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 2014

- Total turnover of the Group increased by about 15.7% to approximately HK$636.3 million (2013: HK$549.8 million).
- Gross profit increased to approximately HK$397.9 million (2013: HK$348.9 million).
- Gross margin declined slightly to about 62.5% (2013: 63.5%).
- Net profit for the period increased significantly by about 30.6% to approximately HK$20.9 million (2013: HK$16.0 million).
- Net margin increased to about 3.3% (2013: 2.9%).
- Basic and diluted earnings per share increased to about 5.7 HK cents (2013: 4.5 HK cents).
- An interim dividend of 1.5 HK cents (2013: 1.5 HK 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 2014, prepared on the basis set out in note 1 to the Interim Financial Statements below, together with the comparative figures of the corresponding period, as follows.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Notes	**Six months ended 30 September 2014 (Unaudited)** ***HK$'000***	2013 (Unaudited) *HK$'000*
REVENUE	*3*	**636,250**	549,798
Cost of sales		**(238,385)**	(200,903)
GROSS PROFIT		**397,865**	348,895
Other income and gains	*4*	**2,974**	611
Selling and distribution expenses		**(321,571)**	(272,174)
Administrative expenses		**(52,089)**	(50,800)
Other expenses		**(2,283)**	(3,446)
Finance costs	*5*	**(42)**	(428)
PROFIT BEFORE TAX	*6*	**24,854**	22,658
Income tax expense	*7*	**(3,994)**	(6,654)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**20,860**	16,004
OTHER COMPREHENSIVE INCOME to be reclassified to profit or loss in subsequent periods:			
Currency translation differences		**1,298**	1,461
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**22,158**	17,465
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**5.7 HK cents**	4.5 HK cents
Diluted		**5.7 HK cents**	4.5 HK cents
INTERIM DIVIDEND	*9*	**5,475**	5,428
INTERIM DIVIDEND PER SHARE	*9*	**1.5 HK cents**	1.5 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

	Notes	As at 30 September 2014 (Unaudited) HK$'000	As at 31 March 2014 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**147,423**	145,309
Intangible assets		**1,054**	1,203
Rental, utility and other non-current deposits		**95,583**	80,273
Deferred tax assets		**28,886**	23,886
Total non-current assets		**272,946**	250,671
CURRENT ASSETS			
Inventories		**365,652**	268,427
Trade receivables	*10*	**37,133**	41,482
Prepayments, deposits and other receivables		**33,062**	26,769
Tax recoverable		**2,716**	4,967
Cash and cash equivalents		**156,193**	260,221
Total current assets		**594,756**	601,866
CURRENT LIABILITIES			
Trade payables	*11*	**80,721**	38,754
Other payables and accruals		**84,475**	106,942
Interest-bearing bank borrowings	*12*	**20,000**	–
Tax payable		**13,237**	9,174
Total current liabilities		**198,433**	154,870
NET CURRENT ASSETS		**396,323**	446,996
TOTAL ASSETS LESS CURRENT LIABILITIES		**669,269**	697,667
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**6,344**	6,288
NET ASSETS		**662,925**	691,379
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*13*	**36,496**	36,481
Reserves		**620,954**	603,825
Proposed dividend		**5,475**	51,073
TOTAL EQUITY		**662,925**	691,379

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014

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 2014 have been 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 the 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 2014, 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 2014 annual report.

2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

The Group has adopted the following new and revised HKFRSs and amendments (the "**New Standards**") for the first time in the preparation of these Interim Financial Statements.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures of Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of the New Standards has had no significant financial effect on the Group's results of operations and financial position.

2.2 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 Interim Financial Statements.

HKFRS 9	*Financial Instruments*[4]
HKFRS 10 and HKAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures*[2]
HKFRS 11 Amendments	Amendments to HKFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[2]
HKFRS 15	*Revenue from Contract with Customers*[3]
HKAS 16 and HKAS 38 Amendments	Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
HKAS 16 and HKAS 41 Amendments	*Agriculture: Bearer Plants*[2]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[1]
HKAS 27 Amendments	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs issued[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018

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

3. OPERATING SEGMENT INFORMATION

The Group was engaged in the manufacture and trading of garments 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, unallocated income, finance costs and unallocated expenses are excluded from this measurement.

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

Segment non-current assets exclude deferred tax assets 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.

Information about major customers

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

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 2014 (Unaudited)					
Segment revenue:					
Sales to external customers	**462,324**	**61,384**	**106,432**	**6,110**	**636,250**
Intersegment sales	**4,505**	**11,345**	**75,315**	**305**	**91,470**
	466,829	**72,729**	**181,747**	**6,415**	**727,720**
Reconciliation:					
Elimination of intersegment sales					**(91,470)**
Revenue					**636,250**
Segment results:	**56,289**	**742**	**(5,544)**	**1,363**	**52,850**
Reconciliation:					
Interest income					**193**
Finance costs					**(42)**
Unallocated expenses					**(28,147)**
Profit before tax					**24,854**
Other segment information:					
Capital expenditure	**14,715**	**2,530**	**6,221**	**–**	**23,466**
Unallocated capital expenditure					**498**
Total capital expenditure					**23,964**
Depreciation	**10,433**	**2,461**	**4,171**	**–**	**17,065**
Unallocated depreciation					**2,909**
Total depreciation					**19,974**
As at 30 September 2014 (Unaudited)					
Segment assets:	**393,424**	**122,105**	**146,038**	**6,426**	**667,993**
Reconciliation:					
Deferred tax assets					**28,886**
Tax recoverable					**2,716**
Unallocated assets					**168,107**
Total assets					**867,702**
Segment liabilities:	**101,618**	**29,654**	**16,087**	**460**	**147,819**
Reconciliation:					
Deferred tax liabilities					**6,344**
Tax payable					**13,237**
Interest-bearing bank borrowings					**20,000**
Unallocated liabilities					**17,377**
Total liabilities					**204,777**
Segment non-current assets:	**115,336**	**16,976**	**16,106**	**646**	**149,064**
Reconciliation:					
Deferred tax assets					**28,886**
Unallocated non-current assets					**94,996**
Total non-current assets					**272,946**

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 2013 (Unaudited)					
Segment revenue:					
Sales to external customers	378,074	65,693	95,854	10,177	549,798
Intersegment sales	2,177	1,498	69,016	988	73,679
	380,251	67,191	164,870	11,165	623,477
Reconciliation:					
Elimination of intersegment sales					(73,679)
Revenue					549,798
Segment results:	51,971	(1,050)	(6,445)	2,873	47,349
Reconciliation:					
Interest income					157
Finance costs					(428)
Unallocated expenses					(24,420)
Profit before tax					22,658
Other segment information:					
Capital expenditure	15,877	1,229	5,380	–	22,486
Unallocated capital expenditure					366
Total capital expenditure					22,852
Depreciation	7,448	2,595	3,325	–	13,368
Unallocated depreciation					3,136
Total depreciation					16,504
As at 31 March 2014 (Audited)					
Segment assets:	379,673	119,227	118,593	6,721	624,214
Reconciliation:					
Deferred tax assets					23,886
Tax recoverable					4,967
Unallocated assets					199,470
Total assets					852,537
Segment liabilities:	95,687	25,213	11,396	697	132,993
Reconciliation:					
Deferred tax liabilities					6,288
Tax payable					9,174
Unallocated liabilities					12,703
Total liabilities					161,158
Segment non-current assets:	108,815	16,077	14,500	678	140,070
Reconciliation:					
Deferred tax assets					23,886
Unallocated non-current assets					86,715
Total non-current assets					250,671

4. OTHER INCOME AND GAINS

	Group Six months ended 30 September 2014 (Unaudited) *HK$'000*	2013 (Unaudited) *HK$'000*
Bank interest income	**193**	157
Foreign exchange differences, net	**1,534**	–
Others	**1,247**	454
	2,974	611

5. FINANCE COSTS

	Group Six months ended 30 September 2014 (Unaudited) *HK$'000*	2013 (Unaudited) *HK$'000*
Interest on bank loans wholly repayable within five years	**42**	428

6. PROFIT BEFORE TAX

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

	Group Six months ended 30 September 2014 (Unaudited) *HK$'000*	2013 (Unaudited) *HK$'000*
Cost of inventories sold	**229,320**	206,423
Provision/(write-back of provision) for slow-moving inventories, net, included in cost of sales	**9,065**	(5,520)
Depreciation	**19,974**	16,504
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	**125,412**	115,923
Contingent rents	**31,447**	28,091
	156,859	144,014
Rental expenses under operating leases in respect of equipment:		
Minimum lease payments	**307**	311
Contingent rents	**31**	15
	338	326
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and other benefits	**102,923**	91,580
Equity-settled share option expense	**207**	515
Pension scheme contributions	**5,173**	5,236
	108,303	97,331
Loss on disposal of items of property, plant and equipment, net	**945**	1,408
Impairment of items of property, plant and equipment	**1,004**	–
Amortisation of intangible assets	**161**	152
Write-off of intangible assets	**11**	19
Write-off of rental deposits	**–**	1,313

7. INCOME TAX

	Group Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax		
– Hong Kong	**6,740**	8,114
– Elsewhere	**2,171**	2,960
Deferred tax credit	**(4,917)**	(4,420)
Total tax charge for the period	**3,994**	6,654

Hong Kong profit tax has been provided at a rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2014. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

8. 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 period attributable to equity holders of the parent of HK$20,860,000 (2013: HK$16,004,000) and the weighted average number of ordinary shares of 364,836,715 (2013: 359,450,000) in issue during the six months ended 30 September 2014.

The calculation of the diluted earnings per share is based on the profit for the period 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 the six months period, 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:

	Group Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**20,860**	16,004
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue during the six months period used in the basic earnings per share calculation	**364,836,715**	359,450,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**1,178,008**	–
	366,014,723	359,450,000

9. DIVIDEND

A final dividend of HK$51,094,000 for the year ended 31 March 2014 (2013: HK$36,305,000) was paid in September 2014.

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim – 1.5 HK cents (2013: 1.5 HK cents) per ordinary share	**5,475**	5,428

The Directors declared to pay an interim dividend of 1.5 HK cents (2013: 1.5 HK cents) per ordinary share for the six months ended 30 September 2014 payable on or about Friday, 23 January 2015 to shareholders whose names appear on the register of members of the Company on Friday, 2 January 2015. The interim dividend is not reflected as a dividend payable as of 30 September 2014, but will be reflected as an appropriation of retained earnings of the Company for the year ending 31 March 2015.

10. TRADE RECEIVABLES

Retail sales and online sales are made on cash terms or by credit card with very short credit terms. Wholesales are made to customers with general credit terms ranging from 30 days to 60 days, except for certain well-established customers with a long business relationship with the Group, where the terms are extended, while no credit terms were granted to sales to franchisees. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed. In view of the aforementioned and the fact 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:

	Group	
	As at 30 September 2014	As at 31 March 2014
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**36,619**	40,269
91 to 180 days	**126**	155
181 to 365 days	**64**	851
Over 365 days	**324**	207
	37,133	41,482

11. TRADE PAYABLES

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

	Group	
	As at 30 September 2014	As at 31 March 2014
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 90 days	**79,893**	36,887
91 to 180 days	**467**	1,656
181 to 365 days	**170**	173
Over 365 days	**191**	38
	80,721	38,754

12. INTEREST-BEARING BANK BORROWINGS

	Group	
	As at 30 September 2014	As at 31 March 2014
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Bank loans repayable within one year or on demand	**20,000**	–

Notes:

(a) The Group's general banking facilities and loans are secured by:

(i) mortgages over the Group's buildings situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of approximately HK$64,048,000 (31 March 2014: HK$64,752,000); and

(ii) corporate guarantees given by the Company and a subsidiary of the Group of HK$100,240,000 and HK$30,000,000, respectively (31 March 2014: HK$100,240,000 and HK$30,000,000).

(b) At the end of the reporting period, the bank loans were bearing interest at variable rates ranging from 2% to 3% (31 March 2014: Nil) per annum.

(c) All borrowings are in Hong Kong dollars.

The Company did not have any interest-bearing bank borrowings as at 30 September 2014 and 31 March 2014.

13. SHARE CAPITAL

	Company	
	As at 30 September 2014 (Unaudited)	As at 31 March 2014 (Audited)
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
364,960,000 (31 March 2014: 364,810,000) ordinary shares of HK$0.1 each	**36,496**	36,481

During the six months ended 30 September 2014, the movement in share capital was that the subscription rights attaching to 150,000 share options were exercised at the subscription price of HK$1.83 per share, resulting in the issue of 150,000 shares of HK$0.1 each for a total cash consideration, before expenses of HK$275,000, which resulted in additions of issued capital and share premium of HK$15,000 and HK$260,000, respectively. An amount of HK$78,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

14. SHARE OPTION 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.

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	Group and Company			
	For the six months ended 30 September 2014 (Unaudited)		For the year ended 31 March 2014 (Audited)	
	Weighted average exercise price per share	**Number of share options**	Weighted average exercise price per share	Number of share options
	HK$	***'000***	*HK$*	*'000*
At beginning of period/year	**1.830**	**4,140**	1.830	10,170
Exercised during the period/year	**1.830**	**(150)**	1.830	(5,360)
Forfeited during the period/year	**–**	**–**	1.830	(670)
At end of period/year	**1.830**	**3,990**	1.830	4,140

The Group recognised a share option expense of HK$207,000 during the six months ended 30 September 2014 (2013: HK$515,000).

15. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the Interim Financial Statements were as follows:

	Group	
	As at 30 September 2014 (Unaudited)	As at 31 March 2014 (Audited)
	HK$'000	*HK$'000*
Bank guarantees given in lieu of utility and property rental deposits	**5,226**	7,594

As at 30 September 2014, the general banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company of HK$100,240,000 (31 March 2014: HK$100,240,000) were utilised to the extent of HK$31,430,000 (31 March 2014: HK$15,462,000).

16. OPERATING LEASE ARRANGEMENTS – 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 nine years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	As at 30 September 2014 (Unaudited)	As at 31 March 2014 (Audited)
	HK$'000	*HK$'000*
Within one year	**237,923**	228,000
In the second to fifth year, inclusive	**266,585**	255,382
Over five years	**14,552**	7,239
	519,060	490,621

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 entered into by the Company as at 30 September 2014 (31 March 2014: Nil).

17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	As at 30 September 2014 (Unaudited)	As at 31 March 2014 (Audited)
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Land and buildings	**46,800**	–

The Company had no material capital commitments as at 30 September 2014 (31 March 2014: Nil).

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Group Six months ended 30 September	
	2014 (Unaudited)	2013 (Unaudited)
	HK$'000	*HK$'000*
Computer system maintenance charges paid to related companies	**41**	18

(b) Compensation of key management personnel of the Group

Short-term employee benefits	**2,006**	1,952
Equity-settled share option expense	**33**	89
Post-employment benefits	**35**	32
Total compensation paid to key management personnel	**2,074**	2,073

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the board of directors on 25 November 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Encouragingly, the Group recorded a record-high half-year sales of approximately HK$636.3 million (2013: HK$549.8 million) and achieved an interim profit of about HK$20.9 million (2013: HK$16.0 million) for the six months ended 30 September 2014. The net profit for the period increased significantly by around 30.6% and net margin improved to about 3.3% (2013: 2.9%).

Actually, the market conditions remained uncertain as a result of a slowdown in Mainland China's economy growth, volatile retail sentiment and fierce competition among fashion retail players. In addition, the operating environments where the Group operates were unfavorable to retailers as high rentals remained despite weaker domestic demand and market growth momentum. To confront the challenges, the Group has successfully managed to improve effectiveness and efficiency in its shop operations. Stronger sales growth in the existing store portfolio was also achieved through effective marketing efforts. With an appropriate strategic focus, the results in the Group's major geographical operating segments, including Hong Kong & Macau, Mainland China and Taiwan, have been enhanced or have been improving as compared to the same period last year.

As at 30 September 2014, the Group had a total of 216 shops in operation (31 March 2014: 214).

	As at 30 September 2014	As at 31 March 2014	Changes
Self-managed outlets			
Hong Kong & Macau	**85**	84	+1
Taiwan	**89**	87	+2
Mainland China	**26**	26	–
	200	197	+3
Franchised outlets			
Mainland China	**16**	17	–1
TOTAL	**216**	214	+2

Hong Kong and Macau

The retail operations in Hong Kong and Macau, accounting for about 72.7% (2013: 68.8%) of the Group's turnover, sustained strong sales growth of around 22.3% to approximately HK$462.3 million (2013: HK$378.1 million) for the six months ended 30 September 2014. The Group has also recorded a strong positive same-store-sales growth rate of about 20% for the period under review. It was fine-tuning its shop mix by introducing more attractive branded shops, gradually renovating its existing shop design in a more lively and attractive style, closing down certain underperforming shops and relocating shops to other prime shopping locations with lower rentals. The Group maintained a comparable scale of its retail networks in the regions during the period under review. As a result of remarkable same-store-sales growth, segment profit before tax of the Group's Hong Kong and Macau operations increased to about HK$56.3 million (2013: HK$52.0 million) for the six months ended 30 September 2014.

Mainland China

After a series of difficult restructuring exercises of the Group's Mainland China operations in previous years, including closure of loss-making self-managed retail shops and poorly-managed franchised stores, the business performance in the segment has gradually stabilised. Though the segment reported a slight drop in turnover of about 6.5% to about HK$61.4 million (2013: HK$65.7 million) and a negative same-store-sales growth of about 1% during the six months ended 30 September 2014, the segment successfully resumed a profit of about HK$0.7 million (2013: loss of HK$1.1 million) in the period under review.

As at 30 September 2014, the Group operated self-managed retail shops in Beijing, Shanghai, Guangzhou, Nanjing and Suzhou and maintained a streamlined franchise network focusing mainly on second-tier cities in Mainland China. The Group continued to carefully monitor the performance and operating effectiveness of its business portfolio. It still expects more time is required to gradually resume stronger profitability and re-build an optimal business scale.

Taiwan

In Taiwan, the local retail market has not yet fully recovered. Because of prolonged stagnant retail consumption, the Group still has to provide extensive promotional offerings to attract customers and to galvanise sales. During the period under review, the Group recorded a positive same-store-sales growth rate of about 1% and the total sales in Taiwan achieved a double-digit growth of about 11.2% to about HK$106.5 million (2013: HK$95.8 million). However, the segment continued to incur a loss of about HK$5.5 million (2013: HK$6.4 million) during the period under review. The Group has closely monitored the effectiveness of its shop portfolio on a regular basis and altered its portfolio mix in order to react promptly to changing market conditions.

Elsewhere

The Group extended its business coverage through wholesale operations to several countries, with a particular focus on Asia. The turnover from the segment dropped substantially by about 40.2% to about HK$6.1 million (2013: HK$10.2 million). The drop was mainly attributable to the significant decrease in sales to the Japanese market. Owing to the significant depreciation of the Japanese yen against the United States dollar during the period under review, the sales demand of the Japanese customers on the Group's exported items was depressed and hence, a negative sales growth in that region was recorded. The Group plans to maintain the current scale of its operations in the country to address the demand from existing customers.

FINANCIAL REVIEW

Turnover

The aggregate turnover of the Group rose by around 15.7% to approximately HK$636.3 million (2013: HK$549.8 million) for the six months ended 30 September 2014. The major components of the Group's turnover by business were as follows:

	Six months ended 30 September 2014 *HK$ million*	Six months ended 30 September 2013 *HK$ million*	Changes
Retail	**615.4**	530.5	+16.0%
Franchise	**11.5**	8.9	+29.2%
Wholesales	**6.0**	10.3	–41.7%
Online	**3.4**	0.1	+3300.0%
TOTAL	**636.3**	549.8	+15.7%

As indicated above, the retail business was the largest sales contributor, accounting for approximately 96.7% (2013: 96.5%) of total turnover and achieving a year-on-year growth of about 16.0%.

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 to approximately HK$397.9 million (2013: HK$348.9 million) for the six months ended 30 September 2014 while gross margin dropped slightly by about one percentage point to around 62.5% (2013: 63.5%) when compared with the same period last year. The Group increased the extent of sales promotions to customers to boost sales growth and to reduce slow-moving inventories.

Operating Expenses and Finance Costs

Operating expenses increased by about 15.2% to approximately HK$375.9 million (2013: HK$326.4 million) for the six months ended 30 September 2014, equivalent to roughly 59.1% of total turnover (2013: 59.4%). Rent for land and buildings rose by about 8.9% to approximately HK$156.9 million (2013: HK$144.0 million), which accounted for about 24.7% (2013: 26.2%) of the Group's turnover and equivalent to about 41.7% (2013: 44.1%) of the Group's total expenses during the period under review. The Group not only continued to strategically relocate and consolidate retail shops to moderate rental increment in its retail portfolio, but also successfully enhanced the same-store-sales growth rate of existing shops, particularly in Hong Kong and Macau.

Staff cost was another major operating expense that increased to approximately HK$108.3 million (2013: HK$97.3 million) during the six months ended 30 September 2014. Staff cost-to-sales ratio, however, came down to about 17.0% (2013: 17.7%) for the period under review. Although inflationary operating environments and shortage of skillful retail sales staff continued to push up wages in general, through effective use of incentive systems to motivate sales staff for better efficiency and streamlined operations in supporting back offices, the Group managed to alleviate the staff cost increment in line with sales growth and to maintain the staff cost-to-sales ratio at a healthy level.

Depreciation charges increased to approximately HK$20.0 million (2013: HK$16.5 million) for the six months ended 30 September 2014. Marketing expenses, including advertising, promotion and exhibition expenses, increased significantly to approximately HK$26.8 million (2013: HK$10.3 million) during the period under review as the Group devoted much greater efforts to marketing in the 2014 spring/summer sales season, including launch of television advertising campaigns, to galvanise sales growth. In addition, the finance cost was approximately HK$42,000 (2013: HK$0.4 million), which represented the interest expenses paid for bank borrowings.

Net Profit

The Group's net profit for the six months ended 30 September 2014 jumped significantly by about 30.6% from approximately HK$16.0 million in the corresponding period of 2013 to approximately HK$20.9 million. Net profit margin also improved from about 2.9% to about 3.3%.

SEASONALITY

Based on the Group's track records, the Group's sales and results are greatly affected by seasonality. In general, over 50% of the annual sales and most of its net profit are derived in the second-half of the financial year, particularly during the period from the Christmas to the Lunar New Year.

CAPITAL STRUCTURE

As at 30 September 2014, the Group had net assets of approximately HK$662.9 million (31 March 2014: HK$691.4 million), comprising non-current assets of approximately HK$272.9 million (31 March 2014: HK$250.7 million), net current assets of approximately HK$396.3 million (31 March 2014: HK$447.0 million) and non-current liabilities of approximately HK$6.3 million (31 March 2014: HK$6.3 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2014, the Group had cash and cash equivalents of approximately HK$156.2 million (31 March 2014: HK$260.2 million). At the end of the reporting period, the Group had aggregate general banking facilities of approximately HK$134.9 million (31 March 2014: HK$134.9 million) comprising interest-bearing bank overdraft, revolving loans, rental and utility guarantees as well as import facilities, of which approximately HK$103.5 million had not been utilised. In particular, the Group had bank borrowings of approximately HK$20.0 million as at 30 September 2014 (31 March 2014: Nil), which were in Hong Kong dollars, repayable within one year or on demand and bearing interest at variable rates ranging from 2% to 3% (31 March 2014: Nil) per annum.

The gearing ratio of the Group at the end of the reporting period, representing a percentage of total interest-bearing bank borrowings to total assets, amounted to about 2.3% (31 March 2014: Nil).

CASH FLOWS

For the six months ended 30 September 2014, net cash flows used in operating activities were approximately HK$50.4 million (2013: cash inflows of HK$2.3 million), which was mainly attributed to a substantial increase in inventories for coming sales peak season in the second-half of the financial year. Net cash flows used in investing activities of approximately HK$24.0 million (2013: HK$22.7 million) mainly represented capital expenditure invested on renovation and reallocation of retail shops during the period under review. Net cash flows used in financing activities during the period under review amounted to approximately HK$30.8 million (2013: HK$44.9 million). This was mainly attributable to payment of 2013/14 final dividends.

SECURITY

As at 30 September 2014, the Group's general banking facilities and bank borrowings were secured by certain of its leasehold land and buildings with aggregate carrying value of approximately HK$64.0 million (31 March 2014: HK$64.8 million) and cross guarantees from the Company and a subsidiary of the Group.

CAPITAL COMMITMENT

As at 30 September 2014, the Group had about HK$46.8 million capital commitments in respect of acquisition of items of land and buildings contracted, but not provided for in the Interim Financial Statements (31 March 2014: Nil).

The Company had no material capital commitments at the end of the reporting period (31 March 2014: Nil).

CONTINGENT LIABILITIES

As at 30 September 2014, 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 (31 March 2014: HK$7.6 million). As at 30 September 2014, the general banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company of HK$100.2 million (31 March 2014: HK$100.2 million) were utilised to the extent of about HK$31.4 million (31 March 2014: HK$15.5 million).

HUMAN RESOURCES

Including all Directors, the Group had 1,290 (31 March 2014: 1,363) employees as at 30 September 2014. To attract and retain high quality staff, the Group provided competitive remuneration packages with performance bonuses, mandatory provident fund, and 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 participation in external training programmes.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's sales and purchases during the period were mostly denominated in Hong Kong dollars, Renminbi, New Taiwan dollars and United States dollars. The Group was 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 and raw materials from overseas suppliers.

PROSPECTS

Moving forward, the challenging operating environment is expected to persist due to ongoing high rent, rising production costs and soaring labour expenses. The recent "Occupy Central" related protests in Hong Kong have affected certain core shopping districts where the Group has retail outlets. Should the protest movement continue, it would create uncertainties and adversely affect consumer sentiment during the seasonal peak shopping festivals during the second-half of the financial year. Nevertheless, the Group will continue to leverage its unique position as one of the most popular Hong Kong local brands and its diversified trendy brand portfolio to address the present market conditions and transform the challenges into opportunities.

Adhering to the Group's proven strategy to focus merchandising resources and marketing efforts on key products, highlighted by leather jackets and accessories such as SALAD handbags and wallets, the management has initiated aggressive steps to diversify its product portfolio, including utilising different materials, mixing and matching various colours and creating customised products which infuse in the brand a whole new dimension in fun and fashion apparel. Extensive efforts and effective marketing campaigns have been implemented to further enhance the brand awareness. This success is most evident in the "*SALAD – Carry Me*" promotion campaign which has successfully revitalised a trendy image to attract professional young ladies. The next stage, the "*SALAD – Carry Me Fantasy*" promotion campaign through various mass media launched this year has attracted the attention of a wider segment of consumers towards the latest collection of SALAD-branded handbags. Following on the heels of these activities, a pinpointed television advertising campaign with the theme of "*BAUHAUS Leather, You Can't Unlove*" has been rolled out during November 2014 to fully capitalise on consumption sentiment peaks during the upcoming Christmas season and the Chinese New Year.

Apart from its merchandising strategy of upgrading its product mix, the Group has also assigned enhancing overall efficiency of its operations and profitability as its top priorities. Towards these ends, the Group has been devoting efforts to discreetly optimise its retail network within its key markets. As Hong Kong and Macau remain the principal markets of the Group, the management will strive to further bolster its presence in these two regions while keeping rental expenses at reasonable levels and raising the efficiency and productivity of each individual store. As for the China market, the Group has embarked on aggressively restructuring its network to stabilise its business and has gradually reaped positive results. To optimise a more streamlined network, the Group has also opened "smaller-scale" SALAD-branded shops within dense shopping malls to take advantage of more reasonable rental costs and greater pedestrian traffic. The sales performance from these stores has been promising while a greater improvement has been observed in overall efficiency. The Group will continue this tactic of optimising operations to strengthen its presence in the region.

To expand its sales channels and diversify its revenue streams, the Group has been proactively exploring online platforms to address changing consumer behaviour and extend its reach. The Group has revamped its corporate website with better catering for online shopping and presenting customers more convenient access of the most up-to-date news and promotions. It has also cooperated with a newly launched local mobile TV station in Hong Kong and Tmall.com to further expand its online sales network and marketing reach. The Group will allocate additional resources to tap this new market area offering immense potential, and thereby initiate an innovative way to expand its existing business.

At the same time, the Group will actively explore new avenues to maintain a strong and healthy financial position. A number of initiatives have been planned, including a careful review to reduce workflow processes, a more cautious approach in inventory restocking and tighter control over advertising expenses through selecting advertising media with a higher value at reasonable rates. With a clear roadmap in place supported by a prudent strategy, the Group will be better able to bolster the foundation on which sustainable, long-term growth can be realised.

DIVIDEND

The Directors declared to pay an interim dividend of 1.5 HK cents per ordinary share for the six months ended 30 September 2014 (2013: 1.5 HK cents) payable on or about **Friday, 23 January 2015** to shareholders whose names appear on the register of members of the Company on **Friday, 2 January 2015**.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from **Tuesday, 30 December 2014** to **Friday, 2 January 2015**, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on **Monday, 29 December 2014**.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the six months ended 30 September 2014 except for not having a separate chairman (the "**Chairman**") and chief executive officer (the "**CEO**") of the Company. Both positions are currently held by Mr. Wong Yui Lam ("**Mr. Wong**").

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. As the founder of the Group, Mr. Wong has substantial experience in the fashion industry and retail operations. The Directors consider that the present structure provides the Group with strong and consistent leadership which facilitates the development of its business strategies and execution of its business plans in the most efficient and effective manner. The Directors believe 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.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 (the "**Model Code**") to the Listing Rules as its own code of conduct for the dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 September 2014.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2014.

REVIEW OF FINANCIAL INFORMATION

An audit committee of the Company (the "**Audit Committee**") comprising three independent non-executive directors was established on 22 April 2005 with written terms of reference. The Audit Committee has reviewed the accounting principles and practices adopted by the Group, internal control and financial reporting matters, including the review of the Interim Financial Statements for the six months ended 30 September 2014.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement for the six months ended 30 September 2014 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 2014/15 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 Directors, I would like to express my deep 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
Bauhaus International (Holdings) Limited
Wong Yui Lam
Chairman

Hong Kong, 25 November 2014

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