

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover for the six months ended 30th September, 2001 was HK\$1,041.8 million. Profit attributable to shareholders for the six months ended 30th September, 2001 was HK\$6.8 million.

Given the extremely difficult trading conditions, sales were achieved at the expense of margins. This has ensured that the Group's inventory position remains healthy but has resulted in a decrease in gross profit as a percentage of turnover to 41.7 per cent..

BUSINESS REVIEW

Asian Retailing

With the Group's commitment to its core business activities and longer term growth, a total of 109 shops and corners have been taken over and opened so far this year.

These shops and corners have been opened under leading brands such as Chopard, Polo/Ralph Lauren, Polo Jeans Company, Tod's, Dickson Watch & Jewellery, Benetton, Sisley, Kenneth Cole, Coach, Brooks Brothers, Fratelli Rossetti, Charles Jourdan and Buckle My Shoe.

In Hong Kong, both Hong Kong Seibu stores in Pacific Place and Windsor House have undergone additional refurbishment work in order to further enhance customers' shopping experience. Part of Level One of Pacific Place Seibu has been reformatted to provide an even stronger selection of young casual fashionwear, and additional space has been created to satisfy consumers' increasing demand for quality cosmetics and skincare products. At Windsor House Seibu, the successful shoes and accessories department has been relocated and enlarged, the comprehensive offer of cosmetics and skincare products has been strengthened and a new street beauty section has been introduced. In doing so, this store is being refocused to offer a complete one-stop lifestyle store concept for today's young and contemporary woman.

In Taiwan, the Group is an anchor tenant at two new major shopping complexes in Taipei. At Breeze Centre, the Group has opened four shops, whilst seven shops have been opened at Core Pacific City.

In China, with its entry into the World Trade Organisation and expected continued growth, more than 20 shops and corners are being opened in China this year, reflecting the importance placed on this market by the Group. China is expected to become an increasingly important contributor to the Group's future turnover and profits.

In the rest of Asia, the Group's significant retail presence and infrastructure in Singapore, Malaysia and the Philippines ensured that it maintained its market share.

The Groups' retail network in Asia has now increased to 60 shops and corners in Hong Kong, 162 in Taiwan, 22 in Singapore, 17 in Malaysia, 8 in the Philippines and 64 in China. These 333 shops and corners will ensure that the Group has the most comprehensive retail structure throughout Asia.

E-commerce and E-tailing

At Dickson Cyber's physical mall at Kowloon Station, response to the 'outlet' concept introduced there has met expectations. As a result, additional space has been reformatted to offer an even wider range of merchandise at tremendous value. Product categories now available include fashion, sports goods, golfing equipment, electrical / electronic goods, furniture, luggage and household goods.

Moreover, to cater to the needs of Airport Express passengers and the increasing number of residents who have moved into the residential flats above the station, additional categories such as a convenience store, laundry kiosk and gift ideas have been introduced.

Exclusive Distribution and Franchise Agreement with Benetton Group S.p.A.

Subsequent to the period under review, the Group made the major announcement of its appointment by Benetton Group S.p.A. as the exclusive distributor and franchisee in Taiwan for the complete range of menswear and womenswear under the Benetton and Sisley labels and childrenswear under the O12 label.

The Group has taken over 75 shops, and together with the opening of additional Benetton and Sisley shops at Core Pacific City, Taipei, there are now 36 Benetton shops, 29 Sisley shops and 12 O12 shops located throughout Taiwan.

The Group is investing HK\$100 million in this new business opportunity which is being funded from internal resources and short term bank loans.

It is expected that this new business with Benetton Group S.p.A. will generate sales in Taiwan exceeding NT\$500 million in the first full year, thereby significantly increasing the Group's total turnover as a whole.

With the launch of a new teenage line for boys and girls in Spring / Summer 2002, this, together with the further development of the existing lines and the expansion of the retail activities of Benetton, Sisley and O12, will ensure that strong double digit sales growth is achieved by this new business from the second year onwards.

Opening of Second Seibu Department Store in Shenzhen, China

Subsequent to the period under review, the Group also made a significant announcement about the opening by Shenzhen Seibu Department Store Company Limited of a second Seibu Department Store in Shenzhen, China.

Occupying over 140,000 sq. ft. on the Ground to Second Floors, the second Seibu Department Store will be located at Citic City Plaza, an upmarket commercial development in the prestigious new Futian district of Shenzhen which is where the Shenzhen City Government complex is also located. Citic City Plaza itself will be linked to Shenzhen's subway system with a total floor area of 700,000 sq. ft. over 6 levels. Its catchment area offers a potential 800,000 consumers within a 5 kilometer radius.

Following preliminary discussions with its partners and suppliers, it is expected that the second Seibu Department Store in Shenzhen will house flagship stores for many of the world's leading brands, and it is envisaged that consumers in Shenzhen will be offered the most comprehensive range of international designer collections and the broadest range of fashion and accessories possible.

Currently scheduled to open in the last quarter of 2002, an investment of up to HK\$100 million will be made by Shenzhen Seibu Department Store Company Limited.

Given the reputation and success of the existing Seibu Department Store in the Lowu district, the Group is confident that once the second Seibu Department Store in Shenzhen is opened, Seibu will further consolidate its position as the undisputed leading retailer of brandname fashion and accessories in Shenzhen and Southern China.

FULL YEAR PROSPECTS

In the aftermath of the events in the United States on 11th September, 2001, the Group has seen a further deterioration in trading conditions. Asian economies were already performing poorly during the first half of the year, and the Group expects these difficult conditions to continue for the remainder of the current financial year.

In order to achieve longer-term growth, the Group has remained committed to carrying out its retail expansion programme this year. This has clearly illustrated the Group's ability to develop and maximise the potential of its brands irrespective of the economic climate.

With the Group planning to open at least 10 new shops and corners during the remainder of the current financial year, the Group's retail network will increase to more than 340 shops and corners throughout Asia.

Together with its net cash position of over HK\$200 million and its strong balance sheet, the Group is perfectly positioned to take advantage of any investment opportunities of exceptional value.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30th September, 2001, the Group had 1,826 employees. Remuneration policies are reviewed regularly by the Board of Directors of the Company. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective countries and businesses in which the Group operates.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources continue to be strong with a net surplus cash position of about HK\$280 million as at 30th September, 2001. This is after taking into account settlement of the consideration for the purchase of fixed assets and stock of the Benetton, Sisley and O12 operations in Taiwan, capital expenditure on new store openings and seasonal purchases of the Group.

Total cash balances stood at HK\$354.5 million against bank borrowings of HK\$73.2 million. The increase in bank borrowings by HK\$57.5 million is attributable to short term bank loans drawn down by the Group's Taiwan subsidiary to finance the abovementioned acquisition of the Benetton, Sisley and O12 business.

During the second half of the financial year, estimated capital expenditure on new store openings and consolidation of the Benetton, Sisley and O12 operations in Taiwan is approximately HK\$63 million and will be met by cash inflow from current activities, short term borrowings or the Group's surplus cash resources. After taking these requirements into account, the Group will still maintain a strong net cash position to meet future working capital needs and fund new investment opportunities.

Short term bank loans and overdrafts were borrowed in Hong Kong, Singapore and New Taiwan dollars as required by the respective operating subsidiary. It is the Group's policy to minimise exposure to fluctuations in the exchange rate of regional currencies by establishing local bank facilities so that working capital as well as capital investment requirements can be funded by local bank borrowings and repaid by cash flow generated from local sales.

The Group's foreign currency purchases were mainly denominated in United States dollars, Swiss Francs and European Currency Unit. Forward contracts were utilised, if considered necessary, to purchase the relevant currency to meet payments.

The Group has maintained a conservative and strong capital structure throughout the period. As at 30th September, 2001, the current ratio, being current assets divided by current liabilities, was 2.22 times (at 31st March, 2001 : 2.50 times).

Gearing ratio is measured on the basis of the Group's total bank loans net of cash balances over the Company's shareholders' funds. Since the Group has always been in a net cash position during the period under review, as such, there is no gearing ratio as at 31st March, 2001 and 30th September, 2001.