MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover for the six months ended 30th September, 2003 was HK$1,111.1 million.

Operating profit increased by 25.8 per cent. to HK$21.2 million compared with the same period last year. This was achieved due to an improvement in gross margins and the exercising of tight controls on all expenses. The improvement in operating profit is especially significant given the fact that all the Group's markets were severely affected by SARS.

Profit attributable to shareholders for the six months ended 30th September, 2003 was HK$7.7 million. Excluding last year's non-operating item of HK$44.0 million, this represents a decrease of HK$1.5 million compared with the profit of HK$9.2 million recorded for the same period last year. Given the significant losses incurred during the months of SARS, the Group's ability to achieve profits for the six months ended 30th September, 2003 illustrates how strong the post-SARS recovery has been.

As a result of this, coupled with the Group's confidence in the improved performance of its operations in the second half of the current financial year, the Board has resolved to declare an interim dividend of 3 cents per share. This represents a dividend payout of 99.8 per cent. of the Group's profit attributable to shareholders for the period under review.

With SARS under control, trading conditions in Asia have shown signs of an increasingly rapid recovery. Together with the continued strong growth of China's economy and the influx of Chinese tourists following the introduction of individual travel permits, the Group is confident that, barring unforeseen circumstances, it is ideally positioned to exploit this recovery and achieve significantly improved results in the second half of the current financial year.

BUSINESS REVIEW

The Group demonstrated its strong financial capabilities and unswerving commitment to the retail industry by opening a total of 58 shops and corners so far this year.

These shops have been opened under leading brands such as Christofle, Polo Ralph Lauren, Polo Jeans Company, Dickson Watch & Jewellery, Benetton, Sisley, Brooks Brothers and Kenneth Cole.

In Hong Kong, under an exclusive long-term agreement, a Christofle boutique has been opened at Prince's Building offering this luxury brand's comprehensive range of silverware, china, table linen, glassware and gift items.

The Hong Kong Seibu group is now wholly-owned by the Group following the acquisition from The Seibu Department Stores, Limited of its shareholding of about 13.16 per cent. on 31st October, 2003 for a total consideration of HK$23.22 million.

The Group has announced the opening of the first exclusive Harvey Nichols store in Asia at the Landmark, Hong Kong. Scheduled to open in the second half of 2005, the store will occupy about 60,000 s.f. over 5 floors of prime retail space at Hong Kong's premier retailing location, and will set a benchmark as the most exciting and prestigious international fashion store. The Harvey Nichols store will also act as a major growth engine for significant financial returns in the years ahead.

Furthermore, new Polo Ralph Lauren and Kenneth Cole shops have been opened at Festival Walk, a new Dickson Watch & Jewellery shop has been opened in Russell Street, Causeway Bay, and the Polo Jeans Company shop at Cityplaza has been relocated to a larger, more prominent location.

All these investments clearly reinforce the Group's leading position in the retail industry in Hong Kong and Asia.

In Taiwan, the Group has become one of the anchor tenants of the shopping mall at Taipei 101, currently the tallest building in the world. Five new shops have been opened there under the brands of Ralph Lauren, Brooks Brothers, Kenneth Cole, Benetton and Sisley with a Tod's shop scheduled to open next year.

Although severely affected by SARS, the Group's business in Taiwan has begun to show signs of improvement since August this year, and the Group is optimistic that this improvement will continue.

Taking advantage of China's strong economic growth, an additional 29 S.T. Dupont, Polo Ralph Lauren, Polo Jeans Company and Brooks Brothers shops and shop-in-shops have been opened so far this year, thereby increasing the total in China to 116.

The Seibu department store at Lowu has been refurbished to provide a more comfortable environment for consumers. Together with the strong sales performance being achieved at the Futian store, Seibu's position as the leading retailer of luxury fashion and accessories in Southern China has been further reinforced.

In Singapore, the Group has opened flagship stores for Ralph Lauren, Dickson Watch & Jewellery, Benetton and Sisley at the newly-refurbished Paragon, Singapore's prime shopping mall on Orchard Road. Additional Benetton and Sisley shops have also been opened at Suntec City.

In Malaysia, Benetton, Sisley and Kenneth Cole corners have been opened at Parkson Grand Suria department store at KLCC.

In implementing this aggressive shop opening programme together with the continued expansion of its distribution business, the Group has worked together in close co-operation with its international partners and principals to ensure that, irrespective of the economic climate, the most comprehensive retail and distribution network is established for the Group's brands, thereby achieving the best results possible.

The Group's retail network in Asia now totals 381 shops and corners with 60 in Hong Kong, 156 in Taiwan, 29 in Singapore, 10 in Malaysia, 10 in the Philippines and 116 in China.

FULL YEAR PROSPECTS

In the last few months, the pace of economic recovery throughout Asia has increased. Markets such as China and Taiwan have recovered strongly. The Group's home territory of Hong Kong has seen an increasingly rapid improvement in the business environment, aided by China's strong economic growth and the Chinese government's decision to allow its citizens to visit Hong Kong independently.

Despite the substantial losses incurred during the months of SARS, it is significant to note that sales in the months of August and September this year have surpassed sales for the same months last year, and that the Group has succeeded in achieving an increase in operating profit and an improvement in gross margins during the period under review. Based on current business trends, the Group is confident of achieving significantly improved results in the second half of the current financial year.

With the planned opening of 20 shops and corners during the remainder of the current financial year, the Group's comprehensive retail network will be further strengthened and will increase to nearly 400 shops and corners throughout Asia. This expansion will provide the basis for growth in the immediate future.

Following the opening of the Harvey Nichols store at the Landmark in 2005, this store will act as an additional strong growth engine for the Group to achieve significant financial returns in the years ahead.

The implementation of all these expansion plans, together with its net cash position of over HK$400 million, will ensure that the Group is in an excellent position to take advantage of the recovery in economic conditions in Asia and exploit any investment opportunities of exceptional value.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30th September, 2003, the Group had 1,785 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

Continued application of stringent controls over costs and inventory levels enabled the Group to maintain a strong positive cash flow during the difficult conditions prevailing over most of the period under review.

After taking into account capital expenditure, seasonal purchases and payment of the final dividend for the previous financial year, the Group's liquid financial resources continue to be strengthened with net surplus cash increasing to over HK$400 million as at 30th September, 2003. Total cash balances stood at HK$611.7 million against bank borrowings of HK$120.5 million.

FOREIGN CURRENCY EXPOSURE AND FINANCIAL MANAGEMENT

The Group's outstanding bank borrowings comprised of short-term bank loans and overdrafts, the major portion of it drawn in New Taiwan Dollars, Singapore Dollars and Japanese Yen by the respective operating subsidiary companies.

This follows the Group's policy to minimise exposure to fluctuations in the exchange rate of regional currencies in respect of its overseas operations by utilising local currency borrowings, where necessary, to fund working capital and capital investment requirements with repayment by cash generated from local sales.

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

The Group maintains a conservative and prudent policy in management of its financial resources. Surplus cash is held mainly in United States and Hong Kong Dollars which are placed on short-term time deposits with international financial institutions. The average duration of such deposits is 0.5 month which provides the Group with flexibility to take advantage of any appropriate investment or yield enhancement opportunities that may arise at short notice.

The Group has maintained a conservative and strong capital structure throughout the period. As at 30th September, 2003, the Group's current ratio, being current assets divided by current liabilities, was 2.34 times compared to 2.35 times (restated) as at 31st March, 2003. The Group has been in a net surplus cash position throughout the period under review. Thus, its gearing ratio, being total bank borrowings net of cash balances over the Group's shareholders' funds is Nil (as at 31st March, 2003 : Nil).

INTERIM DIVIDEND

In view of the above results, the Board of Directors has resolved to declare an interim dividend of 3 cents per share (2002 : Nil) amounting to a total of approximately HK$7,694,000. The interim dividend will be paid on Monday, 19th January, 2004 to shareholders whose names appear in the Register of Members of the Company on Thursday, 8th January, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 7th January, 2004 to Thursday, 8th January, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 6th January, 2004.

SHARE PURCHASE, SALE AND REDEMPTION

During the six month period ended 30th September, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's shares.