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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 FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

- Turnover of the Group dropped by about 5.0% to approximately HK$1,513.0 million (2015: HK$1,591.8 million).

- Sales by major operating segments were as follows:

	Year ended 31 March 2016 *HK$ million*	Year ended 31 March 2015 *HK$ million*	Changes
Hong Kong & Macau	**1,030.0**	1,129.2	–8.8%
Taiwan	**342.2**	313.5	+9.2%
Mainland China	**128.8**	132.5	–2.8%
Elsewhere	**12.0**	16.6	–27.7%

- Gross profit decreased by about 7.9% to approximately HK$892.7 million (2015: HK$968.8 million) and gross margin reduced to about 59.0% (2015: 60.9%).

- Net profit for the year dropped substantially by about 59.1% to approximately HK$52.9 million (2015: HK$129.4 million) and net margin declined to about 3.5% (2015: 8.1%).

- Basic and diluted earnings per share decreased to about HK14.4 cents (2015: HK35.4 cents).

- A final dividend of HK6.0 cents (2015: HK13.5 cents) per ordinary share was proposed.

- Dividend payout ratio was about 41.6% of the net profit (2015: 42.6%).

The Board of Directors (the "**Directors**") of Bauhaus International (Holdings) Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 March 2016, prepared on the basis set out in Note 2 below, together with comparative figures of the previous year, as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
REVENUE	*6*	**1,512,996**	1,591,817
Cost of sales		**(620,330)**	(623,050)
GROSS PROFIT		**892,666**	968,767
Other income and gain	*6*	**4,500**	10,413
Selling and distribution expenses		**(714,514)**	(710,007)
Administrative expenses		**(110,242)**	(110,791)
Other expenses		**(9,757)**	(8,606)
Finance cost	*8*	**(796)**	(347)
PROFIT BEFORE TAX	*7*	**61,857**	149,429
Income tax expense	*9*	**(8,908)**	(20,062)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**52,949**	129,367
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation differences		**(3,168)**	59
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**49,781**	129,426
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	*11*		
Basic		**HK14.4 cents**	HK35.4 cents
Diluted		**HK14.4 cents**	HK35.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**200,416**	201,610
Intangible assets		**820**	931
Rental, utility and other non-current deposits		**78,232**	90,390
Deferred tax assets		**27,988**	27,788
Total non-current assets		**307,456**	320,719
CURRENT ASSETS			
Inventories		**268,110**	251,346
Trade receivables	*12*	**58,347**	56,332
Prepayments, deposits and other receivables		**35,958**	34,888
Tax recoverable		**6,914**	5,803
Cash and bank balances		**219,249**	256,818
Total current assets		**588,578**	605,187
CURRENT LIABILITIES			
Trade payables	*13*	**24,245**	35,398
Other payables and accruals		**76,066**	85,776
Interest-bearing bank borrowing	*14*	**12,876**	19,678
Tax payable		**8,132**	9,295
Total current liabilities		**121,319**	150,147
NET CURRENT ASSETS		**467,259**	455,040
TOTAL ASSETS LESS CURRENT LIABILITIES		**774,715**	775,759
NON-CURRENT LIABILITY			
Deferred tax liabilities		**5,264**	6,804
NET ASSETS		**769,451**	768,955
EQUITY			
Equity attributable to equity holders of the parent			
Share capital		**36,738**	36,721
Reserves		**732,713**	732,234
TOTAL EQUITY		**769,451**	768,955

1. CORPORATE INFORMATION

Bauhaus International (Holdings) Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 501, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong. The Company has been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 12 May 2005 (Stock code: 483).

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

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2. BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of the revised standards has had no significant financial effect on the financial statements.

In addition, the Group has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[4]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
4 Effective for annual periods beginning on or after 1 January 2019
5 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units that offer products to customers located in different geographical areas. In determining the Group's reportable operating segments, revenues, results, assets and liabilities attributable to the segment are based on the location of the customers. The Group 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, finance cost 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, an interest-bearing bank borrowing, tax payable and other unallocated 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.

5. OPERATING SEGMENT INFORMATION (Continued)

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

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

5. **OPERATING SEGMENT INFORMATION (Continued)**

	Hong Kong and Macau *HK$'000*	Mainland China *HK$'000*	Taiwan *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
Year ended 31 March 2015					
Segment revenue:					
Sales to external customers	1,129,196	132,529	313,447	16,645	1,591,817
Intersegment sales	9,679	7,109	133,387	1,028	151,203
	1,138,875	139,638	446,834	17,673	1,743,020
Reconciliation:					
Elimination of intersegment sales					(151,203)
Revenue					1,591,817
Segment results:	185,814	2,533	15,451	4,342	208,140
Reconciliation:					
Interest income					382
Finance cost					(347)
Unallocated expenses					(58,746)
Profit before tax					149,429
Segment assets:	341,983	156,171	152,571	4,999	655,724
Reconciliation:					
Deferred tax assets					27,788
Tax recoverable					5,803
Unallocated assets					236,591
Total assets					925,906
Segment liabilities:	71,511	27,732	9,723	803	109,769
Reconciliation:					
Deferred tax liabilities					6,804
Interest-bearing bank borrowing					19,678
Tax payable					9,295
Unallocated liabilities					11,405
Total liabilities					156,951
Other segment information:					
Capital expenditure*	23,846	6,783	16,005	23	46,657
Unallocated capital expenditure*					58,099
					104,756
Depreciation	21,204	5,334	9,021	–	35,559
Amortisation of intangible assets	70	33	41	153	297
Unallocated depreciation					5,753
					41,609
Loss on disposal of items of property, plant and equipment, net	2,079	286	142	–	2,507
Unallocated loss on disposal of items of property, plant and equipment, net					224
					2,731
Write-off of rental deposits	–	1	–	–	1
Provision for doubtful debts and write-off of bad debts	552	–	–	324	876
Impairment of items of property, plant and equipment	3,303	680	–	–	3,983

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

5. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

Non-current assets

	2016	2015
	HK$'000	*HK$'000*
Hong Kong and Macau	**107,231**	117,001
Mainland China	**13,571**	14,573
Taiwan	**19,137**	19,559
Elsewhere	**426**	551
	140,365	151,684

Information about major customers

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

6. REVENUE, OTHER INCOME AND GAIN

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

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

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Sale of garment products and accessories	**1,512,996**	1,591,817
Other income		
Bank interest income	**471**	382
Forfeiture of franchise deposits	**655**	3,633
Others	**941**	1,989
	2,067	6,004
Gain		
Foreign exchange differences, net	**2,433**	4,409
	4,500	10,413

7. PROFIT BEFORE TAX

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

	2016	2015
	HK$'000	*HK$'000*
Cost of inventories sold	**609,300**	639,748
Depreciation	**44,668**	41,312
Provision/(write-back of provision) for slow-moving inventories, net, included in cost of sales	**11,030**	(16,698)
Minimum lease payments under operating leases	**258,139**	253,350
Contingent rents under operating leases	**86,062**	91,578
Auditors' remuneration	**2,233**	2,226
Employee benefit expenses (including executive directors' remuneration):		
Wages, salaries and other benefits	**232,840**	228,722
Equity-settled share option expense	**–**	326
Pension scheme contributions*	**11,586**	10,920
	244,426	239,968
Loss on disposal of items of property, plant and equipment, net	**3,128**	2,731
Amortisation of intangible assets	**257**	297
Write-off of rental deposits	**1,903**	1
Disposal of trademarks	**33**	32
Provision for doubtful debts	**–**	510
Write-off of bad debts	**12**	366
Impairment of items of property, plant and equipment	**4,420**	3,983

* At the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2015: Nil).

8. FINANCE COST

An analysis of finance cost is as follows:

	2016	2015
	HK$'000	*HK$'000*
Interest on bank loans	**796**	347

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

The corporate income tax ("**CIT**") of the People's Republic of China ("**PRC**") is applicable to five (2015: five) subsidiaries located in Mainland China. All of these subsidiaries were subject to the applicable CIT rate of 25% (2015: 25%) during the year ended 31 March 2016.

For the subsidiaries in Macau, one of them (2015: one) was incorporated under the Macau Offshore Business Law and exempted from the Macau complementary tax pursuant to the Macau Special Administrative Region's offshore law.

The Taiwan subsidiary was subject to the applicable tax rate of 17% (2015: 17%) during the year ended 31 March 2016.

	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Provision for the year	**9,340**	18,187
Underprovision/(overprovision) in prior years	**(2,488)**	52
Current tax – PRC		
Provision for the year	**442**	428
Underprovision in prior years	**–**	881
Current tax – Elsewhere		
Provision for the year	**3,758**	4,012
Overprovision in prior years	**(284)**	(22)
Deferred tax credit	**(1,860)**	(3,476)
Total tax charge for the year	**8,908**	20,062

10. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Interim – Nil (2015: HK1.5 cents) per ordinary share	**–**	5,495
Proposed final – HK6.0 cents (2015: HK13.5 cents) per ordinary share	**22,043**	49,573
	22,043	55,068

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

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

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the parent of HK$52,949,000 (2015: HK$129,367,000) and the weighted average number of ordinary shares of 367,373,965 (2015: 365,386,255) in issue during the year.

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

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

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit attributable to equity holders of the parent, used in the basic earnings per share calculation	**52,949**	129,367
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**367,373,965**	365,386,255
Effect of dilution – weighted average number of ordinary shares:		
Share options	**291,972**	498,279
	367,665,937	365,884,534

12. TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**58,347**	56,849
Impairment	**–**	(517)
	58,347	56,332

Retail sales (both online and offline) 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 that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**57,175**	56,074
91 to 180 days	**688**	115
181 to 365 days	**161**	88
Over 365 days	**323**	55
	58,347	56,332

13. TRADE PAYABLES

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

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**23,742**	33,821
91 to 180 days	**178**	665
181 to 365 days	**122**	890
Over 365 days	**203**	22
	24,245	35,398

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

14. INTEREST-BEARING BANK BORROWING

	2016			2015		
	Effective interest rate ***(%)***	**Maturity**	***HK$'000***	Effective interest rate *(%)*	Maturity	*HK$'000*
Current – secured						
Bank loan repayable on demand	**2-3**	**2018**	**12,876**	2-3	2018	19,678

	2016 ***HK$'000***	2015 *HK$'000*
Analysed into bank loan repayable*:		
Within one year or on demand	**6,933**	6,933
In the second year	**5,943**	6,933
In the third to fifth years, inclusive	**–**	5,812
	12,876	19,678

* The amounts due are based on scheduled repayment dates set out in the notices for repayment schedule issued by the bank, ignoring the effect of any repayment on demand clause.

Notes:

(a) The Group's general banking facilities and loans 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$117,269,000 (2015: HK$119,806,000).

(b) The loan is in Hong Kong dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design and retailing of trendy apparel, 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 31 March 2016, the Group had a total of 225 shops in operation (2015: 222).

	As at 31 March 2016	As at 31 March 2015	Change
Self-managed outlets			
Hong Kong & Macau	**86**	83	+3
Taiwan	**94**	95	–1
Mainland China	**34**	31	+3
	214	209	+5
Franchised outlets			
Mainland China	**11**	13	–2
TOTAL	**225**	222	+3

The Group experienced a difficult year in 2015/16 financial year. Triggered by multiple unfavourable economic factors stifling the retail markets where the Group principally operates, the Group's turnover for the year ended 31 March 2016 decreased by about 5.0% to approximately HK$1,513.0 million (2015: HK$1,591.8 million) and the Group recorded a significant drop in net profit to about HK$52.9 million (2015: HK$129.4 million).

Probably, as a result of Mainland China's uncertain economic prospects, instability of financial markets and the appreciation of the Hong Kong dollar against other Asian currencies (including the Renminbi), the consumer spending momentum obviously deteriorated during the year under review and resulted in highly volatile and discount-driven retail dynamics. The Group had to provide extensive sales discounts and offer frequent promotional campaigns to galvanise sales. Despite the declining market rentals for some standalone shops in prime shopping areas, the rentals in major shopping malls and other operating costs still climbed up in general during the year under review. Under the sluggish retail environment, such inelastic market cost structure definitely imposed considerable pressure on the retailers' profit margins.

In spite of operating under difficult market dynamics, the Group still managed to maintain low financial gearing, a strong cash position and great operating flexibility to address market challenges. The Group is committed to manage a sustainable retail business with focus on both organic growth in sales of the existing retail portfolio as well as fostering new prospective business development. Therefore, the Group not only continued to invest in brand building and marketing to fuel sales growth and reinforce its position in the fashion industry, but also restructured workflows to shorten the procurement cycle and to improve controls on inventory.

Hong Kong and Macau

The Hong Kong and Macau retail operation was the largest geographical operating segment of the Group in the year under review, which accounted for about 68.1% of the Group's turnover (2015: 70.9%). Sales from the region dropped by about 8.8% to approximately HK$1,030.0 million during the year ended 31 March 2016 (2015: HK$1,129.2 million). The Group recorded a negative same-store-sales growth rate of about 9% for the year under review.

Actually, the performance in many retail sectors across the region deteriorated, due to less spending from both inbound tourists and local residents. In particular, the sales momentum in Hong Kong has been weakening, possibly attributable to the slowdown in Mainland China's economic growth, strong local currency and dampening of spending sentiment arising from volatile financial and property markets. The weak consumption atmosphere virtually led to promotion-driven market dynamics. In order to boost customer traffic and sales, the Group had to provide extensive sales discounts and embark on attractive promotional campaigns. The promotional activities have been proved effective, however, the Group's gross margin was slashed. In addition, the operating costs in the region remained high in general, particularly rentals in key shopping malls, where further squeezed net margin of the retailers. As about 80% of the Group's retail stores in the region operated in major and reputable shopping arcades, downward adjustments in standalone shops' market rentals only slightly relieved the Group's operating costs in the region. The segment profit before tax of the Group's Hong Kong and Macau region slumped by about 46.4% to roughly HK$99.6 million for the year ended 31 March 2016 (2015: HK$185.8 million).

Taiwan

The stagnant retail sentiment presented great challenges to the Group's Taiwan operation in the first half of the 2015/16 financial year. The Group has closely monitored the attractiveness of its shop merchandise and altered its product mix on a regular basis. Thanks to the professional retail management team and their dedicated sales force, the Group has also promptly adjusted its marketing tactics and shop portfolio to confront the market challenges. Eventually, the Group recorded a strong rebound in sales in the second-half of the financial year and the segmental turnover for the year under review increased by about 9.2% to about HK$342.2 million (2015: HK$313.5 million).

However, massive promotional activities unavoidably led to a decline in Taiwan's segment profit before tax by about 61.3% to about HK$6.0 million for the year under review (2015: HK$15.5 million). The Group maintained a comparable scale of its retail networks in the region with a total of 94 counters/stores in operation as at 31 March 2016 (2015: 95), most of which were located inside reputable department stores in major cities on the island.

Mainland China

As at 31 March 2016, the Group operated its self-managed retail shops mostly in Beijing, Shanghai, and Guangzhou and maintained a streamlined franchise network focusing on certain prosperous second-tier cities in Mainland China. Turnover from the Mainland China segment dropped slightly by about 2.8% to about HK$128.8 million (2015: HK$132.5 million). The Group actively revamped its shop portfolio during the year under review. As at 31 March 2016, the Group had 34 self-managed retail stores in the region (2015: 31), of which more than 70% in number have been renovated as “SALAD” specialty stores. The newly-renovated shops offered relatively stable contribution to both sales and profit in the region.

In addition to the traditional offline retail network, the Group has also proactively developed new distribution channels through certain e-commerce platforms like Tmall. Through cautious transformation and gradual integration of its business models in Mainland China, the segment gradually returned to profitability and recorded a segment profit before tax of about HK$8.1 million for the year ended 31 March 2016 (2015: HK$2.5 million). Though the economic slowdown in Mainland China might impose a higher risk on impairing domestic consumption and in turn depressing the Group’s sales momentum in the segment, the Group is committed to reconfiguring its distribution channels to improve its profitability and operational effectiveness in the near future.

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 by about 27.7% to about HK$12.0 million (2015: HK$16.6 million) mainly due to a decrease in sales to the Japanese market. The appreciation of the United States dollar against the Japanese yen obviously shrank demand from Japanese customers for the Group’s export products.

FINANCIAL REVIEW

Turnover

The aggregate turnover of the Group declined slightly by approximately 5.0% to around HK$1,513.0 million for the year ended 31 March 2016 (2015: HK$1,591.8 million). The major components of the Group’s turnover by business were as follows:

	Year ended 31 March 2016 *HK$ million*	Year ended 31 March 2015 *HK$ million*	Change
Retail – Offline	**1,472.3**	1,547.3	–4.8%
Retail – Online	**16.4**	9.3	+76.3%
Franchise	**12.4**	17.6	–29.5%
Wholesales and others	**11.9**	17.6	–32.4%
TOTAL	**1,513.0**	1,591.8	–5.0%

As indicated above, the traditional offline retail business was the largest sales contributor, accounting for approximately 97.3% (2015: 97.2%) of total turnover while recording a negative year-on-year growth of about 4.8%. Encouragingly, on the other hand, the Group's online retail business has been gradually gaining traction, contributing a remarkable growth in sales of approximately 76.3% during the year under review to about HK$16.4 million (2015: HK$9.3 million).

Operating Segment Information

Detailed information of the Group's turnover and its contribution to profit before tax by segment is shown in Note 5 above.

Gross Profit

The Group's gross profit decreased to approximately HK$892.7 million for the year ended 31 March 2016 (2015: HK$968.8 million) and gross margin was reduced to around 59.0% (2015: 60.9%). Owing to stagnant retail sentiment in various regions where the Group operated, the Group had to provide extensive sales promotion to customers and launched sizable bargain sales campaigns to speed up stock turnover and to reduce excessive inventories.

Operating Expenses

Operating expenses increased slightly by about 0.6% to approximately HK$834.5 million (2015: HK$829.4 million) during the year ended 31 March 2016, equivalent to roughly 55.2% of total turnover (2015: 52.1%). Rentals were about HK$344.2 million (2015: HK$344.9 million), which accounted for about 22.7% (2015: 21.7%) of the Group's turnover and equivalent to about 41.2% (2015: 41.6%) of the Group's total operating expenses during the year under review. The drop in overall rental expenses was mainly contributed by a decline in turnover rent. However, the market rentals in core shopping malls continued to rise in general. As an on-going practice and effective means to mitigate rental increment, the Group continued to strategically relocate, consolidate and convert its retail portfolio to attain a more cost-effective operating structure.

Staff cost increased by about 1.8% to approximately HK$244.4 million (2015: HK$240.0 million) during the year ended 31 March 2016. The staff cost-to-sales ratio climbed up to about 16.2% (2015: 15.1%) mainly because of the drop in sales. The inflationary operating environment and the shortage of experienced front-line sales staff have led to a surge in average staff cost. To tackle the challenges, the Group adopted an effective incentive system to motivate sales staff for better productivity and streamlined workflow to improve efficiency.

Depreciation charges increased to approximately HK$44.7 million (2015: HK$41.3 million) for the year under review. Marketing and advertising expenses, representing about 3.3% (2015: 3.8%) of the Group's turnover, were reduced by about 18.6% to approximately HK$49.4 million for the year ended 31 March 2016 (2015: HK$60.7 million). The Group focused its marketing efforts mostly on key brands and products thereby prudently mitigating the drop in sales amidst the sluggish retail sentiment.

Finance Cost

The Group incurred finance cost of about HK$0.8 million (2015: HK$0.3 million) during the year under review, which represented interest expense paid for bank borrowings to finance seasonal liquidity gap and property acquisition.

Net Profit

The Group's net profit attributable to equity holders plummeted by about 59.1% to approximately HK$52.9 million for the year ended 31 March 2016 (2015: HK$129.4 million). Net profit margin also dropped from about 8.1% to about 3.5%. The unfavourable results were primarily caused by the drop in both sales and gross profit.

SEASONALITY

Based on the Group's track record, its sales and results are greatly affected by seasonality. The first-half of each financial year has historically been less important than the financial year's 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, particularly during the holiday period from Christmas to the Lunar New Year.

CAPITAL STRUCTURE

As at 31 March 2016, the Group had net assets of approximately HK$769.5 million (2015: HK$768.9 million), comprising non-current assets of approximately HK$307.5 million (2015: HK$320.7 million), net current assets of approximately HK$467.3 million (2015: HK$455.0 million) and non-current liability of approximately HK$5.3 million (2015: HK$6.8 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2016, the Group had cash and bank balances of about HK$219.2 million (2015: HK$256.8 million). At the end of the reporting period, the Group had aggregate banking facilities of about HK$157.7 million (2015: HK$164.5 million) comprising an interest-bearing bank overdraft, revolving loans, rental and utility guarantees as well as import facilities, of which about HK$131.4 million had not been utilised. In particular, the Group had a bank borrowing of about HK$12.9 million as at 31 March 2016 (2015: HK$19.7 million), which was in Hong Kong dollars repayable within two (2015: three) years and bearing interest at variable rates from about 2% to 3% per annum (2015: 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 1.4% (2015: 2.1%).

CASH FLOWS

For the year ended 31 March 2016, net cash inflow from operating activities decreased to approximately HK$72.9 million (2015: HK$133.3 million), which was mainly attributed to a decrease in revenue and an increase in inventories. The Group's net cash flow used in investing activities was reduced significantly to about HK$51.9 million (2015: HK$104.6 million) during the year under review. During the last financial year, the Group acquired a property located in Hong Kong for a consideration of about HK$56.7 million while no similar material investing activities were made in the year under review. Net cash flow used in financing activities during the year under review increased to approximately HK$56.1 million (2015: HK$32.5 million), mainly because the Group gradually repaid mortgage loan and smaller proceeds were received from issuance of new shares of the Company upon exercise of share options.

SECURITY

As at 31 March 2016, 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$117.3 million (2015: HK$119.8 million).

CAPITAL COMMITMENT

The Group had capital commitment in respect of enhancements on computer equipment and information systems contracted, but not provided for, amounting to about HK$1.8 million as at 31 March 2016 (2015: Nil).

CONTINGENT LIABILITIES

As at 31 March 2016, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and property rental deposits amounting to approximately HK$6.8 million (2015: HK$5.2 million).

HUMAN RESOURCES

Including the Directors, the Group had 1,341 (2015: 1,318) employees as at 31 March 2016. To attract and retain high quality staff, the Group provided competitive remuneration packages with performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' performance, experience and the prevailing market rate. Remuneration packages were reviewed regularly. Regarding staff development, the Group provided regular in-house training to retail staff and subsidised their external training programmes for their professional development.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's sales and purchases during the year have been mostly denominated in Hong Kong 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.

PROSPECTS

In the new financial year, the management expects the Group to continue face stiff headwinds, as both the global and Mainland China economies are likely to experience ongoing slowdowns in growth which will invariably affect consumption sentiment in our key markets.

Despite the challenges anticipated, we will remain highly vigilant to face changes in the retail market and will take prompt action when necessary. Moreover, as the Group does possess well-diversified brand and product portfolios and holds unique market positions, we are dedicated to maintaining strong operating flexibility to assure stable performances even in times of difficulty.

Even though the Group benefits from an effective business model, the management is well aware of the need to continuously tap into new revenue streams; hence, we will further develop the e-commerce operation. Correspondingly, additional investments will be made in the coming years, including bolstering ties with major e-commerce platforms in Mainland China, such as Tmall. The Group will also encourage the take-up of our mobile application, which was introduced in March 2016.

Also, the Group will continue to look for opportunities to diversify its brands, thereby enriching its brand mix, so as to further enhance our differentiated market position as a fashion leader, and reinforce our competitiveness in the long term.

Cost Control

Aside from ongoing business development, the Group will place equal effort on managing expenses. The operating costs, especially rental expenses in Hong Kong, will likely remain high. In respect of controlling rental costs, underperforming stores will be closed in the coming year. At the same time, new sites in prime locations will be considered for store openings. By consolidating the Group's retail network, the management will be able to maintain rental expense at a reasonable level while enhancing our market presence.

The management is also aware of the need to control costs in other areas, as reflected by initiatives that will be introduced to rationalise workflow procedures, optimise inventory restocking and manage advertising and promotional activities.

Dividend Policy

The Group has always aimed to deliver a stable dividend return to its shareholders of the Company. However, as increased uncertainty and volatility is foreseen in the retail markets within which the Group principally operates, the Group should get prepared and strengthen its financial flexibility and liquidity for long-term sustainable development. Therefore, the Group is to adopt a new dividend policy to increase its flexibility starting from the financial year commencing on 1 April 2016 onwards, aiming to strike a balance among the Group's financing needs, future investment opportunities and return to shareholders when determining dividend payments.

DIVIDEND

The Directors recommended the payment of a final dividend of **HK6.0 cents** (2015: HK13.5 cents) per ordinary share for the year ended 31 March 2016. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company (the "**AGM**"), the proposed final dividend will be payable on or before **Friday, 23 September 2016** to shareholders whose names appear on the register of members on **Friday, 9 September 2016**.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM is scheduled on **Friday, 26 August 2016**. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from **Wednesday, 24 August 2016** to **Friday, 26 August 2016**, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on **Tuesday, 23 August 2016**.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is scheduled on **Friday, 9 September 2016**. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from **Wednesday, 7 September 2016** to **Friday, 9 September 2016**, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on **Tuesday, 6 September 2016**.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the year ended 31 March 2016 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 CEO 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 year ended 31 March 2016.

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 year ended 31 March 2016.

REVIEW OF FINANCIAL INFORMATION

An audit committee of the Company (the "**Audit Committee**") with written terms of reference comprises three independent non-executive directors. The Audit Committee has reviewed with management and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the consolidated financial statements for the year ended 31 March 2016.

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 March 2016 have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year under review. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

PUBLICATION OF THE FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement for the year ended 31 March 2016 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 2015/16 annual 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 our 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, 24 June 2016

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 Dr. Wong Yun Kuen, Mr. Chu To Ki and Mr. Mak Wing Kit.