

## chairman's statement

On behalf of the Board of Directors (the "Directors"), I am pleased to present to you the first annual report of Bauhaus International (Holdings) Limited (together with its subsidiaries, the "Group") after its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 12 May 2005. We believe the successful listing has laid a solid foundation for the Group's future expansion plans, enabling us to accelerate expansion of our sales network and raise our in-house brands to international level.

We are positioning ourselves as one of leading retailers of trendy causal wears in the fashion industry and we target fashion conscious young consumers. As one of our competitive edges, we provide an extensive range of merchandise, a perfect blend of style and cultures, to address the changing demands of people with unique tastes and fashion awareness. Besides, our commitment to create distinctive and stylish designs and responsiveness to changing fashion trends also contributed to our success.

During the year, the Group recorded healthy growth in both turnover and profit, both well in line with our expectation. The Group's gross margin improved significantly during the year, reaching 64.2% due to the increased sales of our in-house brand products, namely "TOUGH" and "SALAD".

Hong Kong is currently our major market. We will continue to devote significant efforts to build our local retail network, but at the same time also to promote our in-house brands locally as well as around the world. Hong Kong retail sales increased by 15% while that from Taiwan increased by 17% during the year. Five new stores were opened in Hong Kong and one non-performing Taiwan outlet was closed down, bringing the Group's total number of outlets to 55 as at 31 March 2005. Riding on the

improving market sentiment and our strong brand recognition, our existing retail outlets recorded same store growth of approximately over 15% when compared with the previous year.

Our PRC business performed well during the year, recording 24% growth in franchise sales. We will continue with our franchise model in the PRC market, but also adopt prudent investment and expansion strategies in penetrating this huge untapped market. With the Group's in-house brands beginning to gain market recognition in the Greater China region, we will further expand our sales and distribution networks in the area to improve our presence and gain substantial market share.

We will be actively promoting and escalating the status of our brands in overseas markets through various marketing channels. For Japan, we streamlined our distribution channels comprising mainly now mid-to-high end retail stores. This brand building exercise reduced our Japanese sales during the year, but we are confident that with a stronger brandname and the up-coming new product initiatives for the market, sales to Japan will be back on the growth track in the coming years. Sales to Europe and the United States of America, on the other hand, grew substantially during the year. Building on our existing distribution presence in Europe, we will participate in various international trade shows in the coming year, such as the Pitti Uomo in Florence, Bread and Butter in Berlin and follow by Who's Next in Paris, to promote the "TOUGH" brand internationally. We believe that these marketing efforts can enhance the publicity and image of our brands and attract new customers.

Retail network expansion and brand building efforts explained our increased expenses during

the year. Investments in opening new stores, increased rentals and number of staff, advertising and promotional expenses made up a significant amount of our selling and distribution cost during the year. Furthermore, we opened one "LIBRE!" store in March 2005 and two "80/20" specialty stores after year end. "80/20" is our new in-house brand and the cost for setting up a new design team for the brand was also incurred in the year ended 31 March 2005. We believe these investments are going to further strengthen our in-house brand names, generating increased own-brand sales and improving our profit margins in the years ahead.

Looking ahead, we will strive to achieve long-term sustainable growth in turnover and stable margin. We will on the one hand continue to enhance our brand image and brand recognition through distinctive and stylish designs, and on the other hand, we will proactively yet prudently expand our sales and distribution network. The Directors plan to open more than 10 retail stores under the Group's in-house brandnames in Hong Kong, and 10 more franchise stores in the PRC in financial year 2006. Together with our overseas promotion and expansion strategies, we believe the Group is on the right track towards becoming one of the leading fashion houses in the Asia-Pacific region.

In appreciation of the support from our shareholders, the Directors proposed the payment of a special interim dividend of HK2 cents per share for the forthcoming financial year. The special interim dividend will be paid in addition to the annual dividend payout of 30% or above for the year ending 31 March 2006 as promised during listing.

Breath and breed locally, the mission to reach global stage could be formidable task. However, if the first step has been crossed out the door, there is nothing else that could hold us back. We think big, but start small! A risk rewards profile that deserves serious contemplation.

Finally, on behalf of the Directors, I would like to express my heartfelt gratitude to all our shareholders, customers, business partners and staff for their continuing support, which has contributed to the success of the Group. We are dedicated to providing quality services and goods to our customers and to maximising shareholders' return.

**Wong Yui Lam**

*Chairman*

Hong Kong, 6 July 2005