	-	-	(13)	-	-	-	(13)
Total comprehensive income/(loss) for the period	-	-	-	59	-	(1,428)	(332)	(1,701)
<u>Transaction with owners</u>								
Non-controlling interests arising on acquisition of a subsidiary	-	-	-	-	-	-	(3)	(3)
Issue of ordinary shares under rights issue, net of transaction cost	6,513	324	-	-	-	-	-	6,837
Issue of ordinary shares related to acquisition of subsidiaries, net of transaction cost	504	1,103	-	-	-	-	-	1,607
Balance at 30 September 2010	8,821	6,093	(221)	53	194	(6,572)	(335)	8,033

Attributable to equity holders of the Company

	Share capital	Share premium	Exchange reserve	Share-based compensatio n reserve	Accumulated losses	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<u>Company</u>						
Balance at 1 April 2011	8,821	6,063	-	67	(6,652)	8,299
<u>Comprehensive loss</u>						
Loss for the period	-	-	-	-	(102)	(102)
<u>Other comprehensive income</u>						
Currency translation differences	-	-	242	-	-	242
Total comprehensive income/(loss) for the period	-	-	242	-	(102)	140
Balance at 30 September 2011	8,821	6,063	242	67	(6,754)	8,439

Company

Balance at 1 April 2010	1,804	4,666	-	194	(5,371)	1,293
<u>Comprehensive loss</u>						
Loss for the period	-	-	-	-	(1,074)	(1,074)
Total comprehensive loss for the period	-	-	-	-	(1,074)	(1,074)
<u>Transaction with owners</u>						
Issue of ordinary shares under rights issue, net of transaction cost	6,513	324	-	-	-	6,837
acquisition of subsidiaries, net of transaction cost	504	1,103	-	-	-	1,607
Balance at 30 September 2010	8,821	6,093	-	194	(6,445)	8,663

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

- a) There is no change in the company's share capital since the end of the previous period reported on.
- b) There is no issue of share under the existing share option scheme since the end of the previous period reported on.
- c) There were no shares held as treasury shares as at 30 September 2011 (2010: Nil).
- d) Details of outstanding share options granted to the employees, under the existing share option scheme including directors of the Company, as at 30 September 2011 are as follows:

Exercise price US\$	Number of unissued ordinary shares of US\$0.01 each under options				
	Balance at 1 April 2011	Granted during the period	Exercised during the period	Lapsed during the period	Balance at 30 September 2011
0.1	850,000	-	-	-	850,000
0.3	775,000	-	-	-	775,000
0.4	200,000	-	-	-	200,000
0.7	190,000	-	-	(190,000)	-
0.8	190,000	-	-	(190,000)	-
	2,205,000	-	-	(380,000)	1,825,000

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

Total number of issued shares excluding treasury shares as at 30 September 2011 was 882,121,423 (2010: 882,121,423).

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard).

The figures have not been audited, or reviewed by auditors in accordance with auditing or review standards.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in the preparation of the financial statements and the accounting policies for the current reporting period compared with the audited financial statements for the financial year ended 31 March 2011.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Not applicable.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	6 months ended 30-Sep-11	(Restated) 6 months ended 30-Sep-10
(i) Basic loss per share		
- From continuing operations (US cents)	(0.27)	(0.10)
- From discontinued operations (US Cents)	-	(0.14)
	<u>(0.27)</u>	<u>(0.24)</u>
(ii) Diluted loss per share		
- From continuing operations (US cents)	(0.27)	(0.10)
- From discontinued operations (US cents)	-	(0.14)
	<u>(0.27)</u>	<u>(0.24)</u>

The basic loss per share attributable to equity holders of the Company is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue during the period of 882,121,423 (2010 : 593,706,390) of US\$0.01 each.

The conversion of all share options granted by the Company into ordinary shares would have an anti-dilutive effect on the loss per share for the period ended 30 September 2011 and 30 September 2010. The loss per share on a fully diluted basis is calculated on the weighted average number of ordinary shares of 882,121,423 (2010 : 593,706,390) of US\$0.01 each in issue during the period.

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year.

	<u>Group</u>		<u>Company</u>	
	30-Sep-11 US cents	31-Mar-11 US cents	30-Sep-11 US cents	31-Mar-11 US cents
Net asset value per ordinary share based on issued share capital	0.38	0.67	0.96	0.94

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

FINANCIAL REVIEW

30 September 2011 (“1HFY2011/12”) vs 30 September 2010 (1HFY2010/2011”)

The Group’s turnover for the continuing operation, the Fashion Retail division, increased by 228%, from US\$0.74 million to US\$2.43 million. The increase was contributed mainly by the following:

- Increase in number of self operating shops from 10 (1HFY2010/2011) to 22 by end of the period reported on.
- Increase in number of franchisees from 9 (1HFY2010/2011) to 50 by end of the period reported on.
- Full six month contribution from the Fashion Retail division, which was acquired in end May 2010.

The Group’s gross profit increased by 222% from US\$0.4 million to US\$1.4 million due mainly to higher sales.

In line with the Group’s expansion of its operations, additional operating expenses and marketing expenses of approximately US\$0.45 million were incurred. Administrative and other operating expenses increased by 225% from US\$1.3 million to US\$4.2 million.

As a result of the increase in administrative and other operating expenses, the Group recorded a net loss of US\$2.8 million for 1H FY2011/12 compared to a net loss of US\$0.9 million in 1H FY2010/11 for the continuing operation.

The discontinued operation which comprised the online gaming businesses was disposed of in end March 2011.

Net cash used in operating activities in 1H FY2011/12 was US\$1.9 million. Cash used in investing activities for purchase of office equipment was approximately US\$0.3 million.

The Group’s cash and cash equivalents decreased from US\$2.7 million as at 31 March 2011 to US\$0.6 million as at 30 September 2011.

BUSINESS SEGMENT OVERVIEW

FASHION RETAIL

This division engages in the design and marketing of lifestyle consumer products mainly for the China's market.

As at 30 September 2011, the Group had 22 self-operating shops and 44 franchisees.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

No prospect statement has been previously disclosed to shareholders.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Directors are of the opinion that the Fashion Retail business remains challenging and the Board remains committed to the Group's business moving forward.

11. Dividend

(a) Current Financial Period Reported On

None

(b) Corresponding Period of the Immediately Preceding Financial Year

None

(c) Date Payable

Not applicable

(d) Books Closure Date

Not applicable

12. If no dividend has been declared/recommendeded, a statement to that effect.

No dividend has been declared for the six months ended 30 September 2011.

13. Interested Person Transactions

The Company does not have a shareholders' mandate for interested person transactions.

14. Negative assurance confirmation by Board of Directors

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for the six months ended 30 September 2011 to be false or misleading in any material aspect.

For and on behalf of the
Board of Directors of
THE STYLE MERCHANTS LIMITED

(signed)

Michael Ng Lai Yick
Executive Chairman

(signed)

Samuel Lin Jr.
Deputy Chairman

14/12/2011