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**Report on financial analysis, operational
review and challenges of Bauhaus
International (Holdings) Limited**

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Module: Finance for Business Managers (HKBM7008)

Executive Summary

The outbreak of COVID-19 pandemic since early 2020 brought tremendous challenges to all industries in global. Some industries, such as retail sales which is highly relying on tourists, were impacted more than other industries. The situation in Hong Kong has no exception. The spread of COVID and unknown period of the pandemic brought the biggest challenge to many corporates in Hong Kong. Bauhaus is a local fashion retailer and a listed company in Hong Kong. The COVID impact on all aspects of the company and jeopardize its survival. This report will analyse Bauhaus in different aspects including a range of financial ratios, the corporate governance and provide a project idea to solve the findings derived from the analysis. To understand the situation of Bauhaus within the same sector of industry, the report will compare with 2 peer companies which are Giordano and Crocodile.

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1 Introduction

This report focuses on the business analysis on Bauhaus International (Holdings) Limited (Bauhaus). The sales dropped sharply in 2021 because of the persistent impact from COVID-19 is the major challenge to Bauhaus. A full review of the status of Bauhaus is essential to evaluate its ability to cope with and survive from the challenge. The financial situation of Bauhaus will be analyzed and compared with 2 other market players in same industry. And, at the end, will provide suggestions and recommendations for the future business development of Bauhaus

2. Background of Bauhaus International (Holdings) Limited

Bauhaus is a local fashion retail company established in 1991. (Bauhaus International (Holdings) Ltd, 2022) At the beginning, it imported and sale of international famous brands of denim and accessories such as Diesel, Levi's and Mandarina Duck. It became famous among the young with high fashion sense group of customers. Bauhaus launched its first own label (TOUGH Jeansmith) in 1994 which further enforced its market leading status in the denim retailer segment. Following the successful development of own label, Bauhaus introduced two more own brands (Salad and 80/20) in 2002 and 2005 respectively. Salad is targeting fashionable ladies market while 80/20 features military inspired styles. The introduction of new labels allowed Bauhaus to target a wider range of customers with more choices of products. As of 31 March 2021, Bauhaus operated 49 retail shops in Hong Kong and Macau.

In 2005, Bauhaus was listed in the Hong Kong Stock Exchange at 1.25 Hong Kong Dollar as the IPO price. It makes Bauhaus established as one of major fashion retailers in Hong Kong. The share price as of 31 August 2022 is 0.62 Hong Kong Dollar. With 367,380,000 issued shares, the market capital is 227.776 millions Hong Kong Dollar (Yahoo Finance, 2022).

2.1 Industry competition

The competition of Hong Kong fashion retail chains market is keen no matter among the local or foreign brands. Compare with other local brands such as Giordano and Crocodile, Bauhaus targets young trendy age group customers. And, though Bauhaus established its own labels for different target groups, it imports and sells different foreign brand (Superdry) in Hong Kong exclusively. It gives Bauhaus comparative

advantage over other local brands. In terms of number of stores, Giordano has the biggest market share with 73 shops in Hong Kong while Bauhaus and Crocodile have 49 and 7 stores respectively.

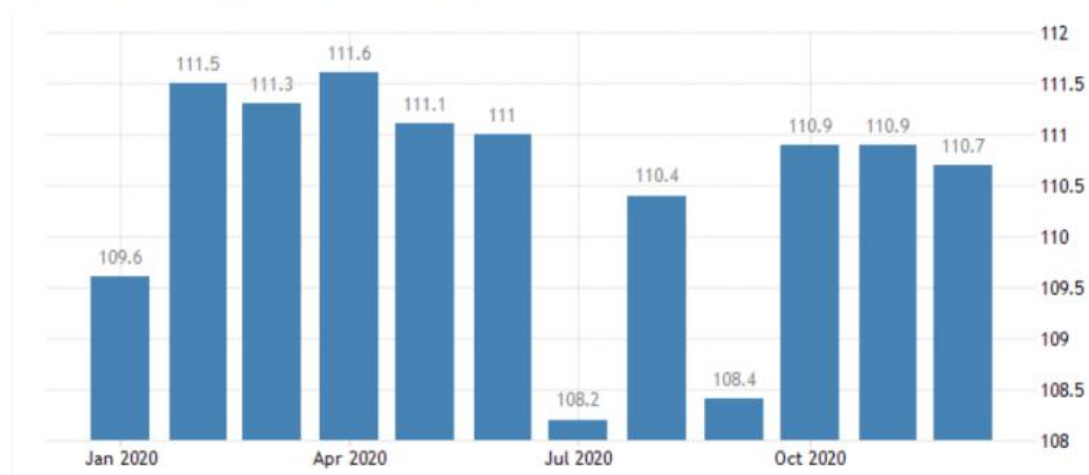
Before the outbreak of COVID-19 in 2020, the travelers from mainland China via the Individual Visit Scheme benefited the fashion retail industry in Hong Kong significantly. Bauhaus, mainly target the affordable trendy fashion segment, was famous for those young travelers looking for mid-level fashion brand. However, travelling was stand still globally due to the outbreak of COVID-19 pandemic that the number of travelers to Hong Kong dropped dramatically. According to the Hong Kong Tourism Board, though total 3.57 million tourists visited Hong Kong in 2020, most arrived in Jan and the monthly arrivals dropped to five to ten thousands only since Feb. Except the absent of overseas customers, the consumption behaviour or pattern of domestic customers changed too. With a series of social distant measures by Hong Kong Government to deal with waves of COVID pandemic, people stayed home not only dining but also shopping online. Except grocery and household items, people would purchase clothing items, especially non-luxury brands, online as well. When the market switched to online the location is no longer a consideration, local fashion retailers face competition not only from other local competitors but those from overseas. Traditional local fashion retailers like Bauhaus relied on its physical stores network as major distribution channel. Bauhaus have not developed any e-commerce channel so far that left very limited options for sales distribution when the traffic was extremely low during waves of pandemic. As result, to reduce cost and maintain the financial stability, Bauhaus cut the number of stores from 77 in 2019 to 65 in 2020 and further to 49 in 2021 (Bauhaus International (Holdings) Ltd, 2022). The change of the industry environment from leveraging strong store network to online requires fashion retailer to take swift action to adapt.

2.2 Current Business Environment

With the impact from the COVID pandemic to the economy globally, retail sales is one of the industries was heavily affected. The total value in retail sales sector in Dec 2020 dropped by 13.2% year-on-year according to Hong Kong Census and Statistics Department. As the indicator of inflation and deflation of an economy, the Consumer Price Index (CPI) reflects the change of a weighted average of prices of a basket of

consumer goods and services. From the figure below, the CPI in Hong Kong dropped significantly in Jul and Sept 2020 which were impacted by the second and third wave of COVID pandemic. It is very challenging for Bauhaus to maintain the revenue and survive from the downturn of economic environment.

Figure 1: Hong Kong Consumer Price Index (CPI) from Jan to Dec 2020



Source: Census and Statistics Department January 2021

2.3 Information of research comparison companies

This report is conducted by the comparison of 3 companies with similar business nature of business and in the same fashion retail industry which would produce some meaningful findings and insights. These 3 companies are Bauhaus, Giordano (Stock code: 0709.HK) and Crocodile (Stock code: 0122.HK).

Company Name	Bauhaus	Giordano	Crocodile
Stock code	0483.HK	0709.HK	0122.HK
Business nature	Fashion retail chain stores		
Market value (Amount in HK\$ million) ¹	227.776	2,921	284.263
PE ¹	1.598	15.417	N/A
Market area	China, Hong Kong and Macau	China, Hong Kong, Macau and Taiwan	China and Hong Kong
Number of Stores ²	49 stores in Hong Kong and Macau	51 stores in Hong Kong and Macau	16 stores in Hong Kong

Note 1: Stock market closing date as of 2 Sept 2022 (Source: Yahoo Finance)

Note 2: Number of Stores as of companies annual report 2020/21

3. Financial analysis of Bauhaus

This section will examine Bauhaus's analysis of financial report, growth and operating capacity, financial structure, return of share and market value. Then compare Bauhaus's financial figures with those of Giordano and Crocodile. And ride on the findings to produce assessment of risk and recommendation to the group.

3.1 Z-Score (Bankruptcy index) analysis

Z-score, or known as the standard score, is widely used on examining and indicating the rate of bankruptcy as it is easier to compute and use as a measure of control for financial problems of a company. The Z-score is used by many corporates in the balance sheet to health check themselves. If the Z-score is under 1.8 is an alert for the corporate which is in financial distress and the possibility of going bankruptcy is high according to Altman (Altman, 1968). It is an indicator for any potential investors who are considering to invest on the corporate no matter by direct investment or acquiring the equity. As Z-score does not consider the earnings could be possibly manipulated that would change accounting data fundamentally and influence the decision of investors.

Company Name (Amount in HK\$ million)	Bauhaus			Giordano	Crocodile
Financial Year	2021	2020	2019	2021	2021
Net current assets	263.58	264.6	429.10	960.00	(181.33)
Total assets	599.3	888.72	862.15	4,208.00	2,200.62
Retained earnings	411.21	499.22	705.00	2,165.00	1,199.20
EBIT	107.25	(180.12)	(56.57)	263.00	16.31
Stock value (HKD) ¹	0.55	0.60	1.30	1.49	0.42
Number of stock	367.38	367.38	367.38	1,578.94	947.54
Total Liabilities	151.35	352.76	120.41	1,645.00	669.10
Sales	371.89	887.31	1,300.58	3,380.00	112.00

Note 1: The adjusted closing price as at the last transaction date of the financial year end was picked (Appendix C)

Z-score: $Z = 1.2A + 1.4B + 3.3C + 0.6D + 0.999E$

A=Working Capital/Total Assets

B=Retained Earnings/Total Assets

C=EBIT/Total Assets

D=[(Stock value X Total number of stocks)/Total Liabilities

E=Sales/Total Assets

Company Name	Bauhaus			Giordano	Crocodile
Financial Year	2021	2020	2019	2021	2021
A	0.44	0.30	0.50	0.23	(0.08)
B	0.69	0.56	0.82	0.51	0.54
C	0.18	(0.20)	(0.07)	0.06	0.007
D	1.34	0.62	4.00	1.43	0.59
E	0.62	1.00	1.51	0.80	0.05
Z-Score	3.50	1.85	5.41	2.86	1.10

In 2021, Bauhaus's Z-score is 3.5 which indicates the insolvency index is above 1.8 by far that the probability of bankruptcy for Bauhaus is low. Meanwhile, the Z-score of Giordano is also much higher than 1.8 shows it is healthy financially. However, Crocodile is scored 1.1 in 2021 which is very alarming and demonstrated Crocodile is in serious financial distress.

3.2 Ability to settle liabilities

Company Name	Bauhaus			Giordano	Crocodile	Average of Giordano and Crocodile
Financial Year	2021	2020	2019	2019 -2021 (3 years average)		
Current ratio (times)	3.67	2.29	4.76	1.69	0.61	1.15
Quick ratio (times)	2.96	1.74	2.5	1.28	0.54	0.91
Cash Ratio (times)	2.70	1.62	1.74	0.92	0.18	0.55
Total debt ratio (%)	25.25%	39.69%	13.97%	41.42%	31.11%	36.27%
Debt / Equity ratio	0.34	0.66	0.21	0.71	0.45	0.39
Long term debt ratio (%)	11.77%	27.5%	0.11%	2.57%	9.46%	6.01%
Time interest earned ratio	11.41	(9.76)	(92.13)	4.58	(3.09)	0.74

3.2.1 Current, quick and cash ratio

In 2021, the current, quick and cash ratio of Bauhaus increased over 60% from 2020 which shows it ensured itself at a very strong liquidity status in order to cope with highly uncertain environment under the impact of COVID pandemic. Those ratios are all over 2 times shows Bauhaus is strong in terms of cash flow no matter short or very short (cash) term. Giordano is also at a healthy position as the ratios are over or near

to 1. However, Crocodile is in very bad position in terms of liquidity especially the cash ratio which is near to zero. It put Crocodile at very risk of insolvency if cash flow is not enough to keep the company survive.

3.2.2 Total debt ratio

This ratio is to evaluate the ration between total liability and total assets of a corporate. It shows the percentage of the total assets are being financed by liability. All 3 companies are under 50% which means the total liability is at a relative low percentage versus their total assets and shows the companies are not aggressive to operate by lending.

3.2.3 Long term debt ratio

The long term debt ratio is another indicator of the financial leverage level of a company by comparing the percentage of long-term liabilities to finance the assets of the company. It shows the capability of a company to meet its long-term liabilities. Bauhaus has a very low ratio (less than 1%) before the COVID. The ratio raised dramatically in 2020 to 27.5% but back to 11.77% in 2021, Again, it shows how the COVID impacted Bauhaus and the action taken by management to contain it back to a safe level in 2021. Giordano and Crocodile, however, remained at single digit ratio in average that is a low leverage level.

3.2.4 Time interest cover ratio

This ratio demonstrates the capability of a company to generate enough cash flow from EBIT to meet the interest payment. If it is below 1, the cash flow generated from EBIT is not enough to meet the interest expenditure that need to be covered by the cash reserve or lending. The ratio was extremely low for Bauhaus in 2019 and 2020 as the earnings before interest and tax (EBIT) were negative in both year. In 2021, Bauhaus recorded positive EBIT that generated enough cash flow to meet the interest obligations. Giordano remain a healthy level in average though its EBIT was negative in 2020 as well. Crocodile, however, the ratio in average is alarming as its EBIT in 3 years are negative (2020) or at very low level.

4. Sales and profitability

The total sales of Bauhaus is on the contraction trend in last 3 years. The sales dropped 31% from 2019 to 2020 and 58% from 2020 to 2010. The sales size in 2021 was only 28% of 2019. The change of sales directly reflected the impact from COVID that both tourists and domestic consumers dropped or changed their consumption behaviour. Both Giordano and Crocodile were suffered with the same issue though the percentage were not as serious as Bauhaus. And among 3 companies, only Giordano could rebound from the bottom in 2020 and recorded a growth of sales (8%) in 2021. During the financial year 2020/2021, Bauhaus cut the number of shops from 65 to 49 which is almost 25% reduction of its retail network. While there is no online platform to fill the gap, the drop of sales (31%) is the biggest among 3 companies. Therefore, though the cost control action to cut those under-performing stores allowed Bauhaus remained at a healthy liquidity and leverage level, it weakens its capability to capture any rebound of economy when the pandemic situation improved.

4.1 Profitability of Bauhaus, Giordano and Crocodile

The gross profit margin for Bauhaus and Crocodile are high (over 60%) as they both possess some foreign famous brands (Superdry for Bauhaus and Lacoste for Crocodile) exclusive right which are with higher profit margin. On the other hand, the pricing strategy of Giordano is budgeted clothing for low to mid income earners. The profit margin is relatively low. However, the net profit margin of Bauhaus in 2019 and 2020 (almost -20%) were negative which shows the control of expenditure and cost was an issue. In 2021, with a series of cost control measures, the net profit margin improved to 26.82% which was the best among 3 companies.

Company Name (Amount in thousand HK\$'000)	Bauhaus			Giordano	Crocodile	Average of Giordano and Crocodile
Financial Year	2021	2020	2019	2019 -2021 (3 years average)		
Net profit / loss	99.73	(172.60)	(62.10)	134.67	(86.20)	24.24
Gross profit Margin	64.69%	60.22%	55.77%	37%	70.58%	60%
Net profit margin	26.82%	(19.45%)	(4.77%)	3.03%	(58.57%)	(27.77%)

The total asset turnover is to measure how efficient a company to generate revenue by using its assets. If the ratio is over 1 is an optimistic situation as the company can generate enough with the total assets. Bauhaus was efficient to generate revenue in 2019 and 2020 so the ratio were over 1 and higher than other 2 companies. Again, as the number of stores was cut dramatically in 2021 without other sales channels to fill the void, the drop of sales also reflect on the drop of the total asset turnover ratio in 2021. Meanwhile, the ratio of Crocodile is very alarming which is 0.07 in average. It shows Crocodile is very inefficient to generate revenue with its total assets.

The cash period is the ratio to measure the time (in days) between the payment to be settled to suppliers and the payment received from customers. The shorter the period means the company is more strong at liquidity as the working capital would not be tied up for long. Both Bauhaus and Crocodile are with very long cash period while Giordano is the lowest which means the inventory transform into revenue is faster than other 2 companies. It again exposed the lack of retail network for Bauhaus in 2021 impacted on its efficiency on the liquidity of its working capital. This is an issue Bauhaus must cope with as, though cost cutting is essential for a company during a highly uncertain period like the COVID pandemic, the lack of sales channels would damage the capability of Bauhaus to generate revenue in long term.

As Bauhaus recorded loss in 2019 and 2020 so the return on equity were negative in both year. The situation improved in 2021 while the return on equity reached 22.26% which is higher than the average return on equity of Giordano and Crocodile. This ratio is a key indicator for investor to measure how a company capable to turn the investment into profit.

Company Name	Bauhaus			Giordano	Crocodile	Average of Giordano and Crocodile
Financial Year	2021	2020	2019	2019 -2021 (3 years average)		
Total Asset Turnover (Times)	0.62	1.00	1.51	0.81	0.07	0.44
Cash period (in days)	194	116	152	105	283	194
Return on Equity	22.26%	(32.20%)	(10.97%)	4.92%	(5.75%)	(0.42%)

As an overview of the profitability, Bauhaus rebounded from loss in 2019 and 2020 and recorded profit in 2021. Different ratios showed Bauhaus was keen to remain high liquidity and reduce leverage level to survive through the pandemic. But the contraction of sales network impacted on the sales performance that Bauhaus could not transform inventory fast enough into revenue and wasted the high margin of its product range. This is an issue must be catered by Bauhaus.

4.2 Equity Market Performance Analysis

Price-earning ratio, or widely known as P/E ratio, is a common index to measure the value of the company's stock. The higher the ratio means the investors are paying more for each dollar of earnings. Bauhaus's P/E ratio in 2019 and 2020 are negative as the earnings were negative. It returns to positive at 2.03 times in 2021 which shows a good value for investors. While the P/E of Giordano was 8.97 in average, Crocodile is 35.42times which is very high that investors might not consider its stock price is justified.

Market-to-book ratio is a ration to measure the value of investment on a company in another aspect. It is evaluating how much investors need to pay for the book value of the balance sheet of a company. The ratio is under 1, as all 3 companies did, means the stock was overvalued. Giordano is the best in terms of value among 3 companies while Bauhaus has improved in 2021.

Company Name	Bauhaus			Giordano	Crocodile	Average of Giordano and Crocodile
Financial Year	2021	2020	2019	2019 -2021 (3 years average)		
Price-earning Ratio (Times)	2.03	(1.28)	(7.69)	8.97	35.42	22.20
Market-to- book Ratio (Times)	0.45	0.41	0.84	0.97	0.27	0.41

In terms of the value or performance of the stock, Bauhaus has improved in both P/E and market-to-book ration after the company recorded loss in 2019 and 2020.

5. Corporate Governance assessment on Bauhaus

After evaluated the financial condition of Bauhaus in different aspects including the liquidity, sales and profitability, Corporate Governance is also a key area to review. Besides health check of the company's financial status, corporate governance is essential as it demonstrates how the company manage of risk, its business practices, corporate strategy and accountability.

5.1 The importance of corporate governance

After evaluated the financial condition of Bauhaus in different aspects including the liquidity, sales and profitability, corporate governance is as important as other aspects because it would ensure the company could manage different kinds of risks in short and long run. It maintains the sustainability of company growth. There is a detailed guideline from Hong Kong Stock Exchange (HKEx) for all listed companies and is opened for all investors. It contains the rules and code of corporate governance, directors' duties and guidance for the Boards and directors. It provides a framework to all companies to construct the control and monitoring of the company and provide adequate information disclosure to investors regarding different aspects of the company.

The importance of corporate governance is widely recognized in past few years. Especially the monitoring of the accuracy of financial reports and enhancement of control to identify any potential fraud. It would impact on different sectors of the company's corporate governance including board of directors and audit or internal control committee. It is a demonstration of the corporate prosperity and responsibility. Some of the key management of corporate management are to set up the monitoring framework, supervision of management, disclosing the company performance and key incidents to shareholders timely and respond to any concern from them.

5.2 Corporate governance of Bauhaus

As a listed company in Hong Kong Stock Exchange, Bauhaus stated clearly it would comply with the corporate governance rules (CG rules) set by HKEx. Such as the appointment of independent non-executive directors who has served more than 9 years, any further appointment would be subject to approval by shareholders according to the CG Code. And according to the CG Code, the role of chairman and

CEO should not be taken by same person. However, as an interim arrangement, the Chairman (the founder of the group) Dr. Wong Yui Lam had taken the role of CEO during 31 March 2020 to 7 May 20 until the new CEO Mr. Yeung Yat Hang was appointed. Though it was for a short period of time as an interim CEO, justifications and explanations were clearly stated in the annual report and disclosed to all stakeholders. Moreover, the policy of board diversity, the remuneration structure of directors, selection and appointment criteria and procedures of directors are clearly disclosed. Three committees including audit, remuneration and nomination were set up based on the CG Code. The functions of these committees are overseeing the financial reporting system of the group, risk management and internal control, constructing remuneration policy and making recommendations to the Board. And, to oversight the composition and structure of the Board including succession arrangement for directors especially Chairman and CEO. The corporate governance of Bauhaus also included the communication with investors and shareholders, the dividend policy disclosure and providing channels and platform for any proposal from shareholders.

5.3 Suggestions for further improvement

During the COVID crisis in 2020, Bauhaus shut down number of stores which incurred some allegations on rental agreement with landlords and dispute with layoff staffs. The allegations could lead to further financial and legal risk to the group. However, those incidents were not addressed in the annual report or disclosed any official response to public or shareholders. The management took swift actions on cost control and other measures to ensure the group remain a healthy financial status to cope with the COVID pandemic but the potential impact from those disputes with landlord and employees in the process could bring extra risk to the group.

6. Investment Project Appraisal

Bauhaus is a local listed fashion retail chain store with over 30 years history in Hong Kong. It was an icon for young fashion lovers as Bauhaus is the only place to access some foreign brands back to the age online shopping and international logistics were not yet well developed. However, though some new own and imported brands were introduced to the product range, the market share and popularity of Bauhaus were diminishing significantly in last decade. As addressed in the analysis section, the drop

of sales of Bauhaus as the result of closing some under-performing stores impacted on different areas of Bauhaus especially the profitability in long term as there is no E-Commerce or other sales channels as substitute. Therefore, the project is to set up a brand new flagship store at the heart of Hong Kong shopping area, Causeway Bay. However, the new store would not only carry the usual fashion items as other Bauhaus stores. The concept of the new store would be a total lifestyle including home accessories, small furniture and grocery. Since the outbreak of COVID, people spend much longer time at home that the demand for cooking appliance and tools, home furniture and decoration is very strong. Introduce new product line can inject a new element to the image of Bauhaus, diversify the target customers and increase the sales capacity actually.

6.1 Information on project items

Project Cost	Amount in HK\$ million	Remarks
Store rental cost for 5 years	16.74	HK93/sq ft (Causeway Bay area ground floor), 3,000sq. Ft store
Decoration cost for store	2	
Total Cost	18.74	
Remaining Basic Information		Remarks
Sales growth rate	8.26%	As the sales growth was negative for Bauhaus in 2021. Adopt the sales growth of Giordano in 2021 as target ¹
Final growth rate	2%	Refer to the current inflation rate announced by HKSAR
EBITDA (%)	60.56%	EBITDA of Bauhaus in 2021
Cash Period period (days)	150	(Bauhaus was 194 days in 2021 but suggest to shorten the cash period by longer credit period from suppliers and higher turnover with new flagship store) ¹

Source: Constructed by Author (Appendix B: Project for Bauhaus)

Note 1: Source from Bauhaus 2020/2021 Annual reports

6.2 Computing Tax Cost

Item (Amount in HK\$ million)	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	18.00	19.49	21.10	22.84	24.73
EBITDA	10.90	11.80	12.78	13.83	14.97
Total Depreciation	0.40	0.40	0.40	0.40	0.40
EBIT	10.50	11.40	12.38	13.43	14.57
Tax (HK corp tax)	1.73	1.88	2.04	2.22	2.40
Profit	8.77	9.52	10.33	11.22	12.17

Source: Constructed by Author (Appendix B: Project for Bauhaus)

6.3 Cashflow calculation

Items	initial cost (HK\$ Million)	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA		10.90	11.80	12.78	13.83	14.97
Expenditure 1 - Cash period		7.40	7.40	7.40	7.40	7.40
Expenditure 2 - Decoration depreciation		0.40	0.40	0.40	0.40	0.40
Tax (HK corp tax)		1.73	1.88	2.04	2.22	2.40
Cashflow	-18.74	1.37	2.12	2.94	3.82	4.77

Source: Constructed by Author (Appendix B: Project for Bauhaus)

6.4 NPV calculation

Year	Cashflow in/(out)	PV of cashflow	CUM Cashflow
Initial cost	-18.74	-18.74	-18.74
1	1.37	1.18	-17.37
2	2.12	1.56	-15.25
3	2.94	1.85	-12.31
4	3.82	2.06	-8.49
5	4.77	2.21	-3.72
6	4.87	1.93	1.15
7	4.96	1.69	6.11
8	5.06	1.48	11.18
9	5.17	1.29	16.34
10	5.27	1.13	21.61

6.5 Payback period and IRR

Payback period	(Amount in HK\$ million)
Year 1 to 15 Profit	13.33
Initial cost	18.74
Payback period	82 months / 6 Years and 10 months
IRR	19.6%

6.6 Investment appraisal

According to the analysis of the project, the payback period for setting a new flagship store with brand new product lines is 6 years and 10 months and the net present value is positive. The project could bring positive return and direct solution of the issues of Bauhaus which is lack of new products and sales network. Diversified product range from fashion to all ranges of lifestyle items is the trend of most international brand to explore new revenue sources and take the opportunity arise from the new consumption demand and pattern after the COVID outbreak. And with the keen

competitions from the overseas fashion online platform, fashion retailers rely on physical stores as sole distribution channel is high cost low return and it is fragile to any further impact from more waves of COVID outbreak. Open a new flagship store with new range of products provide a turning point to Bauhaus to reposition itself to the market and most important, introduce new revenue source to the company.

6.7 New project appraisal methods for analysis

1. Sales growth rate: as the sales of Bauhaus dropped in 2021 compare with 2020 so there is no benchmark to refer. Therefore, the analysis adopted the sales growth rate of Giordano as the target.
2. NPV: The NPV is positive that shows the project is profit-making.
3. IRR: If the IRR is higher means the amount exceeds the net cash flow and the capital cost. The IRR of the project is 19.6% which is higher than the capital cost.

6.8 Suggestion for project cash flow

According to the 2021 annual report, Bauhaus has HK\$441 million reserve which provide adequate cash flow to finance the project.

7. Recommendations and audit program

1. Open a new store with new product lines could be just a start for a transformation of Bauhaus. In term of product margin and market size, lifestyle sundries, furniture and home appliance is a huge market for Bauhaus when fashion retail chain store is fading out from the market. Bauhaus do not need to drop the whole fashion market but packaging as a total life style which not only bring in new revenue from new product line but stimulate the sales for its fashion lines too.
2. During one of the biggest crisis to any sectors of global economy, cost control and shutting down under-performing sales points are obvious options for Bauhaus to have the fastest result to improve the liquidity. However, as a fashion retailer, Bauhaus have to explore new sales channels to maintain the sales level which is the only way to generate revenue for the group. In 2021 annual report, the management of Bauhaus mentioned they are “exploring” the e-commerce solution for the group. In 2022, e-commerce is already a very basic channel for all industries. Bauhaus is far behind the

market.

3. Corporate governance on operation. As mentioned, Bauhaus was suffered by allegation to have rent and salary dispute with landlord and ex-employee. The management must ensure all operations in the group comply with all legal requirement and, even more strict, the expectation from public if they aim to rebuild the brand to domestic market.

8. Conclusion

Established for over 30 years, Bauhaus is a well known local fashion label for this generations of Hong Kong. It was the icon of trendy fashion for decades before it was losing the popularity in last decade. With the further impact by the outbreak of COVID that retail is one of most damaged industries, Bauhaus lost the direction and focused on cost cutting to survive. Of course it ensure the group at a healthy financial status at least, it is very critical for Bauhaus to create the momentum of growth again. The impact from COVID is fading in global though Hong Kong is still under one the most strict social distant measures, Bauhaus need to ensure they are capable to capture the rebound when the travel and social restrictions are further released in coming future.

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Appendix A: Project for Bauhaus

Project Costs (HKD)						
Store area in Mall (sq. ft)	3,000					
Rental store Price (HKD/per sq. ft)	\$93.00					
Rental store cost for 5 years	\$16,740,000.00					
Decoration	\$2,000,000.00					
Total project cost (HKD in Million)	\$18.74					
Others Basic Information						
Revenue in 2021 (HKD in Million)	\$371.89					
Initial Cost (HKD in Million)	\$20.70					
Sales Growth Rate	8.26%					
Final Growth Rate	2.00%					
EBITDA (%)	60.56%					
Cash Period (days)	150					
The first year calculation of sales						
Sales per sq. ft	\$6,000.00					
Sales from new store (HKD in Million)	\$18.00					
Total Sales (HKD in Million)	\$18.00					
Year		1	2	3	4	5
Sales		\$18.00	\$19.49	\$21.10	\$22.84	\$24.73
EBITDA	60.56%	\$10.90	\$11.80	\$12.78	\$13.83	\$14.97
Depreciation for machines and decoration (straight line deprecation method)	20.00%					
Decoration depreciation (year)	5	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
	5	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Depreciation		\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
EBIT		\$10.50	\$11.40	\$12.38	\$13.43	\$14.57
Tax (HK corp tax)	16.50%	\$1.73	\$1.88	\$2.04	\$2.22	\$2.40
Profit		\$8.77	\$9.52	\$10.33	\$11.22	\$12.17
Items	initial cost (HKD in Million)	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr
EBITDA		\$10.90	\$11.80	\$12.78	\$13.83	\$14.97
Expenditure 1 - Cash period		\$7.40	\$7.40	\$7.40	\$7.40	\$7.40
Expenditure 2 - Annual decoration		\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
Tax (HK corp tax)		\$1.73	\$1.88	\$2.04	\$2.22	\$2.40
Cashflow	-\$18.74	\$1.37	\$2.12	\$2.94	\$3.82	\$4.77

Appendix B: Calculation on NPV, ARR, Payback period and IRR

Year	Cashflow in/(out)	PV of cashflow	CUM Cashflow		Profit		ROA	16.6%
0	-\$18.74	-\$18.74	-\$18.74				Growth rate	3%
1	\$1.37	\$1.18	-\$17.37		\$7.08			
2	\$2.12	\$1.56	-\$15.25		\$7.71			
3	\$2.94	\$1.85	-\$12.31		\$8.39			
4	\$3.82	\$2.06	-\$8.49		\$9.12			
5	\$4.77	\$2.21	-\$3.72		\$9.92			
6	\$4.87	\$1.93	\$1.15		\$10.22			
7	\$4.96	\$1.69	\$6.11		\$10.52			
8	\$5.06	\$1.48	\$11.18		\$10.84			
9	\$5.17	\$1.29	\$16.34		\$11.16			
10	\$5.27	\$1.13	\$21.61		\$11.50			
11	\$5.37	\$0.99	\$26.98		\$11.84			
12	\$5.48	\$0.86	\$32.46		\$12.20			
13	\$5.59	\$0.76	\$38.06		\$12.56			
14	\$5.70	\$0.66	\$43.76		\$12.94			
15	\$5.82	\$0.58	\$49.58		\$13.33			
16	\$5.93	\$0.51	\$55.51		\$13.73			
17	\$6.05	\$0.44	\$61.56		\$14.14			
18	\$6.17	\$0.39	\$67.73		\$14.57			
19	\$6.30	\$0.34	\$74.03		\$15.00			
20	\$6.42	\$0.30	\$80.45		\$15.45			
Method 1 NPV	\$3.46	3.46						
Method 2 PBP	6	Years	10	Months				
Method 3 IRR	19.3%							
Method 4 PI	1.18							
Method 5 ARR	62.0%							

Appendix C: Bauhaus, Giordano and Crocodile adjusted closing price as of the respective financial year ended date

1. Bauhaus adjusted closing price as of 31 Mar 2021

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0.820 -0.010 (-1.20%)
收市價：8月5日 02:41PM HKT

內容摘要 圖表 對話 統計資料 歷史數據 基本資料 金融 分析 期權 持股人 可持續性

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免費送 Mrs.Fields \$10 電子現金券
八月限定 為你獻上 滋味甜品!
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時段: 2021年2月01日 - 2021年4月01日 顯示: 過往股價 頻率: 每天 套用

貨幣為 HKD [下載](#)

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2021年3月31日	0.550	0.550	0.550	0.550	0.224	-
2021年3月30日	0.540	0.540	0.540	0.540	0.220	-

2. Bauhaus adjusted closing price as of 31 Mar 2020

包浩斯國際 (0483.HK) [加入追蹤清單](#)
HKSE - HKSE 延遲價格，貨幣為 HKD。

0.820 -0.010 (-1.20%)
收市價：8月5日 02:41PM HKT

內容摘要 圖表 對話 統計資料 歷史數據 基本資料 金融 分析 期權 持股人 可持續性

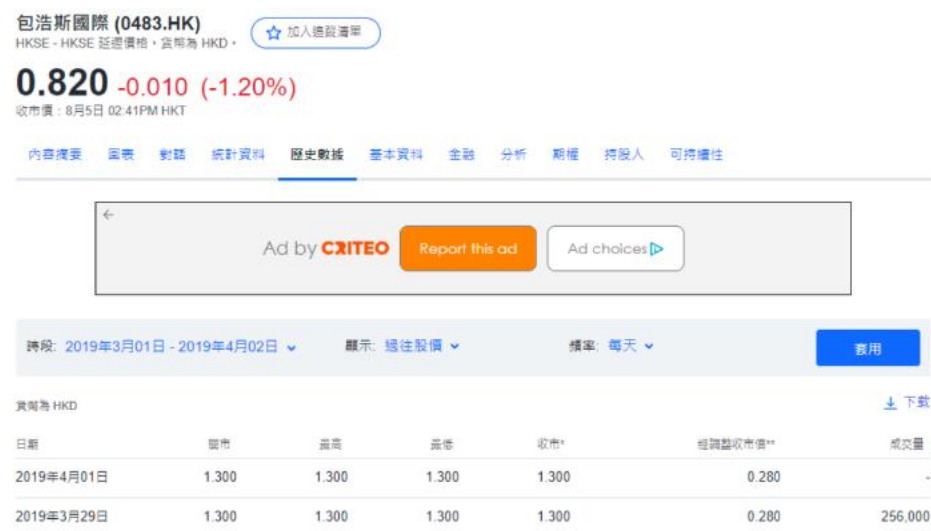
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日期	開市	最高	最低	收市*	經調整收市價**	成交量
2020年3月31日	0.600	0.600	0.600	0.600	0.137	-
2020年3月30日	0.550	0.600	0.550	0.600	0.137	10,000

3. Bauhaus adjusted closing price as of 31 Mar 2019



4. Giordano adjusted closing price as of 31 Mar 2021



5. Crocodile adjusted closing price as of 30 July 2021

鱷魚恤 (0122.HK)

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套用

貨幣為 HKD

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日期	開市	最高	最低	收市*	經調整收市價**	成交量
2021年7月30日	0.425	0.425	0.415	0.420	0.420	1,551,000