MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover for the six months ended 30th September, 2002 was HK$1,158.6 million, an increase of 11.2 per cent. compared with the same period last year.

Profit attributable to shareholders for the six months ended 30th September, 2002 was HK$55.1 million. This figure includes a non-operating item of HK$44.0 million which has been credited to and included in the consolidated profit and loss account for this period.

Excluding non-operating item, profit attributable to shareholders increased by 64.5 per cent. compared with the same period last year.

BUSINESS REVIEW

A total of 62 shops and corners have been opened so far this year in all the Group's Asian markets.

These shops have been opened under leading brands such as Polo/Ralph Lauren, Polo Jeans Company, Bvlgari, Dickson Watch & Jewellery, Benetton, Sisley, The Hip Site, Kenneth Cole, Brooks Brothers and Charles Jourdan.

In Hong Kong, a Brooks Brothers boutique has been opened at Times Square, Causeway Bay and additional Kenneth Cole and Ralph Lauren Childrenswear corners have been opened at Pacific Place Seibu and Sogo department store respectively. A new Dickson Warehouse shop has also been opened at Maritime Square, Tsing Yi, New Territories.

Moreover, in November 2002, the largest Bvlgari store in the South Pacific region occupying 3,500 sq. ft. was opened at Chater House, Central.

Both Hong Kong Seibu stores in Pacific Place and Windsor House have continued to further strengthen their merchandise selections with the introduction of new brands and product lines, thereby enhancing the stores' performance and consumer satisfaction.

In Taiwan, the Group has developed an extremely comprehensive retail and wholesale network for its leading brands. 12 new Polo/Ralph Lauren, Polo Jeans Company, Dickson Watch and Jewellery, Benetton, Sisley and The Hip Site shops and corners have already been opened this year in department stores in Taipei, Taichung and Tainan. With 4 new shops and corners planned to be opened during the remainder of the current financial year in Taipei and Kaohsiung, this network will be further strengthened throughout the island.

In China, the Group has continued to implement its aggressive expansion programme with the opening of 34 Polo/Ralph Lauren, Polo Jeans Company and S.T. Dupont shops and corners.

The second Seibu Department Store has also been opened in Shenzhen, China located at Citic City Plaza, Futian district. The store houses many of the world's leading brands including Polo/Ralph Lauren, Burberry, Gianni Versace, MaxMara, S.T. Dupont, a. Testoni and Mont Blanc. Agreements have been reached with other major international luxury brands such as Louis Vuitton, Fendi and Ermenegildo Zegna for their shops to open soon. Since its opening, the store has received a favourable response from consumers, and the Group is confident that once the development is completed, this store will make a significant contribution to the turnover and profitability of the Group's China operations.

In the rest of Asia, the Group's retail presence now comprises 54 shops and corners in Singapore, Malaysia and the Philippines. This significant presence together with its established infrastructure ensures that the Group is able to maintain its strong market share in these countries.

The Group's retail network in Asia now comprises 61 shops and corners in Hong Kong, 156 in Taiwan, 25 in Singapore, 19 in Malaysia, 10 in the Philippines and 94 in China. These 365 shops and corners will ensure that the Group has the most comprehensive retail network throughout Asia.

FULL YEAR PROSPECTS

Trading conditions have been extremely difficult in the Group's Asian markets during the first half of the year, and this is expected to continue for the remainder of the current financial year. Given these conditions, the Group will continue to exercise tight cost controls to ensure that the profit potential of all its businesses is maximised.

Moreover, the Group is fully committed to the retail industry and with the objective of achieving longer-term growth. The Group intends to continue its retail expansion strategy with the opening of an additional 23 shops and corners during the remainder of the current financial year. This will expand the Group's retail network to over 385 shops and corners in Asia. In doing so, the Group will strengthen its most comprehensive retail network throughout South East Asia and China.

This expansion, together with its net cash position of over HK$300 million and strong balance sheet, will ensure that the Group is perfectly positioned to take advantage of any investment opportunities of exceptional value and any improvement in trading conditions in Asia.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30th September, 2002, the Group had 1,780 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 continues to maintain a strong and liquid financial position with net surplus cash of over HK$300 million as at 30th September, 2002. This is after taking into account capital expenditure on new store openings during the period under review, seasonal purchases of the Group and payment of the final dividend for the previous financial year.

Total cash balances stood at HK$475.3 million against bank borrowings of HK$157.4 million. Bank borrowings comprised mainly of short-term loans and overdrafts to finance seasonal purchases and working capital requirements of certain overseas subsidiaries. These borrowings were mainly in Hong Kong, Singapore and New Taiwan Dollars as required by the respective operating subsidiary companies. It is the Group's policy to minimise exposure to fluctuations in the exchange rate of regional currencies by establishing facilities with local financial institutions so that working capital as well as capital investment requirements of its overseas operating subsidiaries are funded by borrowings in local currency 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, 2002, the current ratio, being current assets divided by current liabilities, was 2.31 times (at 31st March, 2002 : 2.17 times (restated)).

The Group has always been in a net cash position throughout the period under review. Thus, its gearing ratio, measured on the basis of the Group's total bank loans net of cash balances over the Company's shareholders' funds is Nil (at 31st March, 2002 : Nil).