MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover for the six months ended 30th September, 2006 was HK$1,326.0 million, an increase of 10.5 per cent. compared with the same period last year.

Gross margins increased slightly from 55.0 per cent. up to 55.4 per cent. despite the difficult trading conditions in Taiwan caused by the political uncertainty there.

This year, the Group has made significant investments in its store opening programme which comprises the 100,000 sq. ft. Seibu store in Chengdu, the 145,000 sq. ft. Seibu store in Shenyang, the 52,000 sq. ft. Seibu store at Kowloon Hotel, Hong Kong and the opening of 48 other new single brand shops throughout Asia.

As a result of adopting conservative accounting policies and charging all operating expenses related to these investments for the full period under review, the Group's profit attributable to shareholders was reduced to HK$72.4 million, a decrease of 15.6 per cent. compared with last year.

Whilst all this pre-opening and operating expenditure will have a short-term adverse impact on the Group's profits, the Group is confident that once these businesses mature, these stores will become the engine for the Group's strong and sustained growth in the medium to longer term.

BUSINESS REVIEW

With a total of 31 shops opened so far this year, together with 102 Tommy Hilfiger shops, the Group's retail network currently totals 490 shops. This comprises 60 in Hong Kong, 225 in China, 171 in Taiwan and 34 in Singapore, Malaysia and the Philippines.

The acquisition of the Tommy Hilfiger group, which was completed in August 2006, has significantly expanded the Group's retail network. Given its solid and profitable track record, the strong recognition of the brand, its growing customer base and the continued aggressive expansion of its retail network, the Group is confident that the Tommy Hilfiger group will become an increasingly significant contributor to the Group's turnover and profits.

In Hong Kong, the Group continued to reinforce its leading position in luxury retailing in the territory. Whilst Harvey Nichols continues to strengthen its merchandise offering and enhance the shopping experience for its discerning customers, the Group has also been preparing for the opening of the third Hong Kong Seibu store located at Kowloon Hotel. Scheduled to open mid-December 2006, the store will be able to take maximum advantage of the busy Christmas and Chinese New Year trading period, thereby establishing its presence and consumer awareness within a short period.

In China, in addition to the 51 Tommy Hilfiger shops in the country, the Group has opened a further 22 shops under brands such as Brooks Brothers, Tod's, S.T. Dupont and Dickson Watch & Jewellery, thereby further strengthening the Group's retail presence throughout China. The 100,000 sq. ft. Seibu store located in Chengdu, Sichuan province, was officially opened on 1st December, 2006 and has received a favourable response from both locals and visitors alike. Preparations for the soft opening in the first quarter of 2007 of the 145,000 sq. ft. Seibu store located in Shenyang, Liaoning province, are at an advanced stage, and the Group is confident that this fourth Seibu store will firmly establish Seibu's reputation as a leading luxury department store group in north eastern China.

In the rest of Asia, the Group's operations in Taiwan remain affected by the political uncertainty and the tightening of credit card limits by local banks. Nevertheless, the Group remains confident about the long term prospects of its operations in Taiwan, and its comprehensive retail network of 171 shops places the Group in an excellent position to improve turnover and profitability once normal trading conditions are restored. In Singapore, Malaysia and the Philippines, its retail network of 34 shops ensures that the Group is well placed to take advantage of any improvement in market conditions in these countries.

Bertolucci, the first luxury watch brand owned by the Group, has undertaken and implemented major development strategies since its acquisition. With the international launch of its latest watch collections and the expansion of its distribution channels, the Group is confident about Bertolucci's future development into a meaningful asset for the Group in the long term.

FULL YEAR PROSPECTS

With Tommy Hilfiger's network of 102 shops, the opening of 31 shops, and the further 20 shops planned to be opened by the end of the current financial year, the Group's retail network will expand to well over 500 shops. This comprehensive network will provide the Group with a strong recurring income base for the Group's growth.

Whilst the Group's aggressive store opening programme will have an adverse impact on the Group's profits in the short term, as these significant investments fully develop and establish their presence in the market, the Group is confident that it will achieve strong and sustained turnover and profits growth in the years to come.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30th September, 2006, the Group had 2,852 employees. Total staff costs (including Directors' emoluments) amounted to HK$172.9 million (2005 : HK$159.8 million). Remuneration policies are reviewed regularly by the Board of Directors of the Company and by the Remuneration Committee in respect of Directors and senior management. 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, 2006. No share options were granted or exercised during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group generated net cash from operating activities of HK$119.4 million before working capital changes, investment, capital expenditure and dividend distribution.

Increased working capital requirements attributable to higher stock holdings due to new store openings and additions as well as capital expenditure totalled HK$160.7 million. Payments totalling HK$481.3 million, comprising the HK$396.0 million purchase consideration for the Tommy Hilfiger Asia Pacific licensed business and the final dividend for the previous financial year of HK$85.3 million were also made.

After these payments, the Group's net liquid financial resources stood at HK$29.6 million represented by cash balances of HK$161.5 million and short-term bank borrowings of HK$131.9 million.

The Group maintains substantial uncommitted short-term loan facilities with its relationship banks for day-to-day requirements and funding flexibility. Despite the substantial reduction in the Group's surplus cash holdings as described above, material utilisation of these facilities over and above current levels is not anticipated given the positive cash flow generated by the Group's operations.

FOREIGN CURRENCY EXPOSURE AND FINANCIAL MANAGEMENT

Merchandise purchased by the Group is mainly denominated in United States Dollars, Euros, Swiss Francs and Pounds Sterling and where appropriate, forward foreign 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 actual purchase commitments.

Exposure to fluctuations in the exchange rate of regional currencies in respect of the Group's overseas operations is minimised by utilising local currency borrowings, where necessary, to fund working capital and capital expenditure requirements with repayment in cash generated from local sales. The Group's outstanding foreign currency bank borrowings are a result of the application of this policy and comprise short-term bank loans drawn in New Taiwan Dollars and Singapore Dollars by the respective operating subsidiary companies.

The Group's financial risk management is the responsibility of its treasury function based in Hong Kong which implements the policies and guidelines established from time to time by the Board of Directors. Surplus cash is held mainly in United States Dollars, Hong Kong Dollars and Renminbi with the majority placed on short-term time deposits with international financial institutions.

As at 30th September, 2006, the Group's current ratio, being current assets divided by current liabilities, was 1.7 times compared to 2.5 times as at 31st March, 2006. The Group has maintained a net surplus cash position throughout the period under review and 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, 2006 : Nil).

INTERIM DIVIDEND

In view of the above results, the Board of Directors has resolved to declare an interim dividend of 13.8 cents per share (2005 : 13.8 cents per share), the same as last year. The interim dividend, which will be paid on Thursday, 18th January, 2007, will absorb a total of about HK$42,823,000 (2005: HK$42,823,000) and will be paid to shareholders whose names appear in the Register of Members of the Company on Friday, 5th January, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 4th January, 2007 to Friday, 5th January, 2007, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 3rd January, 2007.

SHARE PURCHASE, SALE AND REDEMPTION

During the six month period ended 30th September, 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's shares.