

## NOTES ON THE INTERIM ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES

#### **Basis of preparation**

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same principal accounting policies adopted in the 2006 annual accounts except for the accounting policy on intangible asset which has been adopted during the six months ended 30th September, 2006 (Note 7).

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated accounts and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for a full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 17. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

The financial information relating to the financial year ended 31st March, 2006 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31st March, 2006 are available from both the Stock Exchange’s website and the Company’s website. The auditors have expressed an unqualified opinion on those accounts in their report dated 28th June, 2006.

## 2. TURNOVER / SEGMENTAL INFORMATION

Turnover represents the invoiced value of goods sold less discounts and returns, and income from concession and consignment sales.

### Business segment

The Group has a single business segment which is the sale of luxury goods. Accordingly, the segment information for this sole business segment is equivalent to the consolidated figures.

### Geographical segments

In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	For the six months ended 30th September, 2006		At 30/9/2006
	Turnover HK\$'000	Capital expenditure HK\$'000	Total assets HK\$'000
Hong Kong	753,117	8,431	1,206,201
Taiwan	281,875	9,204	431,532
China	173,691	14,739	283,504
Other territories (Mainly Asia)	<u>117,361</u>	<u>1,269</u>	<u>124,654</u>
	<u>1,326,044</u>	<u>33,643</u>	<u>2,045,891</u>
Associated companies			<u>109,846</u>
Total assets			<u>2,155,737</u>
	For the six months ended 30th September, 2005		At 31/3/2006
	Turnover HK\$'000 Restated	Capital expenditure HK\$'000	Total assets HK\$'000
Hong Kong	635,867	99,320	1,043,144
Taiwan	301,555	5,883	390,137
China	127,152	6,469	302,905
Other territories (Mainly Asia)	<u>135,300</u>	<u>284</u>	<u>125,749</u>
	<u>1,199,874</u>	<u>111,956</u>	1,861,935
Associated companies			<u>99,576</u>
Total assets			<u>1,961,511</u>

### 3. PROFIT BEFORE TAXATION

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Profit before taxation is arrived at after charging :-		
Amortisation of intangible asset	4,235	—
Depreciation	41,589	34,138
Interest on bank overdrafts and loans repayable within five years	1,283	595
Share of associated companies' taxation	<u>1,868</u>	<u>696</u>

### 4. TAXATION

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
		Restated
Current tax - Hong Kong		
Provision for the period	<u>170</u>	—
Current tax - Overseas		
Provision for the period	11,049	13,334
Under / (over)-provision in respect of prior years	<u>920</u>	<u>(70)</u>
	<u>11,969</u>	<u>13,264</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(945)</u>	<u>(550)</u>
Total income tax expense	<u>11,194</u>	<u>12,714</u>

Taxation in the consolidated profit and loss account includes provision for Hong Kong Profits Tax at 17.5 per cent. (2005 : 17.5 per cent.) on the estimated assessable profits for the period. Provision for overseas taxation is calculated based on the relevant legislation and on the estimated assessable profits of the individual company concerned.

## 5. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share in the current period is based on the profit attributable to shareholders of the Company of HK\$72,382,000 (2005 : HK\$85,721,000) and the weighted average number of 310,311,338 ordinary shares (2005 : 310,311,338 ordinary shares) in issue during the period.

## 6. DIVIDENDS

	<b>Six months ended 30th September,</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
(a) Interim dividend declared after the interim period end : 13.8 cents (2005 : 13.8 cents) per share	<u><b>42,823</b></u>	<u>42,823</u>
(b) Final dividend in respect of the previous financial year, approved and paid during the interim period, of 27.5 cents (for the year ended 31st March, 2005 : 27.3 cents) per share	<u><b>85,336</b></u>	<u>84,630</u>
(c) Special dividend in respect of the previous financial year, approved and paid during the interim period : Nil (for the year ended 31st March, 2005 : 41.8 cents per share)	<u>—</u>	<u>129,767</u>

## 7. INTANGIBLE ASSET

	HK\$'000
Cost :-	
At 1st April, 2006	—
Acquisition during the period	<u>322,607</u>
At 30th September, 2006	<u>322,607</u>
Accumulated amortisation :-	
At 1st April, 2006	—
Amortisation for the period	<u>4,235</u>
At 30th September, 2006	<u>4,235</u>
Carrying amount :-	
At 30th September, 2006	<u>318,372</u>
At 31st March, 2006	<u>—</u>

On 25th August, 2006, the Group acquired the entire issued capital of Tommy Hilfiger Asia-Pacific Limited together with its branch and subsidiary companies. The intangible asset represents the exclusive distribution rights for Tommy Hilfiger apparel and other approved merchandise in Hong Kong, Taiwan, Singapore, Malaysia, Macau and certain cities in China. This intangible asset is measured at cost less accumulated amortisation and impairment losses. Amortisation of intangible asset is charged to the consolidated profit and loss account on a straight-line basis over its useful life of 7.6 years.

The amortisation charge for the period is included in “Administrative expenses” in the consolidated profit and loss account.

## 8. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors of HK\$112,038,000 (at 31st March, 2006 : HK\$82,811,000) and their age analysis is as follows :-

	<b>30/9/2006</b>	31/3/2006
	<b>HK\$'000</b>	HK\$'000
Current	<b>103,342</b>	73,200
1 to 30 days overdue	<b>6,858</b>	4,390
31 to 60 days overdue	<b>1,019</b>	2,831
Over 60 days overdue	<b>819</b>	2,390
	<u><b>112,038</b></u>	<u>82,811</u>

The Group has a credit policy with terms ranged from 30 days to 90 days.

## 9. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors of HK\$143,992,000 (at 31st March, 2006 : HK\$115,897,000) and their age analysis is as follows :-

	<b>30/9/2006</b>	31/3/2006
	<b>HK\$'000</b>	HK\$'000
Current	<b>122,854</b>	103,807
1 to 30 days overdue	<b>13,238</b>	9,003
31 to 60 days overdue	<b>4,679</b>	2,003
Over 60 days overdue	<b>3,221</b>	1,084
	<u><b>143,992</b></u>	<u>115,897</u>

## 10. SHARE CAPITAL

	<b>30/9/2006</b>		31/3/2006	
	<b>Number</b>	<b>Nominal</b>	Number	Nominal
	<b>of shares</b>	<b>value</b>	of shares	value
	<b>Thousands</b>	<b>HK\$'000</b>	Thousands	HK\$'000
Authorised :-				
Ordinary shares of HK\$0.30 each	<b>404,000</b>	<b>121,200</b>	400,000	120,000
Issued and fully paid :-				
Ordinary shares of HK\$0.30 each				
Balance brought forward	<b>310,311</b>	<b>93,093</b>	282,101	84,630
Bonus issue	—	—	28,210	8,463
Balance carried forward	<b>310,311</b>	<b>93,093</b>	310,311	93,093

*Note :-*

By an ordinary resolution passed at the annual general meeting held on 24th August, 2006, the Company's authorised share capital was increased to HK\$121,200,000 by the creation of 4,000,000 additional ordinary shares of HK\$0.30 each, ranking pari passu in all respects with the then existing issued shares of the Company. On 25th August, 2005, 28,210,121 ordinary shares of HK\$0.30 each were issued by way of a one for ten bonus issue in respect of which an amount of HK\$8,463,000 was applied from retained profits (Note 11).

## 11. RESERVES AND MINORITY INTERESTS

	<b>Reserves attributable to shareholders of the Company HK\$'000</b>	<b>Minority interests HK\$'000</b>	<b>Total HK\$'000</b>
Retained profits			
At 1st April, 2006	1,233,989	13,699	1,247,688
Dividends approved / paid in respect of prior year (Note 6 (b))	(85,336)	—	(85,336)
Profit for the period	72,382	111	72,493
Translation of accounts of overseas subsidiary and associated companies	1,782	108	1,890
Transfer of minority interests to creditors on liquidation of a subsidiary company	<u>—</u>	<u>(8,141)</u>	<u>(8,141)</u>
At 30th September, 2006	<u>1,222,817</u>	<u>5,777</u>	<u>1,228,594</u>
At 1st April, 2005	1,295,186	15,007	1,310,193
Dividends approved / paid in respect of prior year (Notes 6 (b) & 6 (c))	(214,397)	—	(214,397)
Dividends declared / paid in respect of the current year (Note 6 (a))	(42,823)	—	(42,823)
Bonus issue (Note 10)	(8,463)	—	(8,463)
Profit for the year	208,388	328	208,716
Translation of accounts of overseas subsidiary and associated companies	(3,902)	370	(3,532)
Repayment of loan from a minority shareholder	<u>—</u>	<u>(2,006)</u>	<u>(2,006)</u>
At 31st March, 2006	<u>1,233,989</u>	<u>13,699</u>	<u>1,247,688</u>

## 12. MATERIAL RELATED PARTY TRANSACTIONS

The following material transactions with related parties were in the opinion of the Directors carried out in the ordinary and usual course of business and on normal commercial terms :-

(a) Transactions with associated companies :-

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Sales of goods	17,464	13,134
Purchases of goods	7,328	2,741
Management and supporting service fees received	1,083	1,050
Rental paid	1,924	1,581
Rental received	<u>1,080</u>	<u>156</u>

The net amount due from these associated companies at 30th September, 2006 amounted to HK\$12,630,000 (at 31st March, 2006 : HK\$4,839,000).

(b) Transactions with companies in which certain Directors of the Company have a beneficial interest :-

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Sales of goods	36,934	44,470
Purchases of goods	7,515	5,321
Management and supporting service fees paid	405	910
Management and supporting service fees received	4,078	4,862
Rental paid	914	770
Rental received	6,022	5,804
Advertising and promotion service fees paid	1,282	4,012
Commission expenses paid	<u>12,226</u>	<u>10,735</u>

The net amount due from these companies at 30th September, 2006 amounted to HK\$4,392,000 (at 31st March, 2006 net amount due to these companies : HK\$3,060,000).

(c) On 6th July 2006, the Group entered into a conditional sale and purchase agreement with K.S.D.P. (International) Limited, a company wholly and beneficially owned indirectly by a shareholder of the Group, to acquire the entire issued capital of Tommy Hilfiger Asia-Pacific Limited (“THAP”) together with its branch and subsidiary companies for a consideration of HK\$396,000,000. Following the completion of the transaction on 25th August 2006, THAP became a wholly-owned subsidiary company of the Group.



The subsidiary companies acquired during the period ended 30th September, 2006 contributed HK\$42,627,000 to the Group's turnover and a profit (after deducting amortisation of intangible asset) of HK\$4,960,000 to the Group's results for the period between the date of acquisition and the balance sheet date. Had the acquisition been completed on 1st April, 2006, the proforma contribution to the Group's turnover would be HK\$197,856,000 and the proforma contribution to the Group's results (after deducting amortisation of intangible asset) would be HK\$5,573,000 for the period ended 30th September, 2006. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st April, 2006, nor is it intended to be a projection of future results.

### 13. CAPITAL COMMITMENTS

Capital commitments outstanding at 30th September, 2006 and not provided for in the accounts were as follows :-

	<b>30/9/2006</b>	31/3/2006
	<b>HK\$'000</b>	HK\$'000
Contracted for	<b>75,456</b>	12,668
Authorised but not contracted for	<b>324</b>	—
	<b><u>75,780</u></b>	<b><u>12,668</u></b>

### 14. CONTINGENT LIABILITIES

At 30th September, 2006, the Company had the following contingent liabilities in respect of :-

- (a) Guarantees of HK\$949,924,000 (at 31st March, 2006 : HK\$856,876,000) given to banks to secure facilities granted to certain subsidiary companies. The facilities were utilised to the extent of HK\$296,670,000 (at 31st March, 2006 : HK\$174,171,000) at the balance sheet date.
- (b) Guarantees given to licensors to guarantee the performance by certain subsidiary companies of obligations under certain agreements. The amount due under the agreements was HK\$18,979,000 (at 31st March, 2006 : HK\$7,329,000) at the balance sheet date.

## 15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the new presentation as adopted in the 2006 annual accounts :-

- (a) In the 2005-2006 interim financial report, turnover and cost of sales included sales less discounts and returns and associated cost of sales of concession and consigned goods. The Group now follows best industry practice on the interpretation of HKAS 18 “Revenue” with respect to presentation of concession and consignment sales. Accordingly, the value of concession and consignment sales and the associated cost of sales has been excluded from Group turnover and cost of sales respectively, and income from concession and consignment sales has been included within Group turnover. As a result, the turnover and cost of sales for the period ended 30th September, 2005 have both been reduced by HK\$157,049,000 to conform to the new presentation. There has been no impact on the profit and net assets of the Group from the adoption of the new presentation.
  
- (b) In the 2005-2006 interim financial report, the Group’s share of taxation of associated companies accounted for using the equity method was included as part of the Group’s income tax in the consolidated profit and loss account. In accordance with the implementation guidance in HKAS 1, the Group has changed its presentation thereof and has included the share of taxation of associated companies in the share of profits less losses of associated companies reported in the consolidated profit and loss account before arriving at the Group’s profit before taxation. This has resulted in a decrease in “share of profits less losses of associated companies” in the consolidated profit and loss account for the period ended 30th September, 2005 of HK\$696,000 and a corresponding decrease in income tax by the same amount, with no impact on profit after taxation of the Group for the period ended 30th September, 2005.

## 16. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDING 31ST MARCH, 2007

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ending 31st March, 2007 :-

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 7	Financial Instruments : Disclosures	1st January, 2007
Amendment to HKAS 1	Presentation of Financial Statements : Capital Disclosures	1st January, 2007
HK(IFRIC) - Int 8	Scope of HKFRS 2	1st May, 2006
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives	1st June, 2006

The above amendments, new standards and interpretations have not been applied in this interim financial report because the Directors expect that the Group will not apply them early when preparing the Group's annual accounts for the year ending 31st March, 2007.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that their adoption is unlikely to have a significant impact on the Group's results of operations and financial position.