

On behalf of the board (the "Board") of directors (the "Directors"), I am delighted to present to you the annual report of Bauhaus International (Holdings) Limited ("Bauhaus" or the "Company" together with its subsidiaries, the "Group") for the year ended 31 March 2006.

In FY2005/06, continuing with the strong performance of the previous year, we once again achieved satisfactory results with improvement in turnover. Turnover increased by about 27.2% to about HK\$436.0 million, while gross margin reached about 63.6%. Although the operating environment was ridden with challenges including soaring rentals and increased competition, we were able to contain the rising operating costs with net profit increased by about 8.1% to about HK\$50.9 million. The successful mix of strategies pinpointing different markets, together with our prudent cost control measures, were factors that underscored these achievements.

Here at Bauhaus, our vision for fashion is to dress up one's life with style. We position ourselves as the leading trendy fashion house and target young consumers with fashion consciousness. Our mission is to bring quality fashion and style to different parts of the world. We started from Hong Kong, and have extended our footprints all over Taiwan, the PRC, Japan, South East Asia, Europe and the United States of America ("US"). Our next step is to penetrate deeper yet into different cities in the PRC and Europe, and at the same time maintain sustainable growth at our home base – the Hong Kong market.

To address the need for variety and convenience of our Hong Kong and Taiwan customers, we run self-owned retail outlets at prime locations that offer a wide variety of in-house and imported brands. In terms of sales strategy, we increased the frequency of introducing new designs – higher margin products – during the year to satisfy customers' demand for the latest and trendiest styles. We are glad that we achieved healthy growth in sales as well as relatively stable

profit margins despite the challenging operating environment in Hong Kong and Taiwan. Thanks to our dedicated designers and the marketing and sales team for helping to build our key in-house brands, "TOUGH", "SALAD" and "80/20", into names synonymous to style and quality. Our strong brand equity and targeted sales strategies have contributed significantly to the growth of our Hong Kong and Taiwan business.

Management of the PRC market is different. Given the vast geographical area and number of cities involved, we believe a well supported and properly managed franchise network is going to work best, as it lowers capital requirements and enables faster pace of expansion. The segment performed exceptionally well in FY2005/06, as our franchise network expanded from 8 to 18 outlets during the year, resulting in a doubling in turnover compared to that of the previous financial year. Operating under the "TOUGH" brand, they sell solely our in-house brand products, realizing higher margins and enabling more flexible inventory management. In light of increasing household income and spending power among Mainland Chinese, we are optimistic about the future of this market, and are planning to increase the number of franchise outlets in the PRC to about 35 by the end of FY2006/07.

Our wholesale operation covers the Europe, US, Japan and South East Asia markets. Employing effective sales and branding strategies and offering quality in-house products and designs, we have been able to earn the support and trust of our wholesale customers in these markets. Sales to these nearly more than doubled compared with the previous financial year. Apart from the increasing orders, our wholesale customers in Europe and Japan have opened retail shops carrying the "TOUGH" brand, which is testament of the brand's success in the respective markets. Our active participation in major European trade shows is another factor contributing to the success of our in-house brands in Europe. Recently, we have expanded our sales team adding to it experts with extensive experience in the European

fashion distribution industry. Riding on their expertise and our strong distribution presence in these markets, we expect to effect sales growth by generating more orders from existing customers and business from new customers in the coming years.

Looking ahead, we will put extra efforts into growing our franchise business in the PRC and wholesale business in Europe to expand market shares, while maintaining a prudent investment strategy in Hong Kong aiming at steady growth for our retail business. We will continue to cautiously allocate outlets at prime sites that promise strong returns for opening new outlets. On the other hand, the Group understands the importance of establishing its own brandnames and enhancing brand images. To foster growth of our second key in-house brand – "SALAD", which has been gaining popularity fast, we plan to step up brand building effort and quality enhancement. Boasting quality products and designs complemented by effective sales and branding strategies, Bauhaus is well positioned to capture opportunities in markets around the world and to establish itself as the leading fashion house.

In appreciation of the support from our shareholders, the Board has proposed the payment of a final dividend and a special dividend of HK2.60 cents and HK3.65 cents per share respectively for the year ended 31 March 2006. Together with the interim and special interim dividend of HK4.50 cents per share paid in aggregate, the total dividend paid and payable for the year will be HK10.75 cents per share, which is consistent with the Group's long-term dividend policy of distributing not less than 30% of its net profit as dividends.

On behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, customers, business partners and dedicated staff for their continuing support, which has contributed greatly to the success of Bauhaus. In the future, we will continue to provide quality products and services to our customers and do our best in achieving satisfactory returns for our shareholders.

Wong Yui Lam

Chairman

Hong Kong, 13 July 2006