MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover for the six months ended 30th September, 2005 was HK$1.357 billion, an increase of 11.0 per cent. compared with the same period last year.

This increase, together with the improvement in margins and the continued exercising of tight controls on all expenses, enabled the Group to achieve profit attributable to shareholders of HK$85.7 million, an increase of 10.5 per cent. compared with the same period last year.

In view of these results, the Board has resolved to declare an interim dividend of 13.8 cents per share. Taking into account the bonus issue of one share for every ten shares held in August 2005, the total interim dividend payout represents an actual increase of 16.9 per cent. compared with last year.

As the Group continues its rapid expansion programme and economic conditions throughout Asia and China continue to improve, the Group is confident that, barring unforeseen circumstances, the Group can achieve its stated objective of balanced top line and margins growth for the full year.

BUSINESS REVIEW

With a total of 57 shops opened this year, the Group's retail network currently totals 397 shops. This comprises 52 in Hong Kong, 159 in China, 144 in Taiwan and 42 in Singapore, Malaysia and the Philippines.

In Hong Kong, the Group opened the first Harvey Nichols store in Asia at The Landmark. Occupying 60,000 s.f. of prime retailing space, the store has set new standards in innovation and style and has simultaneously defined the next generation of luxury retailing. Initial response to the store from both the industry and customers alike has been extremely positive, and the Group is confident that once it has been properly established, the store will make an important contribution to the Group's business.

Hong Kong Seibu is an important contributor to the Group's turnover and profits. Langham Place Seibu succeeded in making a positive contribution to the Group's profits during its first year of operations. Given this proven expertise and success, the Group is aggressively looking for additional locations to expand Seibu in Hong Kong.

The Group also continued the introduction of the Michael Kors brand with the opening of the Michael Kors Collection corner at Harvey Nichols and a Michael Kors boutique at Ocean Centre.

In China, the Group expanded its retail network to 159 shops with the opening of 38 shops under the brands of S.T. Dupont, Polo Ralph Lauren, Brooks Brothers and Tod's. This comprehensive network throughout China will enhance the success and popularity of the Group's brands in China and ensure that the Group will benefit from the increasing number of Chinese tourists visiting Hong Kong and South East Asia.

The third Seibu store in China is scheduled to open in the heart of Chengdu's business and commercial centre during the current financial year, and is destined to become the undisputed leading upmarket retail store in Chengdu. With an area of over 100,000 s.f., the store is expected to breakeven in its first year of operation and to contribute profits from the second year.

The Group has also reached agreement in principle to open the fourth Seibu store in China. This will be located in Shenyang, the provincial city of Liaoning Province, in North East China. With a population of 7.4 million and rapidly increasing consumer spending, this is one of China's major centres for the petrochemical, metallurgy, electronics and machinery industries. The store will occupy in excess of 145,000 s.f. on three floors. Many leading international brands have already shown keen interest in this project and the Group is confident that after it opens in end-2006, this store will further reinforce Seibu's leading position in China, breaking even in year one and contributing to profits in its second year of operations.

In the rest of Asia, the Group's operations in Taiwan have further established their position as the Group's second largest market with a comprehensive network of 144 shops and shop-in-shops. In Singapore, Malaysia and the Philippines, the Group's retail network of 42 shops and shop-in-shops is well placed to take advantage of any improvement in trading conditions in these countries.

FULL YEAR PROSPECTS

The Group is pleased that even after absorbing the pre-opening expenditure of the Harvey Nichols store, the Group has still managed to achieve a 4.5 per cent. increase in gross margins and a 10.5 per cent. increase in profit attributable to shareholders compared with the same period last year.

With 57 shops already opened and a further 24 shops planned to be opened by the end of the current financial year, the Group's retail network will expand to well over 400 shops. This network will form the foundation for the Group's immediate and medium term growth.

In the longer term, the opening of new stores throughout the region, the Seibu store in Shenyang, China, and the expansion of additional large format Seibu stores in China, together with the introduction of new brands will ensure strong and sustained development for the Group.

Together with the Group's net cash position of over HK$550 million and its strong balance sheet, the Group is perfectly positioned to take advantage of continued economic growth in Asia and China and to exploit any investment opportunities of exceptional value.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30th September, 2005, the Group had 2,349 employees. Total staff costs (including Directors' emoluments) amounted to HK$159.8 million (2004 : HK$139.3 million). 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. Details of the share option scheme were disclosed in the Company's annual report for the year ended 31st March, 2005. No share options were granted or exercised during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, all principal businesses of the Group recorded growth in sales turnover compared to the corresponding period last year generating net cash of HK$41.9 million before capital expenditure and dividend distribution. Capital expenditure payments made during the period, mainly in respect of new store openings including the Harvey Nichols Hong Kong store, totalled HK$112.0 million. Payments totalling HK$214.4 million in respect of the final cash and special dividend for the previous financial year were also made.

After accounting for these payments, the Group's net liquid financial resources stood at HK$569.3 million represented by cash of HK$622.4 million less short-term bank borrowings of HK$53.1 million.

The Group also has access to substantial uncommitted short-term loan facilities provided by its relationship banks for day-to-day requirements and funding flexibility. However, in view of the Group's surplus cash position and positive cash flow, any material utilisation of these facilities is not anticipated in the near future.

FOREIGN CURRENCY EXPOSURE

The Group's outstanding bank borrowings as at 30th September, 2005 comprised mainly 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 of minimising 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 in cash generated from local sales.

The Group's purchases are mainly denominated in United States Dollars, Swiss Francs, Euros and Pound Sterling and where considered appropriate, forward exchange contracts are utilised to purchase the relevant currency to settle amounts due. It is the Group's policy that foreign exchange contracts or foreign currency purchases are strictly limited to approved purchase budget amounts or purchase commitments made.

FINANCIAL MANAGEMENT

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 always been adopted 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. The average duration of the Group's surplus funds placed on 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 opportunity arises.

As at 30th September, 2005, the Group's current ratio, being current assets divided by current liabilities, was 2.38 times compared to 2.75 times as at 31st March, 2005. 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 as a percentage of consolidated capital and reserves is Nil (as at 31st March, 2005 : Nil).