

The directors have pleasure in presenting their annual report together with the audited accounts for the year ended 31st March, 2006.

### ***Group Activities***

The Company's activity is that of investment holding. The principal activity of the Group is the sale of luxury goods.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in Note 2 on the accounts.

### ***Accounts***

The profit of the Group for the year ended 31st March, 2006 and the financial position of the Company and the Group at that date are set out in the accounts on pages 39 to 82.

### ***Dividends***

An interim dividend of 13.8 cents per share (2005 : 11.8 cents per share after adjusting for the bonus issue to shareholders in the proportion of one share for every ten then existing shares held) was paid on 18th January, 2006.

The directors recommend the payment of a final dividend of 27.5 cents per share (2005 : 27.3 cents and a special dividend of 41.8 cents per share after adjusting for the bonus issue to shareholders in the proportion of one share for every ten then existing shares held) in respect of the year ended 31st March, 2006.

### ***Share Capital and Reserves***

Movements in share capital and reserves during the year are set out in Notes 21 and 22 respectively on the accounts.

### ***Share Option Scheme***

Details of the Share Option Scheme of the Company are set out in Note 21 on the accounts.

### ***Share Purchase, Sale and Redemption***

At no time during the year was there any purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's shares.

### ***Pre-emptive Rights***

There is no provision for pre-emptive rights under the Company's new Bye-laws although there is no restriction against such rights under Bermuda law.

### ***Charitable Donations***

Donations made by the Group during the year amounted to HK\$664,000.

### ***Fixed Assets***

Movements in fixed assets during the year are set out in Note 10 on the accounts.

### ***Borrowings***

Bank loans and other borrowings repayable are stated in Note 17 on the accounts.

### ***Retirement Schemes***

Retirement schemes operated by the Group during the year are outlined in Notes 1(n), 3 and 24 on the accounts.

### ***Principal Subsidiary and Associated Companies***

Particulars of the Company's principal subsidiary and associated companies are set out on pages 79 to 82.

### ***Management Contracts***

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### ***Employment and Remuneration Policies***

As at 31st March, 2006, the Group had 2,477 employees. Total staff costs (including Directors' emoluments) amounted to HK\$406.2 million (2005 : HK\$363.3 million). Remuneration policies are reviewed regularly by the Board of directors of the Company and by the Remuneration Committee regarding 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.

### ***Liquidity and Financial Resources***

The principal businesses of the Group recorded continued growth in sales during the year.

Combined with further improvement in margins, the Group's operating profit before investments and working capital changes increased to HK\$288.4 million. This inflow was utilised to finance the capital expenditure for new store openings made during the year, including Harvey Nichols Hong Kong and Chengdu Seibu, totalling HK\$177.4 million. The balance of the surplus cash flow was utilised to fund the increase in working capital required for the new store operations.

Together with the substantial increase in amount of dividends paid during the year, which included a special dividend of HK\$129.8 million, the Group's year end cash balances stood at HK\$571.9 million. After deducting bank borrowings of HK\$65.4 million, the Group's net surplus cash position as at 31st March, 2006 was HK\$506.5 million.

The Group maintains substantial uncommitted short-term loan facilities with its relationship banks for day-to-day requirements and funding flexibility. However, given the surplus cash position and cash flow, material utilisation of these facilities is not anticipated.

Funding of capital expenditure on planned new store openings in the coming financial year will be met out of operational cash flow.

### ***Foreign Currency Exposure and Financial Management***

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. Foreign exchange contracts or currency purchases are strictly limited to approved purchase budget amounts or commitments made.

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. Thus, the Group's outstanding bank borrowings comprised short-term bank loans drawn in New Taiwan Dollars, Singapore Dollars and Japanese Yen 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 and Hong Kong Dollars with the majority placed on short-term time deposits with international financial institutions, providing access to such funds at short notice in the event any appropriate investment opportunity arises.

As at 31st March, 2006, the Group's current ratio, being current assets divided by current liabilities, was 2.5 times. The Group has maintained a net surplus cash position throughout the year. Thus, its gearing ratio, being total bank borrowings net of cash balances as a percentage of consolidated capital and reserves is nil.

### ***Financial Summary***

The results, assets and liabilities of the Group for the last five years are summarised on page 83.

### ***Major Customers and Suppliers***

During the year, the Group sold less than 30 per cent. of its goods and services to its five largest customers.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows :-

The largest supplier	12 per cent.
Five largest suppliers combined	37 per cent.

### ***Directors***

The directors during the year were :-

Dickson Poon	(Group executive chairman)
Raymond Lee	(Deputy chairman and chief executive officer)
Chan Tsang Wing, Nelson	(Executive director)
Ching Sau Hong, Kevin	(Executive director)
Edwin Ing	(Executive director)
Ng Chan Lam	(Executive director)
Walter Josef Wuest	(Executive director)
Bhanusak Asvaintra	(Independent non-executive director)
Nicholas Peter Etches	(Independent non-executive director)
Christopher Patrick Langley, OBE	(Independent non-executive director)

Mr. Ching Sau Hong, Kevin has tendered his resignation as an Executive Director of the Company with effect from 1st July, 2006 and the same was disclosed in the announcement of the Company dated 28th April, 2006.

In accordance with bye-law 111(A) of the Company's new Bye-laws, Mr. Chan Tsang Wing, Nelson, Mr. Edwin Ing and Mr. Christopher Patrick Langley, OBE retire and, being eligible, offer themselves for re-election. None of the directors offering themselves for re-election has a service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### ***Directors' Biographies***

#### **Dr. Dickson Poon** *(Group executive chairman)*

Dr. Poon, aged 50, is the founder and a substantial shareholder of the Group. He established the Dickson Group in 1980 and was appointed an Executive Director in 1991 and has been the Group Executive Chairman since 1992. Dr. Poon provides leadership for the Board of Directors and ensures that the Board of Directors discharges its responsibilities effectively and efficiently. The relationship between Dr. Poon and Dickson Investment Holding Corporation which has a notifiable interest in the Company under the provisions of the Securities and Futures Ordinance ("the SFO") is mentioned in the Directors' Interests and Substantial Shareholders and Others sections of this report.

#### **Mr. Raymond Lee** *(Deputy chairman and chief executive officer)*

Mr. Lee, aged 56, joined the Group in 1992 as an Executive Director. He was appointed the Deputy Chairman in 2000 and the Chief Executive Officer in 2005. He is a Fellow of The Institute of Chartered Accountants in England and Wales, and prior to joining the Group, held a senior position with a major international financial institution. Mr. Lee is a qualified accountant as prescribed under the Listing Rules and provides leadership for the management of the Group to implement the strategies and oversee the realisation of the objectives set by the Board of Directors.

#### **Mr. Chan Tsang Wing, Nelson** *(Executive director)*

Mr. Chan, aged 50, was appointed an Executive Director in 2000. He is a Fellow of The Institute of Chartered Accountants in England and Wales, and was previously chief executive of a major international trading group.

#### **Mr. Ching Sau Hong, Kevin** *(Executive director)*

Mr. Ching, aged 49, joined the Group in 1993 and was appointed an Executive Director in 1994. A qualified solicitor, he was previously a partner and chief representative in China for one of the largest law firms in Hong Kong.

#### **Mr. Edwin Ing** *(Executive director)*

Mr. Ing, aged 45, joined the Group in 1987 as Company Secretary and was appointed an Executive Director in 1992. A graduate of the University of Birmingham, England, he is a Fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

#### **Mr. Ng Chan Lam** *(Executive director)*

Mr. Ng, aged 57, joined the Group in 1988 and was appointed an Executive Director in 1994. A graduate of a university in Montreal, Canada, he acquired extensive trading and administrative experience prior to joining the Group.

**Mr. Walter Josef Wuest** (*Executive director*)

Mr. Wuest, aged 66, joined the Group in 1983 and has been an Executive Director since flotation in 1986. Prior to joining the Group, he acquired extensive experience in the international merchandising and marketing of watches.

**Mr. Bhanusak Asvaintra** (*Independent non-executive director*)

Mr. Asvaintra, aged 61, was appointed an Independent Non-Executive Director in September 2004. A graduate of the University of Pennsylvania and the University of Chicago, he held senior executive positions with the Chase Manhattan Bank group in New York, Hong Kong and Singapore in the 1970s. Mr. Asvaintra joined the Charoen Pokphand group of companies in 1980 and retired as its chief executive officer in 1998.

**Mr. Nicholas Peter Etches** (*Independent non-executive director*)

Mr. Etches, aged 58, was appointed an Independent Non-Executive Director in June 2004. He has over 34 years auditing experience with clients in a range of industries, also specialising in the fields of banking and finance as well as insolvency and corporate recovery practice. He is a Fellow of The Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants of which he was the President in 1995. Mr. Etches joined one of the leading international accounting firms in London in 1967, transferred to the firm's Hong Kong office in 1975 and became a partner in 1978 until his retirement in 2002.

**Mr. Christopher Patrick Langley, OBE** (*Independent non-executive director*)

Mr. Langley, aged 61, was appointed an Independent Non-Executive Director in November 2002. He was formerly an executive director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Langley holds directorships in a number of publicly listed companies and maintains close ties with the business community in Hong Kong.

### ***Directors' Interests***

As at 31st March, 2006, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("the Directors' Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") were as follows :-

#### **Dickson Concepts (International) Limited**

<b>Name of Director</b>	<b>Capacity</b>	<b>Ordinary shares of HK\$0.30 each</b>				<b>Total</b>	<b>Percentage (ii)</b>
		<b>Personal Interests</b>	<b>Family Interests</b>	<b>Corporate Interests</b>	<b>Other Interests</b>		
Dickson Poon	Beneficial owner and trust founder	14,040	—	—	149,395,699 (i)	149,409,739	48.15
Edwin Ing	Beneficial owner	26,620	—	—	—	26,620	0.0086
Walter Josef Wuest	Beneficial owner	13,097,618	—	—	—	13,097,618	4.22

*Note :-*

- (i) These shares are held through two trusts.
- (ii) Percentage which the aggregate long position in shares represents to the issued share capital of the Company.

In addition, Dr. Dickson Poon is deemed to be interested in the share capital of all of the subsidiary and associated companies of the Company by virtue of his interest in the Company.

Save as referred to above, as at 31st March, 2006, none of the directors had any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Directors' Model Code.

Except as disclosed in the Connected Transactions section of this report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiary companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

As at 31st March, 2006, no share options had been granted to the directors of the Company under the Share Option Scheme which was adopted on 26th August, 2003.

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party to any arrangements to enable the directors of the Company or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### ***Substantial Shareholders And Others***

As at 31st March, 2006, the interests and short positions of the persons (other than the directors) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows :-

#### **Dickson Concepts (International) Limited**

<b>Name of shareholder</b>	<b>Ordinary shares of HK\$0.30 each</b>	<b>Percentage (iii)</b>	<b>Capacity</b>
Yu Kwai Chu, Pearl	149,409,739 (i)	48.15	Interest of spouse
Dickson Investment Holding Corporation ("DIHC")	149,395,699 (ii)	48.14	Trustee
Paicolex Trust Company (BVI) Limited ("Paicolex BVI")	149,395,699 (ii)	48.14	Trustee
Paicolex Trust Management AG ("Paicolex AG")	149,395,699 (ii)	48.14	Trustee
Matthews International Capital Management, LLC	21,738,400	7.01	Investment Manager
Invesco Hong Kong Limited	15,592,075	5.02	Investment Manager

*Note :-*

- (i) These shares refer to the family interest attributable to Dr. Dickson Poon, the spouse of Ms. Pearl Yu.
- (ii) These shares refer to the same block of shares. DIHC, Paicolex BVI and Paicolex AG are trustees of two trusts. These shares are also included in the 149,395,699 shares which were disclosed as "Other Interests" of Dr. Dickson Poon in the Directors' Interests section of this report.
- (iii) Percentage which the aggregate long position in shares represents to the issued share capital of the Company.

Save as aforesaid and as disclosed in the Directors' Interests section of this report, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 31st March, 2006 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

### *Connected Transactions*

1. During the year, the Group has on an on-going basis conducted transactions with the ST Dupont Group (i.e. S.T. Dupont S.A., a company incorporated in France with limited liability, the shares of which are listed on the Paris Bourse in France and which is owned as to 55.52 per cent. of its issued share capital by a trust established for the benefit of members of Dr. Dickson Poon's family, together with its subsidiary companies, which are principally engaged in the manufacture and distribution of luxury lighters, writing instruments, leather goods, accessories, ready-to-wear clothing, watches and fragrances under the brand name of "S.T. Dupont") on normal commercial terms and in the ordinary and usual course of business of the Group, details of which are set out as follows :-
  - (a) On 27th March, 2006, Dickson Concepts Limited ("DCL"), a member of the Group, as seller and S.T. Dupont Marketing Limited ("STDM"), a member of the ST Dupont Group, as purchaser entered into and renewed a merchandise sale and purchase agreement ("the Agreement No. 1") regarding the sales of certain merchandise by the Group to the ST Dupont Group including, but not limited to, luxury lighters, writing instruments, leather goods, accessories, ready-to-wear clothing, watches as well as fragrances under the brand name of "S.T. Dupont" or names of product lines under "S.T. Dupont" (for that merchandise manufactured in the People's Republic of China ("PRC") only) for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The selling prices of the merchandise are at or above the Group's purchase cost of the merchandise, due upon shipment of the merchandise and to be settled in cash with a credit period of up to 60 days. The maximum annual cap receivable by the Group for the sales of merchandise to the ST Dupont Group under the Agreement No. 1 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$14,061,000, HK\$18,280,000 and HK\$23,764,000 respectively. The sales of merchandise by the Group to the ST Dupont Group during the year was HK\$7,049,000.
  - (b) On 27th March, 2006, STDM, a member of the ST Dupont Group, as seller and DCL, a member of the Group, as purchaser entered into and renewed a merchandise sale and purchase agreement ("the Agreement No. 2") regarding the purchases of certain merchandise by the Group from the ST Dupont Group including, but not limited to, luxury lighters, writing instruments, leather goods, accessories, ready-to-wear clothing, watches as well as fragrances under the brand name of "S.T. Dupont" or names of product lines under "S.T. Dupont" (for that merchandise manufactured outside the PRC only) for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The purchase prices of the merchandise are at the standard wholesale prices as set by the ST Dupont Group, due upon shipment of the merchandise and to be settled in cash with a credit period of up to 60 days. The maximum annual cap payable by the Group for the purchases of merchandise from the ST Dupont Group under the Agreement No. 2 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$15,223,000, HK\$19,790,000 and HK\$25,727,000 respectively. The purchases of merchandise by the Group from the ST Dupont Group during the year was HK\$8,979,000.
  - (c) On 27th March, 2006, S.T. Dupont Japan K.K., a member of the ST Dupont Group, as service provider and D Marketing Japan K.K. ("DMJKK"), a member of the Group, as service receiver entered into and renewed a management agreement ("the Agreement No. 3") regarding the provision of various specialised services by the ST Dupont Group to the Group, including specialised knowledge, resources and data pertaining to the managing, marketing and sale of watches in Japan for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The management fee payable by the Group is equal to the initial amount of 1 per cent. of annual turnover of DMJKK, excluding value added tax, plus 20 per cent. of its annual pre-tax profit, with a maximum of 20 million Yen (approximately HK\$1.32 million) and this management

fee shall be payable on a yearly basis with a credit period of up to 45 days. The maximum annual cap payable by the Group for the receipt of the management services from the ST Dupont Group under the Agreement No. 3 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$121,000, HK\$158,000 and HK\$206,000 respectively. The management fees paid by the Group to the ST Dupont Group in respect of the receipt of the management services from the ST Dupont Group during the year was HK\$71,000.

- (d) On 27th March, 2006, DCL, a member of the Group, as service provider and STDM, a member of the ST Dupont Group, as service receiver entered into and renewed a services agreement (“the Agreement No. 4a”) together with an agreement on personnel (“the Agreement No. 4b”) regarding the provision of certain management and supporting services by the Group to the ST Dupont Group including office and warehouse space, stock management services, centralised administrative and supporting functions including management, stock control and information technology for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. Moreover, pursuant to the Agreement No. 4b, the salaries of employees in charge of marketing and selling of products provided by the ST Dupont Group and the Group and supervising exclusive S.T. Dupont boutiques in the PRC to be shared between the Group and the ST Dupont Group. The service fee payable by the ST Dupont Group is calculated on a cost and/or cost plus (as may be required by the relevant tax or other rulings or regulations) allocation basis and this service fee shall be payable on a monthly basis with a credit period of up to 30 days. The maximum annual cap receivable by the Group for the provision of management and supporting services to the ST Dupont Group under the Agreements Nos. 4a and 4b for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$11,832,000, HK\$15,382,000 and HK\$19,997,000 respectively. The service fees received by the Group from the ST Dupont Group in respect of the provision of the management and supporting services to the ST Dupont Group during the year was HK\$6,013,000.
- (e) On 27th March, 2006, Dickson Interior Design Limited, a member of the Group, as service provider and STDM, a member of the ST Dupont Group, as service receiver entered into and renewed an interior design services agreement (“the Agreement No. 5”) regarding the provision of interior design services by the Group to the ST Dupont Group relating to its retail outlets and sales corners for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The interior design service fee payable by the ST Dupont Group is charged at a rate of 10 per cent. of the total contract sum for the building and fitting out of any of its freestanding boutiques, department store corners and retail outlets and this interior design service fee shall be payable on a contract phase completion basis with a credit period of up to 30 days. The maximum annual cap receivable by the Group for the provision of interior design services to the ST Dupont Group under the Agreement No. 5 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$875,000, HK\$1,138,000 and HK\$1,480,000 respectively. The service fees received by the Group from the ST Dupont Group in respect of the provision of interior design services to the ST Dupont Group during the year was HK\$78,000.
- (f) On 21st August, 2003, Hong Kong Seibu Enterprise Company Limited (“HK Seibu”), a member of the Group, as grantor and STDM, a member of the ST Dupont Group, as licensee entered into a purchase and sale operation agreement (“the Old Agreement No. 6”) regarding the licensing of a sales corner by the Group to the ST Dupont Group in the Group’s department store at Pacific Place, 88 Queensway, Hong Kong (“Pacific Place Seibu Store”) with a total retailing area of about 570 sq. ft. for a period of two years commencing from 2nd April, 2003 and ending on 1st April, 2005. The licence fee payable by the ST Dupont Group is based on a certain percentage of the monthly sales made at this sales corner. The licence fees received by the Group from the ST Dupont Group in respect of the licensing of the sales corner under the Old Agreement No. 6 during the year was HK\$1,000.

On 27th October, 2005, the Old Agreement No. 6 was renewed and a new licence agreement (“the Agreement No. 6”) was entered into due to relocation of the sales corner to another sales corner in Pacific Place Seibu Store with a total retailing area of about 762 sq. ft. for a period of two years commencing from 2nd April, 2005 and ending on 1st April, 2007. The licence fee payable by the ST Dupont Group is based on a certain percentage of the monthly sales made at this sales corner but subject to a minimum monthly licence fee of HK\$175,260, to be paid in cash within 20 days from the end of each month in arrears. The maximum annual cap received/receivable by the Group for the licensing of the sales corner under the Agreement No. 6 for each of the financial years ended/ending 31st March, 2006, 31st March, 2007 and 31st March, 2008 was/will be HK\$3,111,400, HK\$4,667,000 and HK\$12,800 respectively. The licence fees received by the Group from the ST Dupont Group in respect of the licensing of the sales corner under the Agreement No. 6 during the year was HK\$2,296,000.

- (g) On 27th March, 2006, STDM, a member of the ST Dupont Group, as licensor and Bondwood Investments Limited, a member of the Group, as licensee entered into and renewed a sublicense agreement (“the Agreement No. 7”) regarding the payment of sublicense fees by the Group to the ST Dupont Group on the S.T. Dupont products which the Group distributes in the PRC (excluding Hong Kong) in the capacity as both wholesaler and retailer for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The sublicense fees are calculated based on certain percentages on each of the wholesale and retail turnover (excluding sales of imported products purchased from the ST Dupont Group) of S.T. Dupont products per year and the sublicense fees shall be payable on a quarterly basis with a credit period of up to 45 days. The maximum annual cap payable by the Group for the payment of the sublicense fees under the Agreement No. 7 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$31,669,000, HK\$37,370,000 and HK\$44,097,000 respectively. The sublicense fees paid by the Group to the ST Dupont Group in respect of the distribution of S.T. Dupont products by the Group in the PRC (excluding Hong Kong) during the year was HK\$16,913,000.
- (h) On 3rd February, 2005, HK Seibu, a member of the Group, as grantor and STDM, a member of the ST Dupont Group, as licensee entered into a licence agreement (“the Agreement No. 8”) regarding the licensing of a sales corner by the Group to the ST Dupont Group in the Group’s department store at Langham Place, 8 Argyle Street, Kowloon, Hong Kong (“Langham Place Seibu Store”) with a total retailing area of about 328 sq. ft. for a period of two years commencing from 1st November, 2004 and ending on 31st October, 2006. The licence fee payable by the ST Dupont Group is based on a certain percentage of the monthly sales made at the sales corner but subject to a minimum monthly licence fee of HK\$82,000 while the fixture fee payable by the ST Dupont Group is HK\$6,600 per month, both to be paid in cash within 20 days from the end of each month in arrears. The maximum annual caps (including licence fees and fixture fees) received/receivable by the Group for the licensing of the sales corner under the Agreement No. 8 for each of the financial years ended/ending 31st March, 2006 and 31st March, 2007 was/will be HK\$1,209,200 and HK\$838,700 respectively. The licence fees and fixture fees received by the Group from the ST Dupont Group in respect of the licensing of the sales corner under the Agreement No. 8 during the year was HK\$941,000. The Agreement No. 8 early terminated on 15th February, 2006 due to closure of that sales corner in Langham Place Seibu Store.

2. During the year, the Group has on an on-going basis conducted transactions with the Artland Group (i.e. Artland Watch Company Limited (“Artland”) and Precision Watch Company Limited (“Precision”), both companies are indirectly wholly-owned by Dr. Dickson Poon, together with their subsidiary companies, which are principally engaged in the sale of watches, jewellery and fashion products in Hong Kong and the PRC) on normal commercial terms and in the ordinary and usual course of business of the Group, details of which are set out as follows :-
- (a) On 27th March, 2006, Castlereagh Limited, a member of the Group, as seller and Artland and Precision, both are members of the Artland Group, as purchasers entered into and renewed a merchandise sale and purchase agreement (“the Agreement No. 9”) regarding the sales of certain merchandise by the Group to the Artland Group including, but not limited to, certain prestigious branded watches, timepieces and jewellery under various prestigious international brand names for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The selling prices of the merchandise are equal to the retail prices less normal trade discounts, due upon shipment of the merchandise and to be settled in cash with a credit period of up to 90 days. The maximum annual cap receivable by the Group for the sales of merchandise to the Artland Group under the Agreement No. 9 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$12,933,000, HK\$16,813,000 and HK\$21,857,000 respectively. The sales of merchandise by the Group to the Artland Group during the year was HK\$3,912,000.
  - (b) On 27th March, 2006, Artland and Precision, both are members of the Artland Group, as sellers and DCL, a member of the Group, as purchaser entered into and renewed a merchandise sale and purchase agreement (“the Agreement No. 10”) regarding the purchases of certain merchandise by the Group from the Artland Group including, but not limited to, certain prestigious branded watches, timepieces and jewellery under various prestigious international brand names for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The purchase prices of the merchandise are equal to the retail prices less normal trade discounts, due upon shipment of the merchandise and to be settled in cash with a credit period of up to 30 days. The maximum annual cap payable by the Group for the purchases of merchandise from the Artland Group under the Agreement No. 10 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$9,743,000, HK\$12,666,000 and HK\$16,466,000 respectively. The purchases of merchandise by the Group from the Artland Group during the year was HK\$1,559,000.
  - (c) On 3rd February, 2005, HK Seibu, a member of the Group, as grantor and Precision, a member of the Artland Group, as licensee entered into a licence agreement (“the Old Agreement No. 11”) regarding the licensing of a sales corner by the Group to the Artland Group in Pacific Place Seibu Store with a total retailing area of about 616 sq. ft. for a period of three years commencing from 12th September, 2004 and ending on 11th September, 2007 at a monthly licence fee of HK\$270,080, to be paid in cash within 20 days from the end of each month in arrears. The maximum annual cap received/receivable by the Group for the licensing of the sales corner under the Old Agreement No. 11 for each of the financial years ended/ending 31st March, 2006, 31st March, 2007 and 31st March, 2008 was/will be HK\$3,240,960, HK\$3,240,960 and HK\$1,449,429 respectively. The licence fees received by the Group from the Artland Group in respect of the licensing of the sales corner under the Old Agreement No. 11 during the year was HK\$3,215,000.

On 27th March, 2006, a new licence agreement (“the Agreement No. 11”) was entered into which superseded the Old Agreement No. 11 due to the expansion of the retailing areas of that sales corner in Pacific Place Seibu Store with a total retailing area expanded to about 847 sq. ft. for one year four months and twenty-nine days commencing from

13th April, 2006 and ending on 11th September, 2007 at a monthly licence fee of HK\$396,880, to be paid in cash within 20 days from the end of each month in arrears. The maximum annual cap receivable by the Group for the licensing of the sales corner under the Agreement No. 11 for each of the financial years ending 31st March, 2007 and 31st March, 2008 will be HK\$4,604,000 and HK\$2,130,000 respectively.

- (d) On 3rd February, 2005, HK Seibu, a member of the Group, as grantor and Top Creation Limited (“Top Creation”), a member of the Artland Group, as licensee entered into a licence agreement (“the Agreement No. 12”) regarding the licensing of a sales corner by the Group to the Artland Group in Pacific Place Seibu Store with a total retailing area of about 760 sq. ft. for a period of two years and five months commencing from 15th August, 2004 and ending on 14th January, 2007. The licence fee payable by the Artland Group (i) for the five months commencing from 15th August, 2004 is based on certain percentages of the monthly sales made at the sales corner; and (ii) for the two years commencing from 15th January, 2005 is based on a certain percentage of the monthly sales made at the sales corner but subject to a minimum monthly licence fee of HK\$154,050, both to be paid in cash within 20 days from the end of each month in arrears. The maximum annual cap received/receivable by the Group for the licensing of the sales corner under the Agreement No. 12 for each of the financial years ended/ending 31st March, 2006 and 31st March, 2007 was/will be HK\$1,848,600 and HK\$1,682,355 respectively. The licence fees received by the Group from the Artland Group in respect of the licensing of the sales corner under the Agreement No. 12 during the year was HK\$1,848,600.
- (e) On 21st August, 2003, HK Seibu, a member of the Group, as grantor and Top Creation, a member of the Artland Group, as licensee entered into a licence agreement (“the Agreement No. 13”) regarding the licensing of a sales corner by the Group to the Artland Group in Pacific Place Seibu Store with a total retailing area of about 1,064 sq. ft. for a period of two years commencing from 10th August, 2003 and ending on 9th August, 2005. The licence fee payable by the Artland Group is based on a certain percentage of the monthly sales made at the sales corner but subject to a minimum monthly licence fee of HK\$159,600. The licence fees received by the Group from the Artland Group in respect of the licensing of the sales corner under the Agreement No. 13 during the year was HK\$923,000. The Agreement No. 13 expired on 9th August, 2005.
- (f) On 3rd February, 2005, HK Seibu, a member of the Group, as grantor and Tommy Hilfiger Marketing Limited, a member of the Artland Group, as licensee entered into a licence agreement (“the Agreement No. 14”) regarding the licensing of a sales corner by the Group to the Artland Group in Langham Place Seibu Store with a total retailing area of about 337 sq. ft. for a period of two years commencing from 1st November, 2004 and ending on 31st October, 2006. The licence fee payable by the Artland Group is based on a certain percentage of the monthly sales made at the sales corner but subject to a minimum monthly licence fee of HK\$84,250 while the monthly fixture fee payable by the Artland Group is HK\$9,000, both to be paid in cash within 20 days from the end of each month in arrears. The maximum annual cap (including licence fees and fixture fees) received/receivable by the Group for licensing of the sales corner under the Agreement No. 14 for each of the financial years ended/ending 31st March, 2006 and 31st March, 2007 was/will be HK\$1,119,000 and HK\$689,250 respectively. The licence fee and fixture fee received by the Group from the Artland Group in respect of the licensing of the sales corner under the Agreement No. 14 during the year was HK\$1,119,000.
- (g) On 27th October, 2005, HK Seibu, a member of the Group, as grantor and Top Creation, a member of the Artland Group, as licensee entered into a licence agreement (“the Agreement No. 15”) regarding the licensing of a sales corner by the Group to the Artland Group in Pacific Place Seibu Store with a total retailing area of about 890 sq. ft. for a period of two years commencing from 19th September, 2005 and ending on 18th September, 2007. The licence

fee payable by the Artland Group is based on a certain percentage of the monthly sales made at the sales corner but subject to a minimum monthly licence fee of HK\$195,800, to be paid in cash within 20 days from the end of each month in arrears. The maximum annual cap received/receivable by the Group for licensing of the sales corner under the Agreement No. 15 for each of the financial years ended/ending 31st March, 2006, 31st March, 2007 and 31st March, 2008 was/will be HK\$1,967,500, HK\$3,718,500 and HK\$2,603,000 respectively. The licence fees received by the Group from the Artland Group in respect of the licensing of the sales corner under the Agreement No. 15 during the year was HK\$1,191,000.

(h) On 27th October, 2005, HK Seibu, a member of the Group, as grantor and Top Creation, a member of the Artland Group, as licensee entered into a licence agreement (“the Agreement No. 16”) regarding the licensing of a sales corner by the Group to the Artland Group in Pacific Place Seibu Store with a total retailing area of about 780 sq. ft. for a period of two years commencing from 14th September, 2005 and ending on 13th September, 2007. The licence fee payable by the Artland Group is based on a certain percentage of the monthly sales made at the sales corner but subject to a minimum monthly licence fee of HK\$117,000, to be paid in cash within 20 days from the end of each month in arrears. The maximum annual cap received/receivable by the Group for licensing of the sales corner under the Agreement No. 16 for each of the financial years ended/ending 31st March, 2006, 31st March, 2007 and 31st March, 2008 was/will be HK\$1,512,500, HK\$2,599,500 and HK\$1,765,500 respectively. The licence fees received by the Group from the Artland Group in respect of the licensing of the sales corner under the Agreement No. 16 during the year was HK\$786,000.

3. During the year, the Group has on an on-going basis conducted transactions with Dickson Communications Limited (“Dickson Communications”) (which is indirectly wholly-owned by Dr. Dickson Poon and is principally engaged in the provision of advertising and promotion services) on normal commercial terms and in the ordinary and usual course of business of the Group, details of which are set out as follows :-

On 27th March, 2006, Dickson Communications as service provider and DCL, a member of the Group, as service receiver entered into and renewed a service agreement (“the Agreement No. 17”) regarding the provision of advertising and promotion services by Dickson Communications to the Group for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The Group pays a monthly retainer fee and a handling service fee at a rate of 10 per cent. of the media or other costs incurred and paid by the Group to any third party media specialists, agents or independent contractors in connection with the provision of these services to the Group and this handling service fee shall be payable on a monthly basis with a credit period of up to 30 days. The maximum annual cap payable by the Group for the receipt of the advertising and promotion services from Dickson Communications under the Agreement No. 17 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$17,958,000, HK\$26,937,000 and HK\$40,406,000 respectively. The amount of the retainer fees and the handling service fees paid by the Group in respect of the receipt of advertising and promotion services from Dickson Communications during the year was HK\$9,366,000.

4. During the year, the Group has on an on-going basis conducted transactions with the DTG Group (i.e. Dickson Trading (S) Pte Ltd (“Dickson Trading (S)”), which is indirectly wholly-owned by Dr. Dickson Poon and is principally engaged in the importing, exporting, sale of fashion consumer goods and investment holding, together with its group companies, which are also engaged in the provision of management and supporting services) on normal commercial terms and in the ordinary and usual course of business of the Group, details of which are set out as follows :-

(a) On 25th April, 2005, Dickson Concepts (Wholesale) Limited, a member of the Group, as seller and Dickson Trading (S), a member of the DTG Group, as purchaser entered into a merchandise sale and purchase agreement (“the Agreement

No. 18”) regarding the wholesales of certain merchandise of different brand names by the Group to the DTG Group including apparel, accessories and watches, of which the Group owns the distribution rights of the respective merchandise in Asia, for a period of three years commencing from 1st April, 2005 and ending on 31st March, 2008. The selling prices of the merchandise will be the standard wholesale prices or with a trade discount ranging from 5 per cent. to 10 per cent., due upon shipment of the merchandise and to be settled in cash with a credit period of up to 60 days. The maximum annual cap received/receivable by the Group for the wholesales of merchandise to the DTG Group under the Agreement No. 18 for each of the financial years ended/ending 31st March, 2006, 31st March, 2007 and 31st March, 2008 was/will be HK\$102,000,000, HK\$120,000,000 and HK\$157,000,000 respectively. The Agreement No. 18 and the annual caps in relation thereto were approved by the independent shareholders (i.e. shareholders of the Company, other than Dr. Dickson Poon and his associates (has the meaning ascribed under the Listing Rules)) of the Company at the special general meeting held on 6th June, 2005. The wholesales of merchandise by the Group to the DTG Group during the year was HK\$70,492,000.

- (b) On 27th March, 2006, Dickson Trading (S), a member of the DTG Group, as seller and Dickson Stores Pte Ltd (“Dickson Stores”), a member of the Group, as purchaser entered into and renewed a merchandise sale and purchase agreement (“the Agreement No. 19”) regarding the purchases of certain merchandise by the Group from the DTG Group including, but not limited to, certain watches and leather goods under various international brand names for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The purchase prices of the merchandise are equal to the standard wholesale prices, due upon shipment of the merchandise and to be settled in cash with a credit period of up to 30 days. The maximum annual cap payable by the Group for the purchases of merchandise from the DTG Group under the Agreement No. 19 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$805,000, HK\$1,007,000 and HK\$1,259,000 respectively. The purchases of merchandise by the Group from the DTG Group during the year was HK\$263,000.
- (c) On 27th March, 2006, Dickson Trading (S), a member of the DTG Group, as service provider and Dickson Stores, a member of the Group, as service receiver entered into and renewed a services agreement (“the Agreement No. 20”) regarding the provision of certain management and supporting services by the DTG Group to the Group’s Singapore retail shops including maintenance of accounting records and management supervision for a period of not exceeding three years commencing from 1st April, 2006 and ending on 31st March, 2009 in compliance with Rule 14A.35 of the Listing Rules. The service fee payable by the Group is based on the overhead costs incurred by the DTG Group in providing these services on a cost recovery basis to the Group and this service fee shall be payable on a monthly basis with no credit period. The maximum annual cap payable by the Group for the receipt of management and supporting services from the DTG Group under the Agreement No. 20 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$6,858,000, HK\$8,916,000 and HK\$11,591,000 respectively. The service fees paid by the Group to the DTG Group in respect of the receipt of management and supporting services from the DTG Group during the year was HK\$1,250,000.
- (d) On 3rd February, 2005, Dickson Investment (Singapore) Pte. Ltd., a member of the DTG Group, as lessor and Dickson Stores, a member of the Group, as lessee entered into a lease agreement (“the Agreement No. 21”) regarding the leasing of a shop space by the DTG Group to the Group in a shopping mall at #01-05/06, Centrepoint, No. 176 Orchard Road, Singapore with a total retailing area of about 689 sq. ft. for a period of two years commencing from 1st November, 2004 and ending on 31st October, 2006. The monthly rental payable by the Group for the first year is S\$27,560 (approximately HK\$132,000) and for the second year is S\$31,005 (approximately HK\$149,000), to be paid in cash on the first day of each month in advance. The maximum annual cap paid/payable by the Group for the leasing of the shop space under the Agreement No. 21 for each of the financial years ended/ending 31st March, 2006 and 31st March, 2007 was/will be about HK\$1,660,392 and HK\$1,035,692 respectively. The rental paid by the Group to the DTG Group in respect of the leasing of the shop space under the Agreement No. 21 during the year was HK\$1,627,000.

In connection with the above continuing connected transactions, (i) the maximum aggregate annual cap payable by the Group for the receipt of the management and/or supporting services from the ST Dupont Group and the DTG Group under the Agreements Nos. 3 and 20 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$6,979,000, HK\$9,074,000 and HK\$11,797,000 respectively; (ii) the maximum aggregate annual cap receivable by the Group for the provision of management and supporting services and/or interior design services to the ST Dupont Group under the Agreements Nos. 4a, 4b and 5 for each of the financial years ending 31st March, 2007, 31st March, 2008 and 31st March, 2009 will be HK\$12,707,000, HK\$16,520,000 and HK\$21,477,000 respectively; and (iii) the maximum aggregate annual caps receivable by the Group for the licensing of properties to the ST Dupont Group and the Artland Group under the Agreements Nos. 6, 11, 15 and 16 for each of the financial years ending 31st March, 2007 and 31st March, 2008 will be HK\$15,589,000 and HK\$6,511,300 respectively.

The above continuing connected transactions have been reviewed by the directors of the Company (including the independent non-executive directors). The independent non-executive directors of the Company have confirmed that during the year the above continuing connected transactions have been entered into :-

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or, where there is no available comparison, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The above continuing connected transactions have also been reviewed by the auditors of the Company who have confirmed that during the year the above continuing connected transactions :-

- (i) have received the approval of the Company's Board of Directors;
- (ii) are in accordance with the pricing policies of the Company;
- (iii) have been entered into in accordance with the relevant agreement governing them; and
- (iv) have not exceeded the caps as stated above.

### ***Director's Interest in Competing Business***

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules :-

1. Mr. Walter Josef Wuest, an executive director of the Company, is a member of the supervisory board of S.T. Dupont S.A. and is deemed to have an interest in S.T. Dupont S.A. under Rule 8.10 of the Listing Rules.

Certain subsidiary companies of S.T. Dupont S.A. carry on the sale of S.T. Dupont products in Hong Kong, China, Taiwan, Singapore and Malaysia and are deemed as competing with the wholesale and retail businesses of the Group. However, the S.T. Dupont brand is targeted at its own specific customer base which is attracted by its unique history and exclusive product range. Given the distinct features of the S.T. Dupont brand, the Group considers that its interests are adequately safeguarded. The day-to-day operations of the Group and the ST Dupont Group are managed by two distinct management teams based in Hong Kong and France respectively except for Mr. Walter Josef Wuest who as aforementioned is one of the three supervisory board members.

In order to further safeguard the interests of the Group, those directors of the Company not interested in this competing business review on a regular basis the businesses and operations of the Group to ensure that its businesses are run on the basis that they are independent of, and at arm's length from, these subsidiary companies of S.T. Dupont S.A..

2. Dr. Dickson Poon is a director of Artland and Precision and the ultimate shareholder of the Artland Group which is engaged in the sale of watches, jewellery and fashion products in Hong Kong, Taiwan and China. These businesses are deemed as competing with the wholesale and retail businesses of the Group. However, the Artland Group targets its own specific customer base which is attracted by its unique history, reputation and image. Given the distinct features of the Artland Group's customer base, the Group considers that its interests are adequately safeguarded. The day-to-day operations of the Group and the Artland Group are managed by two distinct management teams except for Dr. Dickson Poon who as aforementioned is one of the four board members of Artland and one of the five board members of Precision.

In order to further safeguard the interests of the Group, those directors of the Company not interested in this competing business review on a regular basis the businesses and operations of the Group to ensure that its businesses are run on the basis that they are independent of, and at arm's length from, the Artland Group.

### ***Public Float***

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed amount of public float as required under the Listing Rules at all times up to the date of this report.

### ***Corporate Governance***

The Company is committed to maintaining high standards of corporate governance. During the year, save as previously disclosed in the Company's latest Interim Report for the six months ended 30th September, 2005, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. Detailed information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 32 to 37.

### ***Auditors***

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board



**Dickson Poon**

*Group Executive Chairman*

Hong Kong, 28th June, 2006