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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 2017

➢ Total turnover of the Group dropped by about 5.2% to approximately HK$475.4 million (2016: HK$501.4 million).

➢ Sales by major operating segments are as follows:

	Six months ended 30 September 2017	Six months ended 30 September 2016	Changes
	HK$ million	*HK$ million*	
Hong Kong & Macau	**337.5**	348.1	–3.0%
Taiwan	**80.9**	98.3	–17.7%
Mainland China	**56.9**	53.6	+6.2%
Elsewhere	**0.1**	1.4	–92.9%

➢ Gross profit increased to approximately HK$295.2 million (2016: HK$283.2 million).

➢ Gross margin improved significantly to about 62.1% (2016: 56.5%).

➢ Net loss reduced to approximately HK$48.3 million (2016: HK$60.0 million).

➢ Basic and diluted loss per share was about HK13.1 cents (2016: HK16.3 cents).

The board of directors (the "**Directors**" or "**Board**") of Bauhaus International (Holdings) Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2017, 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.

The condensed consolidated interim results 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 2017

		Six months ended 30 September	
		2017	2016
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*4*	**475,351**	501,385
Cost of sales		**(180,186)**	(218,225)
GROSS PROFIT		**295,165**	283,160
Other income and gains	*4*	**1,302**	3,777
Selling and distribution expenses		**(284,374)**	(285,300)
Administrative expenses		**(55,825)**	(52,700)
Other expenses	*6*	**(4,822)**	(5,182)
Finance cost	*5*	**(54)**	(128)
LOSS BEFORE TAX	*6*	**(48,608)**	(56,373)
Income tax credit/(charge)	*7*	**323**	(3,649)
LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**(48,285)**	(60,022)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Currency translation differences		**3,776**	(4,698)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**(44,509)**	(64,720)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**HK13.1 cents**	HK16.3 cents
Diluted		**HK13.1 cents**	HK16.3 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Notes	As at 30 September 2017 (Unaudited) HK$'000	As at 31 March 2017 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**192,797**	188,713
Investment property		**18,000**	17,700
Intangible assets		**618**	693
Rental, utility and other non-current deposits		**82,326**	79,891
Deferred tax assets		**28,590**	25,099
Total non-current assets		**322,331**	312,096
CURRENT ASSETS			
Inventories		**417,433**	266,759
Trade receivables	*10*	**27,783**	41,488
Prepayments, deposits and other receivables		**40,148**	28,050
Tax recoverable		**524**	6,314
Cash and bank balances		**138,822**	290,436
Total current assets		**624,710**	633,047
CURRENT LIABILITIES			
Trade payables	*11*	**96,296**	31,807
Other payables and accruals		**98,798**	86,460
Interest-bearing bank borrowing	*12*	**2,383**	5,922
Tax payable		**6,612**	5,259
Total current liabilities		**204,089**	129,448
NET CURRENT ASSETS		**420,621**	503,599
TOTAL ASSETS LESS CURRENT LIABILITIES		**742,952**	815,695
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,418**	5,098
NET ASSETS		**738,534**	810,597
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	*13*	**36,738**	36,738
Reserves		**701,796**	773,859
TOTAL EQUITY		**738,534**	810,597

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017

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 2017 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 2017, 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 2017 annual report.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and amendments for the first time in the preparation of these Interim Financial Statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014-2016 Cycle:	
Amendments to HKFRS 12	*Disclosure of Interests in Other Entities*

The adoption of the above revised standards and/or amendments has had no significant financial effect on these Interim Financial Statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective in these Interim Financial Statements. The Group is in the process of making an assessment of the impact of the new and revised standards upon adoption while the Group is not yet in a position to state whether it would have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the design and retailing of trendy apparels, bags and fashion accessories.

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

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

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

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

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

Segment non-current assets exclude an investment property, 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 amounted 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$'000*	Taiwan *HK$'000*	Mainland China *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
For the six months ended 30 September 2017 (Unaudited)					
Segment revenue:					
Sales to external customers	**337,532**	**80,868**	**56,873**	**78**	**475,351**
Intersegment sales	**1,692**	**88,374**	**–**	**–**	**90,066**
	339,224	**169,242**	**56,873**	**78**	**565,417**
Reconciliation:					
Elimination of intersegment sales					**(90,066)**
Revenue					**475,351**
Segment results:	**7,690**	**(26,307)**	**(2,679)**	**(15)**	**(21,311)**
Reconciliation:					
Interest income					**134**
Finance cost					**(54)**
Fair value gain on an investment property					**300**
Unallocated expenses, net					**(27,677)**
Loss before tax					**(48,608)**
Other segment information:					
Capital expenditure	**9,538**	**12,383**	**3,198**	**–**	**25,119**
Unallocated capital expenditure					**2,279**
Total capital expenditure					**27,398**
Depreciation	**9,935**	**5,670**	**1,609**	**–**	**17,214**
Unallocated depreciation					**2,976**
Total depreciation					**20,190**
As at 30 September 2017 (Unaudited)					
Segment assets:	**361,978**	**229,300**	**133,554**	**273**	**725,105**
Reconciliation:					
Investment property					**18,000**
Deferred tax assets					**28,590**
Tax recoverable					**524**
Unallocated assets					**174,822**
Total assets					**947,041**
Segment liabilities:	**136,659**	**25,518**	**17,972**	**2**	**180,151**
Reconciliation:					
Deferred tax liabilities					**4,418**
Interest-bearing bank borrowing					**2,383**
Tax payable					**6,612**
Unallocated liabilities					**14,943**
Total liabilities					**208,507**
Segment non-current assets:	**106,046**	**24,679**	**12,733**	**273**	**143,731**
Reconciliation:					
Investment property					**18,000**
Deferred tax assets					**28,590**
Unallocated non-current assets					**132,010**
Total non-current assets					**322,331**

3. OPERATING SEGMENT INFORMATION *(Continued)*

	Hong Kong and Macau *HK$'000*	Taiwan *HK$'000*	Mainland China *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
For the six months ended 30 September 2016 (Unaudited)					
Segment revenue:					
Sales to external customers	348,057	98,342	53,587	1,399	501,385
Intersegment sales	24,550	59,737	–	–	84,287
	372,607	158,079	53,587	1,399	585,672
Reconciliation:					
Elimination of intersegment sales					(84,287)
Revenue					501,385
Segment results:	(10,752)	(15,978)	(296)	17	(27,009)
Reconciliation:					
Interest income					179
Finance cost					(128)
Unallocated expenses, net					(29,415)
Loss before tax					(56,373)
Other segment information:					
Capital expenditure	8,434	3,110	469	35	12,048
Unallocated capital expenditure					1,770
Total capital expenditure					13,818
Depreciation	10,782	4,874	1,806	–	17,462
Unallocated depreciation					3,188
Total depreciation					20,650
As at 31 March 2017 (Audited)					
Segment assets:	321,114	186,045	125,686	1,784	634,629
Reconciliation:					
Investment property					17,700
Deferred tax assets					25,099
Tax recoverable					6,314
Unallocated assets					261,401
Total assets					945,143
Segment liabilities:	86,711	10,182	11,529	348	108,770
Reconciliation:					
Deferred tax liabilities					5,098
Interest-bearing bank borrowing					5,922
Tax payable					5,259
Unallocated liabilities					9,497
Total liabilities					134,546
Segment non-current assets:	110,066	15,728	9,432	324	135,550
Reconciliation:					
Investment property					17,700
Deferred tax assets					25,099
Unallocated non-current assets					133,747
Total non-current assets					312,096

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and sales tax.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of garment products and accessories	**475,351**	501,385
Other income		
Bank interest income	**134**	179
Rental income	**309**	194
Others	**559**	1,292
	1,002	1,665
Gains		
Foreign exchange differences, net	**–**	2,112
Fair value gain on an investment property	**300**	–
	300	2,112
	1,302	3,777

5. FINANCE COST

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on a bank loan	**54**	128

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold*	**163,168**	209,767
Provision for inventories, net*	**17,018**	8,458
Depreciation	**20,190**	20,650
Minimum lease payments under operating leases	**113,230**	119,941
Contingent rents under operating leases	**20,690**	23,297
	133,920	143,238
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and other benefits	**95,346**	93,362
Pension scheme contributions	**5,445**	5,241
	100,791	98,603
Other expenses:		
Loss on disposal of items of property, plant and equipment, net	**1,498**	796
Amortisation of intangible assets	**87**	113
Loss on disposal of trademarks	**2**	11
Write-off of deposits	**444**	64
Provision for doubtful debts and write-off of bad debts	**2**	317
Impairment of items of property, plant and equipment	**1,111**	3,881
Foreign exchange differences, net	**1,558**	–
Others	**120**	–
	4,822	5,182

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

7. INCOME TAX

Hong Kong profit tax has been provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2017. The People's Republic of China corporate income tax has been provided at a rate of 25.0% (2016: 25.0%) on the profits for the period under review of the Group's Mainland China subsidiaries. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax charge/(credit)		
– Hong Kong	**2,282**	1,267
– Mainland China	**368**	(145)
– Elsewhere	**1,157**	503
Deferred tax charge/(credit)	**(4,130)**	2,024
Total tax charge/(credit) for the period	**(323)**	3,649

8. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share is based on the loss for the period attributable to equity holders of the parent of HK$48,285,000 (2016: HK$60,022,000) and the weighted average number of ordinary shares of 367,380,000 (2016: 367,380,000) in issue during the six months ended 30 September 2017.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2017.

The calculation of the diluted loss per share amount was based on the loss 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 under review, as used in the basic loss 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 loss per share are based on:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss		
Loss attributable to equity holders of the parent, used in the basic loss per share calculation	**48,285**	60,022
Shares	**Number of Shares**	
Weighted average number of ordinary shares in issue during the six months period under review used in the basic loss per share calculation	**367,380,000**	367,380,000

9. DIVIDENDS

A final dividend of HK$27,554,000 for the year ended 31 March 2017 (2016: HK$22,043,000) was paid in September 2017.

The Directors did not declare the payment of an interim dividend for the six months ended 30 September 2017 (2016: Nil).

10. TRADE RECEIVABLES

Sales (both online and offline) are made on cash terms or with very short credit terms, except for certain well-established customers with a long business relationship with the Group, where the general credit terms are ranging from 30 days to 60 days. 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:

	As at 30 September 2017 (Unaudited) ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
Within 90 days	**27,487**	41,210
91 to 180 days	**16**	276
181 to 365 days	**280**	2
	27,783	41,488

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 the invoice date, is as follows:

	As at 30 September 2017 (Unaudited) ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
Within 90 days	**95,301**	31,418
91 to 180 days	**995**	345
181 to 365 days	**–**	44
	96,296	31,807

12. **INTEREST-BEARING BANK BORROWING**

	As at 30 September 2017 (Unaudited) *HK$'000*	As at 31 March 2017 (Audited) *HK$'000*
Current – secured		
Bank loan repayable on demand	**2,383**	5,922
Analysed into bank loan repayable:		
Within one year or on demand	**2,383**	5,922

Notes:

(a) The Group's general banking facilities and loan are secured by the Group's buildings situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of approximately HK$113,461,000 (31 March 2017: HK$114,733,000).

(b) The loan is in Hong Kong dollars and has maturity in 2018.

(c) The bank loan was bearing interest at variable rates ranging from 2% to 3% (2016: 2% to 3%) per annum during the period under review.

13. **SHARE CAPITAL**

Shares

	Company	
	As at 30 September 2017 (Unaudited) *HK$'000*	As at 31 March 2017 (Audited) *HK$'000*
Issued and fully paid:		
367,380,000 (31 March 2017: 367,380,000) ordinary shares of HK$0.1 each	**36,738**	36,738

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 14 to the Interim Financial Statements.

14. **SHARE OPTION SCHEME**

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

No share option was granted under the Scheme since its adoption and during the six months ended 30 September 2017.

15. COMMITMENTS

The Group had no material capital commitments contracted, but not provided for as at 30 September 2017 (31 March 2017: Nil).

16. OPERATING LEASE ARRANGEMENTS

As lessor

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

	As at 30 September 2017 (Unaudited) ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
Within one year	**52**	618
In the second year	**–**	103
	52	721

As lessee

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

	As at 30 September 2017 (Unaudited) ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
Within one year	**192,198**	194,746
In the second to fifth year, inclusive	**197,847**	227,962
Over five years	**–**	983
	390,045	423,691

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

17. CONTINGENT LIABILITIES

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

	As at 30 September 2017 (Unaudited) ***HK$'000***	As at 31 March 2017 (Audited) *HK$'000*
Bank guarantees given in lieu of utility and property rental deposits	**4,058**	5,182

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

18. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September	
	2017 (Unaudited) ***HK$'000***	2016 (Unaudited) *HK$'000*
Computer system maintenance charges	**40**	45

(b) Compensation of key management personnel of the Group

Short-term employee benefits	**2,102**	2,136
Post-employment benefits	**38**	40
Total compensation paid to key management personnel	**2,140**	2,176

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the board of directors of the Company on 28 November 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

As at 30 September 2017, the Group had a total of 195 self-managed offline shops in operation (31 March 2017: 196).

	As at 30 September 2017	As at 31 March 2017	Change
Hong Kong & Macau	**74**	80	–6
Taiwan	**95**	91	+4
Mainland China	**26**	25	+1
TOTAL	**195**	196	–1

The first-half of financial year 2017/18 was still challenging for the Group, while some of the region's retail sectors had been gradually stabilised. Different from last year's declining trend in most of the operating segments, some of them have delivered better performance in terms of the same store sales growth and segment results. Though the market sentiment mildly improved, there has not yet been sufficient signals to indicate persistent market rebound. The retail markets in which the Group operates are expected to continue to be volatile for a while.

Turnover of the Group dropped slightly by about 5.2% to approximately HK$475.4 million (2016: HK$501.4 million) and the Group recorded an overall same store sales growth of about -5% (2016: -14%) for the first-half of the financial year. Although the Group encountered difficulties in boosting sales under sluggish retail sentiment in certain markets, particularly in Taiwan, it merely offered adequate, but not excessive promotional discounts to the market aiming to improve its gross margin level as well as uphold brand equity for its in-house brands. As a result of the previous year's retail portfolio restructuring and decisively closure of loss-making and under-performing stores, the Group gradually rebuilt a more competitive cost structure, which allowed a greater flexibility in dealing with market challenges. The Group's net loss was reduced to about HK$48.3 million for the six months ended 30 September 2017 (2016: HK$60.0 million).

Hong Kong and Macau

The retail operations in Hong Kong and Macau make up the largest geographical operating segment of the Group. For the period under review, the segment accounted for about 71.0% (2016: 69.4%) of the Group's turnover. The turnover of the segment dropped slightly by about 3.0% to about HK$337.5 million for the six months ended 30 September 2017 (2016: HK$348.1 million), which was mostly attributable to the reduction of the total number of retail shops in Hong Kong. The same store sales of the Hong Kong and Macau segment were kept relatively stable, slightly dropping by about 1%. Encouragingly, the segment resumed profit of about HK$7.7 million for the period under review (2016: segment loss of HK$10.8 million).

The continued weak retail climate in Hong Kong inevitably depressed the performance of the Group's retail operations. Cautious local spending possibly was not only attributed to uncertain economic prospects. Growing lifestyle seeking experience, lower travel costs and favorable foreign currency exchange rates encouraged outbound travelling and spending abroad, which might contribute to a slower and longer recovery cycle of the local retail market. Price competition and extensive discount offerings might no longer be so effective to galvanise sales in particular fashion segment, but definitely would trim the margins of retailers. The Group fine-tuned its selling strategies and avoided offering extensive price-cuts on its merchandise during the period under review. In addition, appropriate control on operating costs was equally important. Though the retail sentiment was not expected to be very vivid, the operating costs, in particular store rentals in prime shopping arcades, remained high in the region and have not yet elastically come down. In view of the prolonged weak retail climate, the Group had further streamlined 10 under-performing offline shops in Hong Kong during the six months ended 30 September 2017. Although the local retail network was reduced, the Group successfully improved its gross margin as well as its profitability as a whole in its home region.

The business performance in Macau was promising. Upon the gradual recovery of the gaming sector in Macau, retail consumption obviously increased during the period under review. Although the typhoon damage in Macau during August and September 2017 brought about terrible disruption to the city, the adverse impact on the retail consumption was short-term and has gradually picked up. The Group has planned to further expand its retail coverage in reputable shopping malls and some new stores would be launched in 2018.

Taiwan

While the first-half of each financial year is the annual low season, the retail performance in Taiwan was even weaker than expected. During the six months ended 30 September 2017, the Taiwan segment's sales plummeted by about 17.7% to approximately HK$80.9 million (2016: HK$98.3 million), which was mainly attributable to a substantial negative growth in same store sales of about 24%. The Group also incurred a larger segment loss of about HK$26.3 million (2016: HK$16.0 million) as compared to the same period last year.

Due to the prolonged weak sales performance in the region, the Group's inventory level in Taiwan reached an unhealthy high. The Group closely monitored the sales performance of its merchandise. In order to reduce slow-moving items, in addition to the usual promotional activities within the regular store network, the Group established more short-term sales outlets across the island. At the end of the reporting period, there was a total of 95 stores/counters (31 March 2017: 91) in Taiwan, present mainly in reputable department stores in nine cities.

Mainland China

As at 30 September 2017, the Group operated its self-managed retail shops in Beijing, Shanghai, and Guangzhou and maintained a streamlined franchise network focusing on the second-tier cities in Mainland China. Turnover from the Mainland China segment increased by about 6.2% to about HK$56.9 million (2016: HK$53.6 million) and encouragingly, the Group recorded a strong same store sales growth of about 13% in its traditional offline retail network during the six months ended 30 September 2017. However, mainly resulting from closure of certain under-performing shops and pre-opening expenses for new stores, the segment recorded a loss of about HK$2.7 million (2016: HK$0.3 million) for the six months ended 30 September 2017.

The Group continued to revamp its retail portfolio in Mainland China to provide a leaner and more flexible operational structure and to facilitate O2O operations. At the end of the reporting period, the Group had 26 self-managed offline stores (31 March 2017: 25) in the region. In addition to the offline retail network, the Group has proactively developed distribution channels through certain reputable e-commerce platforms, including Tmall. The online sales continued to grow rapidly in Mainland China during the period under review. With online business presence, the Group has been gradually establishing seamless retail coverage and improving its brand awareness nationwide at a relatively lower cost.

FINANCIAL REVIEW

Turnover

The turnover of the Group decreased by around 5.2% to approximately HK$475.4 million (2016: HK$501.4 million) for the six months ended 30 September 2017. The Group recorded an overall same store growth rate of about –5% (2016: –14%) for the period under review. Hong Kong and Macau remains the key operating segment of the Group's retail business, accounting for approximately 71.0% (2016: 69.4%) of the Group's turnover, with relatively stable performance with a negative growth in same store sales of about 1%.

However, the Group's sales performance in Taiwan during the period under review was disappointing. The sales of the Taiwan segment dropped significantly by about 17.7% to about HK$80.9 million (2016: HK$98.3 million).

Operating Segment Information

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

Gross Profit

The Group's gross profit increased by about 4.2% to approximately HK$295.2 million (2016: HK$283.2 million) for the six months ended 30 September 2017. The gross margin significantly improved to around 62.1% (2016: 56.5%) as compared with the same period last year. Although the Group encountered difficulties in boosting sales under sluggish retail sentiment in certain markets, particularly in Taiwan, the Group merely offered adequate, but not excessive promotional discounts to the market aiming to improve its gross margin level as well as uphold brand equity for its in-house brands.

Operating Expenses and Cost Control

The Group maintained great effort on managing expenses during the six months ended 30 September 2017. To control rental costs, a major component of its operating expenses, the Group closed some under-performing stores while at the same time, was cautious in identifying new locations for store openings. The Group aims for sustainable profitability and hence, was striking a balance between prospective sales opportunities and cost efficiency in store selection. Rental expenses decreased by about 6.5% to about HK$133.9 million (2016: HK$143.2 million), which accounted for about 38.8% (2016: 41.7%) of the Group's total operating expenses for the period review. To mitigate market rental increment as well as attain a flexible cost structure, the Group continued the on-going practice of strategically relocating, consolidating and converting its retail portfolio.

The management was also aware of the need to control costs in other work areas. Efforts were made to rationalise work procedures, streamline the workforce to raise cost-effectiveness, manage advertising spending and capital expenditure carefully, etc. Staff cost increased slightly by about 2.2% to approximately HK$100.8 million (2016: HK$98.6 million) during the period under review.

Depreciation charges decreased to approximately HK$20.2 million (2016: HK$20.7 million) for the period under review. Marketing and advertising expenses totalled approximately HK$16.8 million (2016: HK$13.0 million), representing proportionally about 3.5% (2016: 2.6%) of the Group's turnover. The Group intends to wisely devote marketing efforts to key brands and products to capture optimum promotional benefits.

The Group's overall operating expenses were approximately HK$345.0 million (2016: HK$343.2 million) during the period under review.

Finance Cost

The Group incurred finance cost of approximately HK$54,000 (2016: HK$128,000) for the period under review, which represented the interest expense paid for a mortgage loan.

Net Loss

The Group incurred a net loss for the six months ended 30 September 2017 of approximately HK$48.3 million (2016: HK$60.0 million). The decrease in the net loss was primarily resulted from the closure of loss-making and under-performing shops and gradually stabilised retail environment in some markets where the Group operates, particularly in Hong Kong and Macau.

SEASONALITY

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

CAPITAL STRUCTURE

As at 30 September 2017, the Group had net assets of approximately HK$738.5 million (31 March 2017: HK$810.6 million), comprising non-current assets of approximately HK$322.3 million (31 March 2017: HK$312.1 million), net current assets of approximately HK$420.6 million (31 March 2017: HK$503.6 million) and non-current liabilities of approximately HK$4.4 million (31 March 2017: HK$5.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2017, the Group had cash and bank balances of approximately HK$138.8 million (31 March 2017: HK$290.4 million). At the end of the reporting period, the Group had aggregate banking facilities of approximately HK$147.2 million (31 March 2017: HK$150.7 million) comprising an interest-bearing bank overdraft, revolving loans, rental and utility guarantees as well as import facilities, of which approximately HK$131.4 million had not been utilised. In particular, the Group had a bank borrowing of approximately HK$2.4 million as at 30 September 2017 (31 March 2017: HK$5.9 million), which was in Hong Kong dollars repayable within one (31 March 2017: one) year and bearing interest at variable rates ranging from about 2% to 3% (31 March 2017: from 2% to 3%) per annum. The Group's gearing ratio at the end of the reporting period, representing a percentage of total interest-bearing bank borrowing to total assets, was about 0.3% (31 March 2017: 0.6%).

CASH FLOWS

For the six months ended 30 September 2017, net cash flows used in operating activities increased substantially to approximately HK$97.4 million (2016: HK$6.3 million), which was mainly attributable to a significant increase in inventories. Net cash flows used in investing activities also increased by about 93.5% to approximately HK$26.7 million (2016: HK$13.8 million). The rise was mainly due to an increase in capital expenditure for store renovation and new shop openings. Net cash flows used in financing activities of approximately HK$31.1 million (2016: HK$27.6 million) were mainly for the payment of 2017 final dividends and repayment of a mortgage loan.

SECURITY

As at 30 September 2017, the Group's general banking facilities and bank borrowing were secured by certain of its leasehold land and buildings with aggregate carrying value of approximately HK$113.5 million (31 March 2017: HK$114.7 million).

CAPITAL COMMITMENTS

The Group had no material capital commitments contracted, but not provided for as at 30 September 2017 (31 March 2017: Nil).

CONTINGENT LIABILITIES

As at 30 September 2017, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and property rental deposits amounting to approximately HK$4.1 million (31 March 2017: HK$5.2 million).

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

HUMAN RESOURCES

Including the Directors, the Group had 1,222 (31 March 2017: 1,197) employees as at 30 September 2017. To attract and retain high quality staff, the Group provided competitive remuneration packages with performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' performance, experience and the prevailing market rate. Remuneration packages were reviewed regularly. Regarding staff development, the Group provided regular in-house training to retail staff and subsidised their external training programmes for their professional development.

FOREIGN EXCHANGE RISK MANAGEMENT

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

DIVIDENDS

The Directors did not declare the payment of an interim dividend for the six months ended 30 September 2017 (2016: Nil).

PROSPECTS

The business environment is expected to remain challenging for all players in the Hong Kong retail sector in the near future. While the industry is no longer in a state of decline, there has been no apparent sign of a significant recovery in the offing. What is more, high operating costs are likely to persist, particularly with regard to rent.

Given the aforementioned challenges, the management will continue to put cost control high on its list of priorities. To combat rental costs, the Group will strategically relocate stores and consolidate certain retail locations – a strategy that has proven effective in the past.

The Group remains committed to developing its Mainland China business, and will employ various strategies to bolster its brick-and-mortar and online presence in the country as part of its O2O business model. Correspondingly, the Group aims to expand its store network in key areas of Mainland China in the near future. As for its online presence, the management will continue to enhance the e-commerce business to facilitate and encourage O2O operations. Besides generating additional revenue, the online platform would serve a myriad of functions, including supporting marketing efforts, promoting the Group's brand image, complementing social media marketing efforts and encouraging retail network sales.

While the Mainland China market will be an important focal point of the Group, the management is equally enthusiastic about tapping the Macau market, a location where it has been performing favorably, mirroring the healthy state of the local retail sector. With recent store openings by the Group delivering encouraging results, the management will seek to sustain sales momentum by expanding the local retail network progressively.

As previously mentioned, the Hong Kong retail sector, while moving out of the recent trough, has yet to achieve full-scale recovery. With operating and rental costs expected to remain high, caution and pragmatism will continue to underpin all of the Group's business efforts. While exercising caution, the management remains optimistic that the Group will nonetheless achieve progress, whether in terms of business expansion in selected markets, or controlling overhead and other costs, the former facilitated by its unique market position and well-diversified brand portfolio. The management believes that the Group possesses the flexibility and responsiveness to effectively adapt to challenging business conditions, which will stand it in good stead once a widespread market recovery is in full swing.

CORPORATE GOVERNANCE

The Company has complied with the 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 2017 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 the Group's 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 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 2017.

CHANGES IN DIRECTORSHIP AND OTHER CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, there was no change in directorship and other changes in the information of the Directors since the publication of the annual report of the Company for the year ended 31 March 2017 up to the date of this announcement.

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 2017.

REVIEW OF FINANCIAL INFORMATION

An audit committee of the Company (the "**Audit Committee**") was established on 22 April 2005 with written terms of reference. As at 30 September 2017 and the date of this announcement, it comprised three independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters, including the review of the Interim Financial Statements for the six months ended 30 September 2017.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement for the six months ended 30 September 2017 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 2017/18 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 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, 28 November 2017

BOARD OF DIRECTORS

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