bauhaus

Bauhaus International (Holdings) Limited

包浩斯國際(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 483)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2007

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 2007, prepared on the basis set out in note 1 to the consolidated financial statements below, together with the comparative figures for the previous year, as follows:

RESULTS

Consolidated Income Statement
Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**509,248**	436,008
Cost of sales		**(184,580)**	(158,746)
Gross profit		**324,668**	277,262
Other income and gains	5	**4,931**	4,156
Selling and distribution costs		**(198,036)**	(169,954)
Administrative expenses		**(58,953)**	(48,387)
Other expenses		**(5,848)**	(1,622)
Finance costs	7	**(236)**	(397)
PROFIT BEFORE TAX	6	**66,526**	61,058
Tax	8	**(9,301)**	(10,197)
PROFIT FOR THE YEAR		**57,225**	50,861
DIVIDENDS	9		
Special interim		**—**	7,013
Interim		**8,766**	8,766
Proposed final		**10,783**	9,117
Proposed special		**19,770**	12,799
		39,319	37,695
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		**16.26 cents**	15.05 cents

Consolidated Balance Sheet
31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**31,009**	32,635
Prepaid land lease payments		**7,174**	7,329
Intangible assets		**1,898**	1,272
Available-for-sale financial asset		**3,900**	3,900
Deferred tax assets		**6,989**	4,163
Rental, utility and other non-current deposits		**30,395**	25,655
Total non-current assets		**81,365**	74,954
CURRENT ASSETS			
Inventories		**98,248**	85,776
Trade and bills receivables	*11*	**19,201**	11,331
Prepayments, deposits and other receivables		**11,116**	12,500
Prepaid land lease payments, current portion		**155**	155
Tax recoverable		**2,205**	1,316
Cash and cash equivalents		**161,099**	139,660
Total current assets		**292,024**	250,738
CURRENT LIABILITIES			
Trade and bills payables	*12*	**9,553**	6,319
Other payables and accruals		**27,868**	21,246
Interest-bearing bank borrowings		**—**	3,527
Due to a related company		**198**	180
Tax payable		**5,272**	2,690
Total current liabilities		**42,891**	33,962
NET CURRENT ASSETS		**249,133**	216,776
TOTAL ASSETS LESS CURRENT LIABILITIES		**330,498**	291,730
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**682**	748
Net assets		**329,816**	290,982
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**35,945**	35,065
Reserves		**263,318**	234,001
Proposed dividends		**30,553**	21,916
Total equity		**329,816**	290,982

1. GROUP REORGANISATION, BASIS OF PRESENTATION AND PREPARATION

Group Reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 October 2004 under the Companies Law of the Cayman Islands.

On 21 April 2005, pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'') on 12 May 2005, the Company acquired the entire issued share capital of Bauhaus Investments (BVI) Limited (''Bauhaus (BVI)''), the then holding company of the subsidiaries, in consideration for the aggregate allotment and issuance of 1,000,000 ordinary shares of HK$0.1 each in the share capital of the Company to the then shareholders of Bauhaus (BVI). The Company then became the holding company of the companies now comprising the Group (the ''Group Reorganisation'').

Further details of the Group Reorganisation were set out in the Company's listing prospectus dated 29 April 2005.

The shares of the Company were listed on the Stock Exchange on 12 May 2005.

Basis of presentation

The Group Reorganisation above involved companies under common control and the Group resulting from the Group Reorganisation is regarded and accounted for as a continuing group. Accordingly, the consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of the companies now comprising the Group during the year ended 31 March 2006. Under this basis, the Company has been treated as the holding company of its subsidiaries pursuant to the Group Reorganisation during the year ended 31 March 2006, rather than from the date of acquisition of the subsidiaries.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (''HKFRSs'') (which also include Hong Kong Accounting Standards (''HKASs'') and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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, except for an available-for-sale financial asset, which has been measured at fair value. 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 for the year ended 31 March 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The principal changes in accounting policies are as follows:

HKAS 39 *Financial Instruments: Recognition and Measurement*

Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

3. IMPACT OF 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.

HKAS 1 Amendment	Capital Disclosures
HKAS 23 (Revised)	Borrowing Costs
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and revenue from its major customers.

HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Each of the Group's geographical segments represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

(a) Hong Kong

(b) Taiwan

(c) Japan

(d) Mainland China

(e) Elsewhere

In determining the Group's geographical segments, revenues and assets are attributed to the segments based on the location of the customers. 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.

With respect to the Group's secondary reporting by business segment, the Group has three business segments and each of them represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The Group's business segments comprise:

(a) Retail operation which is engaged in the retail business through the operations of the Group's retail outlets;

(b) Wholesale operation which is engaged in the sale of garments and accessories to customers for distribution; and

(c) Franchise business which is engaged in the sale of garments and accessories to the designated franchisees for their own operations of retail business in the designated locations.

(a) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

	Hong Kong		**Taiwan**		**Japan**		**Mainland China**		**Elsewhere**		**Eliminations**		**Total**	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:														
Sales to external customers	**383,573**	355,823	**42,827**	28,216	**25,580**	11,109	**32,490**	17,734	**24,778**	23,126	**—**	—	**509,248**	436,008
Intersegment sales	**—**	—	**15,634**	14,744	**—**	—	**499**	—	**—**	—	**(16,133)**	(14,744)	**—**	—
Total	**383,573**	355,823	**58,461**	42,960	**25,580**	11,109	**32,989**	17,734	**24,778**	23,126	**(16,133)**	(14,744)	**509,248**	436,008
Segment results	**59,259**	63,543	**1,170**	1,854	**8,538**	2,224	**14,244**	7,851	**2,739**	5,180	**—**	—	**85,950**	80,652
Bank interest income													**2,236**	3,011
Unallocated expenses													**(21,424)**	(22,208)
Finance costs													**(236)**	(397)
Profit before tax													**66,526**	61,058
Tax													**(9,301)**	(10,197)
Profit for the year													**57,225**	50,861

4. SEGMENT INFORMATION (continued)

	Hong Kong		Taiwan		Japan		Mainland China		Elsewhere		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities												
Segment assets	**120,642**	132,685	**20,351**	20,694	**8,253**	2,379	**29,760**	3,561	**8,102**	3,326	**187,108**	162,645
Unallocated assets											**186,281**	163,047
Total assets											**373,389**	325,692
Segment liabilities	**18,898**	11,008	**1,455**	1,024	**425**	45	**6,215**	3,886	**1,626**	740	**28,619**	16,703
Unallocated liabilities											**14,954**	18,007
Total liabilities											**43,573**	34,710
Other segment information:												
Capital expenditure	**6,117**	7,547	**656**	1,258	**121**	—	**948**	174	**1,381**	539	**9,223**	9,518
Unallocated capital expenditure											**2,376**	5,756
											11,599	15,274
Depreciation	**8,438**	7,715	**878**	605	**8**	8	**83**	7	**109**	58	**9,516**	8,393
Unallocated depreciation											**2,040**	2,457
											11,556	10,850
Loss on disposal/write-off of items of property, plant and equipment	**690**	22	**—**	—	**—**	—	**—**	—	**—**	—	**690**	22
Impairment of items of property, plant and equipment	**—**	912	**—**	—	**—**	—	**—**	—	**—**	—	**—**	912
Recognition of prepaid land lease payments	**155**	155	**—**	—	**—**	—	**—**	—	**—**	—	**155**	155
Impairment of intangible assets	**—**	15	**—**	—	**—**	—	**—**	—	**—**	—	**—**	15
Write-off of intangible assets	**—**	—	**—**	—	**—**	—	**—**	72	**—**	—	**—**	72
Amortisation of intangible assets	**62**	95	**23**	37	**16**	8	**53**	79	**198**	177	**352**	396
Impairment of trade receivables	**—**	—	**3,784**	—	**—**	—	**—**	—	**600**	—	**4,384**	—

4. SEGMENT INFORMATION (continued)

(b) Business segments

The following tables present revenue and certain asset and expenditure information for the Group's business segments for the years ended 31 March 2007 and 2006.

	2007	2006
	HK$'000	*HK$'000*
Segment revenue:		
Sales to external customers:		
Retail	**429,021**	383,627
Wholesale	**51,497**	34,647
Franchise	**28,730**	17,734
	509,248	436,008
Other segment information:		
Segment assets:		
Retail	**160,714**	147,146
Wholesale	**21,620**	11,938
Franchise	**4,774**	3,561
	187,108	162,645
Corporate and other unallocated assets	**186,281**	163,047
Total assets	**373,389**	325,692
Capital expenditure:		
Retail	**7,256**	8,805
Wholesale	**444**	539
Franchise	**1,523**	174
	9,223	9,518
Corporate and other unallocated amounts	**2,376**	5,756
Total capital expenditure	**11,599**	15,274

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, 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 gains is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Revenue		
Sale of garment products and accessories	**509,248**	436,008
Other income		
Bank interest income	**2,236**	3,011
Others	**2,594**	1,145
	4,830	4,156
Gains		
Foreign exchange differences, net	**101**	—
	4,931	4,156

6. PROFIT BEFORE TAX

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

	2007 *HK$'000*	2006 *HK$'000*
Cost of inventories sold	**172,785**	157,070
Depreciation	**11,556**	10,850
Provision for slow-moving inventories, net	**11,795**	1,676
Rental expenses under operating leases in respect of equipment	**185**	—
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	**87,313**	72,216
Contingent rents	**12,459**	8,571
	99,772	80,787
Auditors' remuneration	**1,721**	1,404
Employee benefits expense (excluding directors' remuneration):		
Wages, salaries and other benefits	**86,377**	75,654
Pension scheme contributions*	**3,913**	3,194
	90,290	78,848
Other expenses:		
Loss on disposal/write-off of items of property, plant and equipment	**690**	22
Impairment of items of property, plant and equipment	**—**	912
Impairment of intangible assets	**—**	15
Write-off of intangible assets	**—**	72
Amortisation of intangible assets	**352**	396
Foreign exchange differences, net	**—**	205
Impairment of trade receivables	**4,384**	—
Others	**422**	—
	5,848	1,622

* *At the balance sheet date, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years.*

7. FINANCE COSTS

	Group **2007** *HK$'000*	 2006 *HK$'000*
Interest on bank loans wholly repayable within five years	**211**	376
Interest on bank overdrafts	**3**	15
Others	**22**	6
	236	397

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) 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, based on existing legislation, interpretations and practices in respect thereof.

The corporate income tax (''CIT'') applicable to the four (2006: three) subsidiaries located in Mainland China ranges from 15% to 18%. Two of those subsidiaries are entitled to tax holidays with a full exemption of CIT for the first two profit-making years, followed by a 50% reduction of CIT for the succeeding three years. One of those two subsidiaries is entitled to a 50% reduction of CIT commencing in 2007 while the tax holiday of the remaining one already expired in 1996.

The subsidiary in Taiwan is subject to income tax at the statutory tax rate of 25%. In addition, a further 10% income tax is charged on any undistributed earnings as at each calendar year end date for that subsidiary. However, no financial impact is resulted from this requirement as the Taiwan subsidiary has been loss-making.

No Macau profits tax has been provided as the Macau subsidiary of the Company is exempt from Macau Complementary Tax (2006: Nil).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the ''PRC'') (the ''New CIT Law''), which is effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. Those detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current tax — Hong Kong		
Provision for the year	**10,785**	10,091
Overprovision in prior years	**(222)**	(323)
Current tax — Elsewhere		
Provision for the year	**1,659**	601
Underprovision/(overprovision) in prior years	**(29)**	173
Deferred tax credit	**(2,892)**	(345)
Total tax charge for the year	**9,301**	10,197

9. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Special interim — Nil (2006: HK2.0 cents) per ordinary share*	**—**	7,013
Interim — HK2.5 cents (2006: HK2.5 cents) per ordinary share	**8,766**	8,766
Proposed final — HK3.0 cents (2006: HK2.6 cents) per ordinary share**	**10,783**	9,117
Proposed special — HK5.5 cents (2006: HK3.65 cents) per ordinary share**	**19,770**	12,799
	39,319	37,695

* *The special interim dividend for the year ended 31 March 2006 was distributed out of the contributed surplus of the Company arising as a result of the Group Reorganisation.*

** *The proposed final and proposed special dividends for the current year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.*

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$57,225,000 (2006: HK$50,861,000) and the weighted average number of ordinary shares in issue during the year of 351,951,918 (2006: 338,047,123).

Diluted earnings per share amounts have not been presented as no diluting events existed during the years ended 31 March 2007 and 2006.

11. TRADE AND BILLS RECEIVABLES

Retail sales are made on cash terms or by credit card with very short credit terms. Wholesale and franchise sales 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. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management of the Group. 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's bills receivable are normally settled on 30-day to 60-day terms. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**18,170**	10,658
91 to 180 days	**1,031**	257
181 to 365 days	**—**	416
	19,201	11,331

12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**9,194**	6,279
91–180 days	**346**	40
181–365 days	**13**	—
	9,553	6,319

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms. The carrying amounts of trade and bills payables approximate to their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Retail Operation

The Group's retail operation achieved a strong growth of about 11.8% to about HK$429.0 million for the year ended 31 March 2007 from about HK$383.6 million in the prior year. As at 31 March 2007, the Group self-managed 44 retail outlets in Hong Kong under the tradenames ''BAUHAUS'', ''TOUGH'', ''SALAD'', ''80/20'' and ''ELITE'' (2006: 46), 18 retail outlets in Taiwan under the tradenames of ''TOUGH'', ''SALAD'' and ''80/20'' (2006: 17) and 2 ''TOUGH'' retail outlets in Shanghai (2006: Nil).

Retail operation in Hong Kong, which accounted for about 75.3% of the Group's turnover for the year under review, achieved a fast organic growth of about 7.8%. As part of its brand building and network optimisation strategy to improve operational efficiency, the Group relocated certain retail outlets to prime shopping areas for optimum space at more reasonable rentals.

In Hong Kong, the Group's attempt to venture into high-end fashion market with the brand name ''LIBRE!'' in the past few years had not been satisfactory. Thus, during the year under review, the Group ceased the loss-making business and allocated its resources to the more profitable segments. As the majority of the impaired assets of ''LIBRE!'' had been provided for in the previous year, no material assets write-off was required for the current year. The Group, however, is determined to diversify its retail business vertically by claiming a place in the high-end trendy wear market. In November 2006, the Group launched a new premium shop ''ELITE''. Sales in the new brand shop were satisfactory and rose steadily since the shop opened.

In Taiwan, while consumer sentiment was just fair, at enhanced management effort and sales staff training and with the backing of a wide retail network, the Group's retail sales in Taiwan surpassed the industry average and reported a remarkably surge of about 51.8% against last year. The Group operates retail outlets in reputable department stores in Taiwan. Unfortunately, one of those department store chains in Taiwan in which the Group has outlets was placed under court jurisdiction. As a result, certain trade receivables due from the department stores to the Group have been subject to a freezing order from the local court. Up to the date of this announcement at the best knowledge of the Directors, the trade debtor will likely be put into liquidation proceedings by the court. The amounts due from the debtor are unsecured and the Group is likely to be ranked as a general creditor. Accordingly, the Group has made a full provision of about HK$3.8 million on such receivables in the current financial year. The Group is closely monitoring the progress of further legal proceeding.

As for the development of retail business in the PRC, the Group took an important step to capture the huge and rapidly growing China markets during the year. Soon after the Group opened its first self-managed ''TOUGH'' retail store in Shanghai in September 2006, a second store started operation in the same city at the end of March 2007.

Wholesale Operation

The Group's wholesale operation also recorded impressive growth in turnover of about 48.4% to about HK$51.5 million in the current year (2006: HK$34.7 million). The growth was mainly contributed by very encouraging about 130.3% increase in sales in Japan, the Group's largest overseas market, thanks to improved brand equity and the Group's effective networking efforts. In the past, the Group sold only its in-house brand name bags to Japan. During the year, the Group signed a 5-year apparel distribution agreement with a major Japanese fashion retail chain to distribute ''TOUGH'' brand products in the country. The agreement marked the Group's formal entry into the Japan apparel market, which was generally seen as one of the most difficult markets to be penetrated into by foreign fashion brands. In addition, the Group has been streamlining certain overseas distribution channels to ensure long-term sales efficiency. As at 31 March 2007, the Group's wholesale business covered over 20 countries in Southeast Asia, the Middle East, Europe and North America.

Franchise Business

Franchise business in the PRC continued to be one of the key growth engines of the Group. With domestic demand persistently strong and supported by an expanding Group's franchise network in the country, the Group's turnover from the business segment again raised meteorically by about 62.1% to about HK$28.7 million for the year ended 31 March 2007 (2006: HK$17.7 million). After years of dedicated efforts in establishing systematic and well-coordinated franchise networks in different parts of China, ''TOUGH'' is now an acclaimed brand in the country. As at 31 March 2007, the Group had 35 franchised stores (2006: 18) in the PRC and Macau.

Financial Review

Turnover

The Group achieved about 16.8% growth in turnover during the year under review. Its sales reached HK$509.3 million (2006: HK$436.0 million), resulting mainly from sustained sales growth in all major markets including Hong Kong, Taiwan, the PRC and Japan.

Gross Profit

During the year under review, the Group recorded gross profit of about HK$324.7 million (2006: HK$277.3 million). With the improved consumption sentiment in the local market, the Group increased retail price of some of its own label products in the second-half of the financial year. This move neutralised the adverse impact from the provision for slowing moving inventories made during the year ended 31 March 2007 of about HK$11.8 million. The gross margin remained stable at about 63.8% (2006: 63.6%).

Operating Expenses

The Group's operating expenses surged by about 19.4% to about HK$263.1 million during the year ended 31 March 2007 (2006: HK$220.4 million). During the year under review, apart from exercising stringent cost control, the Group also devoted great efforts to streamline both its local and overseas distribution networks to improve operational efficiency. As a result, the growth in operating expenses for the year was kept in line with sales growth and overall operating expenses as a percentage of sales was about 51.7% (2006: 50.6%).

Rental is one of the major operating expenses of the Group. It soared by about 23.5% to about HK$99.8 million during the year under review (2006: HK$80.8 million), mainly attributable to increase in market rents. The Group has been prudent in adding outlets and kept rental cost growth under control through shop optimisation and relocation. The rental expense increment was at a steady rate about 19.6% of turnover during the year ended 31 March 2007 (2006: 18.5%).

To support sustainable expansion of the Group's business and counter spirited rivalry, the Group invested in expanding and maintaining a competitive sales force. As a result, staff cost including directors' remuneration increased moderately by about 14.3% to about HK$94.3 million during the year ended 31 March 2007 (2006: HK$82.5 million).

Moreover, the Group continued to promote the images and consumer awareness of its brands. Expenses on advertising, promotion and exhibition remained consistent at about HK$7.4 million (2006: HK$7.3 million).

Segment information

Detailed segment turnover and contribution to profit before tax of the Group are shown in note 4 to the consolidated financial statements.

Net Profit

The Group's net profit attributable to shareholders reached about HK$57.2 million for the year ended 31 March 2007, up about 12.4% from about HK$50.9 million in the previous year. The net profit margin was maintained stable at about 11.2% (2006: 11.7%). Although the operating environment continues to be challenging, the Group sees ample opportunities in both the local and overseas markets for growing its business development. The Group will strategically expand to capture additional market share and is confident that its efforts will eventually be reflected favourably on its bottom line.

Capital Structure

As at 31 March 2007, the Group had net assets of approximately HK$329.8 million (2006: HK$291.0 million), comprising non-current assets of about HK$81.4 million (2006: HK$75.0 million), net current assets of about HK$249.1 million (2006: HK$216.8 million) and non-current liabilities of about HK$0.7 million (2006: HK$0.8 million).

Liquidity and Financial Resources

As at 31 March 2007, the Group had cash and cash equivalents of approximately HK$161.1 million (2006: HK$139.7 million). The Group had repaid all of its bank borrowings during the year (2006: HK$3.5 million). As at 31 March 2007, the Group had aggregate banking facilities of approximately HK$19.0 million (2006: HK$14.3 million) comprising interest-bearing bank overdraft, utility guarantees and import and export facilities, of which HK$13.8 million had not been utilised.

Cash Flows

For the year ended 31 March 2007, net cash inflow from operating activities was about HK$55.0 million (2006: HK$30.2 million), attributable to increase in the Group's revenue. Net cash outflow from investing activities dropped from HK$15.2 million in 2006 to HK$11.4 million in 2007 because the Group's shop optimization strategy had helped to reduce capital expenditure on the retail outlets. Net cash outflow from financing activities during the year amounted to HK$22.9 million was mainly resulted from payment of dividends and repayment of bank borrowings. During the year under review, the Company obtained gross proceeds of about HK$11.4 million from issuance of new shares to controlling shareholders. The strong positive cash inflow last year was mainly from receipt of proceeds of approximately HK$130.8 million from the Company's initial public offering of shares.

Security

As at 31 March 2007, the Group's bank borrowings were secured by certain of its leasehold buildings and prepaid land lease payment with aggregate carrying value of approximately HK$6.7 million (2006: HK$6.9 million) and HK$3.5 million (2006: HK$3.6 million) respectively.

Capital Commitment

As at 31 March 2007, neither the Group nor the Company had any significant capital commitment.

Contingent Liabilities

As at 31 March 2007, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and rental deposits amounting to approximately HK$4.9 million (2006: HK$3.2 million). The Company had no contingent liabilities as at the balance sheet date (2006: Nil).

Human Resources

Including all directors, the Group had 999 employees as at 31 March 2007 (2006: 1,136). To attract and retain high performance staff, the Group had 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 prevailing market rate. Remuneration packages were reviewed regularly. Regarding staff development, the Group provided regular in-house training to retail staff and subsidised them on external training programmes.

Foreign Exchange Risk Management

The Group's sales and purchases during the year were mostly denominated in Hong Kong dollar, US dollar and Renminbi. The Group was exposed to minimal foreign currency exchange risk and does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. However, the Group will monitor its foreign exchange position and, when necessary, will hedge foreign exchange exposure arising from contractual commitments in sourcing apparel from overseas suppliers.

Use of Proceeds

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in May 2005, after deduction of related issuance expenses, amounted to approximately HK$112.4 million. As at 31 March 2007, these proceeds were applied in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

	Per prospectus *HK$'000*	**Utilised** *HK$'000*	**Balance as at 31 March 2007** *HK$'000*
Expansion of distribution network	46,000	(37,407)	8,593
Expansion and upgrade of production facilities	15,000	(5,010)	9,990
Development of the "80/20" brand name	14,000	(8,539)	5,461
Marketing of the in-house brand names	13,000	(8,390)	4,610
Diversification into high-end fashion market	4,000	(4,000)	—
Enhancement of the in-house design and merchandising team	2,000	(2,000)	—
Sourcing of goods and fabrics	8,000	(8,000)	—
General working capital	10,400	(10,400)	—
	112,400	(83,746)	28,654

The unutilised balance was placed with the banks by the Company as short term bank deposits.

Disclosures Under Listing Rules 13.13 To 13.19 of The Rules Governing The Listing of Securities on The Stock Exchange (the "Listing Rules")

There were no advance to entity, no financial assistance nor guarantees to affiliated companies of the Company as at 31 March 2007 which were discloseable under Rules 13.13 to 13.19 of the Listing Rules.

Prospects

Looking ahead, Bauhaus will continue to grow its business in existing markets by applying innovative product development and branding strategies. Subsequent to the financial year-end, Bauhaus has expanded its sales network and product portfolio in its home market, Hong Kong. In April 2007, Bauhaus opened its first ''BAUHAUS'' flagship store in Causeway Bay, Hong Kong. The 4-storey mega outlet carries well-received own labels of the Group as well as certain up-and-coming brands. In addition, Bauhaus opened the specialty store ''ATTACHMENT'' in LCX, Tsim Sha Tsui, in June 2007 to feature its diverse offering of bags and accessories. The move also strengthened its leadership in the market.

In other parts of the Asia Pacific, following the opening of a ''TOUGH'' fashion outlet in Japan by the Group's distributor earlier this year, the Group has been exploring the Singapore and Philippines markets and is working closely with distribution partners regarding establishing retail presence for ''TOUGH'' in those markets. For the Taiwan market, the Group sees its growth momentum will continue and plan to add at least 5 more outlets by the end of this year. As the name of the Group and its own labels gain popularity and recognition in the fashion community around the world, the Group sees ample room for opening new stores in other countries.

Going forward, Hong Kong as the home base for the Group will continue to serve as the showcase of the Group's own labels and steer overall brand building efforts and conceptualisation of new labels. The Group will also pay special attention to the fast-expanding PRC market where it has a well-established franchise network and retail infrastructure. To further capture the opportunities in this lucrative market, at least 20 more outlets will be added in the tier 1 and 2 cities. Drawing from the successful experience it has with ''TOUGH'', the Group is currently actively promoting ''SALAD'' in the PRC market. The Group will also keep streamlining its distribution network in other parts of the world to ensure its business will expand effectively and profitably in the global fashion market.

While pushing for expansion, the Group will continue to watch and control costs so as to improve profit margin and guarantee sustainable growth of its business plus satisfactory returns to shareholders in long run.

Dividend

The Company paid an interim dividend of HK2.5 cents per ordinary share for the six months ended 30 September 2006 (2005: Interim dividend of HK2.5 cents and special interim dividend of HK2.0 cents) on 26 January 2007 to shareholders whose names appear on the register of members of the Company on 12 January 2007.

The Directors recommend the payment of a final dividend of HK3.0 cents per ordinary share (2006: HK2.6 cents) and a special dividend of HK5.5 cents per ordinary share (2006: HK3.65 cents) in respect of the year. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final and special dividends will be payable on or before 24 September 2007 to shareholders whose names appear on the register of members on 23 August 2007.

Annual General Meeting

The forthcoming annual general meeting of the Company will be held on Thursday, 23 August 2007 at 10:00 a.m. A notice convening the annual general meeting will be published in the South China Morning Post and Hong Kong Economic Journal on or before Tuesday, 31 July 2007 and will be also dispatched to shareholders of the Company together with the Company's 2006/07 annual report.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 21 August 2007, to Thursday, 23 August 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final and special dividends, if approved, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 20 August 2007.

Corporate Governance

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the ''CG Code'') contained in Appendix 14 of the Listing Rules throughout the year ended 31 March 2007 except for not having a separate Chairman and Chief Executive Officer. Both positions are currently held by Mr. Wong Yui Lam (''Mr. Wong'').

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Being the founder of the Group, Mr. Wong has substantial experience in the fashion industry. The Directors consider that the present structure provides the Group with strong and consistent leadership which facilitate 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 the best interest of the shareholders that Mr. Wong continues to assume the roles of the Chairman and Chief Executive Officer.

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 during the year ended 31 March 2007.

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 2007.

Review of Financial Information

An audit committee of the Company (the ''Audit Committee'') comprising three independent non-executive directors was established on 22 April 2005 with written terms of reference. The Audit Committee has reviewed with the management and the 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 2007.

Board of Directors

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Wong Yui Lam, Madam Tong She Man, Winnie, 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.

By Order of the Board
Wong Yui Lam
Chairman

Hong Kong, 16 July 2007