MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover for the six months ended 30th September, 2004 was HK$1,222.6 million, an increase of 10.0 per cent. compared with the same period last year.

This increase in turnover, together with the significant improvement in margins and the continued exercising of tight controls on all expenses, enabled the Group to achieve profit attributable to shareholders of HK$77.6 million representing ten times last year's interim profit.

In view of these results, the Board of Directors has resolved to declare an interim dividend of 13 cents per share, representing more than four times last year's interim dividend of 3 cents per share. Taking into account the bonus issue of one share for every ten shares held in August 2004, the total interim dividend payout represents an actual increase of 376.7 per cent. compared with last year.

With the continued economic recovery in Hong Kong and neighbouring countries coupled with the growing significance of Chinese tourists and the mainland market, the Group remains confident that, barring unforeseen circumstances, it will achieve its stated objective of balanced strong top line and margins growth this year.

BUSINESS REVIEW

With a total of 58 shops and shop-in-shops opened this year, the Group's retail network currently totals 386 shops and shop-in-shops. This comprises 52 in Hong Kong, 140 in China, 145 in Taiwan and 49 in Singapore, Malaysia and the Philippines.

In Hong Kong, the Group's operations performed strongly as the local economy continued to improve, visitor arrivals from both the mainland and overseas increased and market sentiment remained buoyant.

The third Hong Kong Seibu store was officially opened on 5th November, 2004 at Langham Place, Mongkok. Occupying an area of over 20,000 s.f. on the Ground and First Floor of this innovative new retail, hotel and office complex, the store is experiencing heavy customer traffic with over 40,000 customers each day at weekends. Given this phenomenal consumer interest and the volume of sales achieved to date, the Group is confident that this store will make a positive contribution to the Group's profits performance in its first year of operation.

This year, the Group has also opened its largest Dickson Watch & Jewellery shop in Hong Kong at Langham Place, and a 3,000 s.f. Ralph Lauren store at Lee Gardens Two, Causeway Bay. The Brooks Brothers shop at Harbour City has also been relocated to larger premises.

Together with the strong turnover and profits growth of its existing shops, the Group is extremely confident about the future development of its Hong Kong operations.

In China, as the country becomes more developed and consumers more sophisticated, this market has the strongest growth potential in the luxury goods business in the longer term.

This year, the Group has opened 37 new shops and shop-in-shops in first, second and third tier cities throughout China. With its network of 140 shops and shop-in-shops spread over 25 provinces and municipal cities, the Group is best positioned to capitalise on its efficient and proven infrastructure to capture increasing consumer spending, as well as to represent and launch new brands in China.

With a presence of more than 10 years, the Group's two Seibu stores in Shenzhen have established Seibu as the undisputed leading upmarket lifestyle store. The Group also plans to expand such lifestyle stores by becoming the anchor tenant of major retail developments in other leading Chinese cities. As these stores will range from a minimum 20,000 s.f. up to 100,000 s.f., each of these new large format stores will make significant bottom line contributions and thus provide the Group with another means to enhance its future earnings capabilities. In doing so, the Group will further reinforce its leading position in luxury retailing in China.

In Taiwan, the Group continued to expand its operations with the opening of 13 new shops and shop-in-shops. These shops were opened in major cities such as Taipei, Tainan, Taichung and Kaohsiung. Firmly established as its second most important market, the Group is very confident that the strong growth it has achieved this year will continue and its comprehensive retail and wholesale distribution network will generate significant opportunities for future growth in Taiwan.

Elsewhere in Asia, the Group has a retail network of 49 shops and shop-in-shops in Singapore, Malaysia and the Philippines. As the economies of these countries continue to recover, the Group is well placed to take advantage of improved trading conditions and achieve increased turnover and profits in these markets.

FULL YEAR PROSPECTS

The Group's retail network of 386 shops and shop-in-shops throughout the region will be the foundation for the Group's growth in the immediate year ahead. An additional 14 new shops and shop-in-shops are planned to be opened during the remainder of the current financial year.

These 400 shops and shop-in-shops, together with the new Hong Kong Seibu store of over 20,000 s.f. at Langham Place, will form the foundation for strong future earnings growth in the medium term.

With the eagerly awaited Harvey Nichols store of over 60,000 s.f. scheduled to open at The Landmark in 2005, the Group will set new standards in innovation and style and define the next generation of luxury retailing. The Harvey Nichols store, together with the expansion of lifestyle stores with a Shenzhen Seibu format ranging from 20,000 s.f. to 100,000 s.f. in China, will further ensure that the Group achieves significant earnings growth in the longer term.

Together with the Group's net cash position of over HK$600 million and its strong balance sheet, the Group is also perfectly positioned to take full advantage of the economic recovery in Asia and to exploit any investment opportunities of exceptional value.

The Group is confident that it will achieve its stated objective of balanced top line and margins growth in the current financial year and looks forward to years of strong growth ahead.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30th September, 2004, the Group had 1,866 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

During the period under review, all principal businesses of the Group benefited from continued growth in sales turnover. The resultant strong positive net cash flow was more than sufficient to fund all of the Group's capital expenditure and seasonal purchases during the period including the payment of the final dividend for the previous financial year and add to the Group's liquid financial resources. As at 30th September, 2004, the Group's net liquid financial resources increased to over HK$700 million represented by a total of cash and cash equivalents of HK$784.0 million against bank borrowings of HK$80.8 million.

FOREIGN CURRENCY EXPOSURE AND FINANCIAL MANAGEMENT

The Group's bank borrowings comprised of short-term bank loans 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 are mainly denominated in United States Dollars, Swiss Francs and Euros and where considered appropriate, forward exchange contracts are utilised to purchase the relevant currency to settle amounts due.

The Group's financial risk management is the responsibility of its treasury function based in Hong Kong and controlled by policies and guidelines established from time to time by the Board of Directors.

A conservative and prudent approach has been consistently applied with the maintenance of a net surplus cash position throughout the period under review. Surplus cash is held mainly in United States and Hong Kong Dollars with the majority placed on short-term time deposits with international financial institutions. In order to enhance the overall yield from the Group's cash reserves, approximately 20 per cent. of the surplus funds are currently placed in liquid managed open-ended currency funds with proven track records.

The average duration of the Group's surplus funds time deposits is 0.5 month providing the Group with the flexibility to access its surplus funds at short notice in the event any appropriate investment or yield enhancement opportunity arises.

As at 30th September, 2004, the Group's current ratio, being current assets divided by current liabilities, was 2.76 times compared to 2.79 times as at 31st March, 2004. The Group has maintained 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, 2004 : Nil).