

ARTHUR S.A.

Société Anonyme
Share Capital: 2,682,608 Euros
Registered Office : 176 - 178 rue d'Estienne d'Orves
92700 COLOMBES

NANTERRE Commercial and Companies Register B 389 065 152

**MANAGEMENT REPORT ON BUSINESS ACTIVITIES FOR THE YEAR
ENDED 31ST DECEMBER 2006**

Ladies and Gentlemen,

We have called this Ordinary Annual General Meeting pursuant to the Articles of Association and provisions of the Commercial Code to:

- 1) report to you on the activities of the Company during the year ended 31st December 2006, the results of those activities and future prospects,
- 2) submit the balance sheet and annual accounts for the said year for your approval. These accounts are appended to this report,
- 3) submit the consolidated accounts for the said year for your approval.

The notices of meeting prescribed by law have been properly sent out and all the documentation provided by current legislation has been made available to you within the proper time limits.

POSITION AND BUSINESS ACTIVITIES OF THE COMPANY

Important events occurring during the year:

2006 saw the Group's earnings grow by 2.5%:

- . 2.2% rise in earnings from our shops network,
- . excellent 5.6% increase from our stores and multi-brand network.

The year ended 31st December 2006 was essentially marked by continued substantial medium and long term debt reduction and growth with the opening of two new affiliated points of sale (Cannes and Chambéry).

Our medium term debt was further reduced by € 614,000 over the year, which will be virtually zero by the end of 2008 and our WCR improved by € 449,000, now largely positive. This explains the € 177,000 improvement in our short term cash flow.

It was also marked by the continued restructuring of the Portuguese subsidiary, which is now directly managed by the Spanish subsidiary, as an Iberian subsidiary. This restructuring was accompanied by a fall in revenue of € 100,000.

At Group level, 2006 was also marked by a 19% fall in operating profit due to substantial provisions in the sum of € 411.00, while our EBITDA strengthened robustly from € 1,650,000 to € 1,860,000, a rise of 12.9%, an indication of our improved profitability.

The said appropriations to provisions were as follows:

. For ARTHUR :

- . € 64,000 for redundancy pay
- . € 40,000 for social and fiscal penalties

. For LTJ DIFFUSION :

- . € 225,000 for stock depreciation
- . € 30,000 for current legal proceedings
- . € 52,000 for social and fiscal penalties

Important events occurring since the end of the year:

There are no important events to report.

Debt reduction continues.

Our growth strategy will continue into 2007 and will be based on a resurgence in exports and an endogenous rise in revenue from the network of shops and affiliates with earnings of close to 18 million Euros.

Accompanied by a further sharp fall in medium term debt to a situation of constant cash flow, 2007 will see a rise in net operating profitability.

2007 will therefore be a year of consolidation, both in terms of earnings and profitability, with continuing debt reduction and an overall improvement in all financial ratios.

1 - THE COMPANY'S BUSINESS ACTIVITIES IN THE YEAR ENDED 31ST DECEMBER 2006

1) Company's position and activities - Results of those activities

Our company continued its holding company activities during the year ended 31st December 2006.

It has continued to provide its subsidiary, L.T.J. DIFFUSION, with services in the legal, administrative and technical fields.

ARTHUR constitutes a group consolidated for tax purposes with its subsidiary L.T.J. DIFFUSION.

2 - ACTIVITIES OF THE SUBSIDIARIES AND CONTROLLED COMPANIES

. L.T.J. DIFFUSION, a simplified joint stock company with capital of 2,500,000 Euros, in which we have a 99.90% holding, produced earnings of 16,744,266 Euros as at 31st December 2006 against 16,483,880 Euros in the previous year.

Its revenue, slightly up on the previous year, is essentially due to the affiliates. Earnings could have been higher, had we not carried out a financial restructuring of our Portuguese subsidiary.

2007 should see an increase in earnings (+3.4%), due to the stabilisation of the subsidiaries, the inclusion of two affiliates on a full year basis and the probable opening of two new affiliate points of sale.

At the end of March 2007, earnings had improved by 7%, at comparable floor space.

Operating profit came to 937,539 Euros compared with 1,039,631 Euros for the previous year. The decline is essentially due to the appropriations to provisions made in the year, part of which should be able to be reversed in 2007.

Its current pre-tax profit came to 501,550 Euros compared with 655,028 Euros for the previous year.

Its financial profit/loss stood at (435,988) Euros.

Its net book result is a profit of 235,175 Euros compared with 366,540 Euros for the previous year.

INFORMATION ON THE SHARE CAPITAL

In accordance with the provisions of Article L. 233-13 of the Commercial Code and in view of the information and notification received pursuant to Articles L. 233-7 and L. 233-12 of the said Code, we give below the identities of shareholders holding more than a twentieth, tenth, fifth, third, half or two thirds of the share capital or voting rights:

Mr. Lionnel RAINFRAY holds more than a third of the share capital.
(registered shares)

Mr. Jean-Louis PARIENTE holds more than a third of the share capital.
(registered shares)

There have been no changes in the said distribution over the past year.

RESEARCH AND DEVELOPMENT COSTS

The company did not incur any research and development costs in the previous year.

REMUNERATION AND BENEFITS IN KIND PAID TO CORPORATE OFFICERS

The annual remuneration paid to the corporate officers is € 18K each and one of them has a company car. Otherwise, there is no agreed undertaking in their favour when taking up, changing or terminating their duties or subsequently.

EMPLOYEES' SHAREHOLDING SCHEME

In accordance with the provisions of Article L.225-102 of the Commercial Code, we report on the state of the company's employee shareholding scheme on the last day of the year i.e. 31st December 2006.

There is no employee shareholding scheme in our company.

SUBSIDIARIES AND HOLDINGS

We presented the business activities of the subsidiaries and holdings in our report on the Company's business activities.

We would remind you that the table of subsidiaries and holdings is appended hereto.

NEW HOLDINGS

Our company has not acquired any new holdings over the past year.

ECONOMIC AND FINANCIAL RESULTS

For the year ended 31st December 2006:

. total operating income amounted to € 2,762,894 against € 2,760,169 for the previous year.

. operating charges for the year amounted to € 2,984,601 against € 2,933,062 for the previous year.

Operating profit/loss came out at (€ 221,707) against (€ 172,893) for the previous year.

Salaries and wages came to € 1,963,916 against € 2,033,826 for the previous year.

Social security charges came to € 763,414 against € 783,814 for the previous year.

Given a financial profit of € 24,436, the current pre-tax profit/loss for the year came to (€ 197,270) against (€ 172,845) for the previous year.

Given the above factors, as well as an extraordinary loss of (€ 76,110), profit tax of (€ 84,174), the result for the year produced a net book loss of € 189,207 compared with a net book loss of € 110,961 for the previous year.

As at 31st December 2006, the Company's balance sheet total stood at € 11,814,590 against € 12,019,733 for the previous year.

The table of results as provided by Article 148 of the Decree of 23rd March 1967 is appended to this report.

PRESENTATION OF THE ANNUAL ACCOUNTS

The annual accounts for the year ended 31st December 2006 that we are submitting for your approval have been produced in accordance with the presentation rules and valuation methods provided by current regulations.

The presentation rules and valuation methods used are identical to those used last year with the exception of:

The financial statements were produced in accordance with:

- the 1999 General Accounting Plan approved by Ministerial Order of 22nd June 1999

Accounting rules:

- 2000-06 and 2003-07 with regard to liabilities
- 2002-10 with regard to amortisation and depreciation of assets
- 2004-06 with regard to the definition, recognition and valuation of assets.

On 1st January 2006, the company applied CRC regulation No. 2002-10 of 12th December 2002 relating to the amortisation and depreciation of assets and CRC regulation No. 2004-06 of 23rd November 2004 relating to the definition, recognition and valuation of assets. The implementation of these two regulations had no impact on its capital and reserves as at 1st January 2006.

The balance sheet and income statement are appended.

CONSOLIDATED ACCOUNTS

As at 31st December 2006 the companies in the consolidation of the ARTHUR Group included:

- . L.T.J. DIFFUSION, a simplified joint stock company with capital of 2,500,000 Euros in which we have a 99.90% holding;
- . the Portuguese company LTJ DIFFUSION Comercio de Vestuario Unipessoal Lda;
- . the Spanish company ARTHUR ESPANA;

In accordance with Articles L. 225-100 and L. 233-16 of the Commercial Code, we ask you to kindly approve the consolidated accounts as presented to you in the appendix.

The consolidated accounts presented to you for the past year reveal a consolidated profit of 311,000 Euros.

ALLOCATION OF PROFIT/LOSS

We propose allocating the loss for the year, amounting to € 189,207, as follows:

. Carried forward, before allocation	(€ 36,366)
. Loss for 2006	(€ 189,207)
. Carried forward, after allocation	(€ 225,573)

We ask you to kindly approve this allocation for the year ended 31st December 2006.

REMINDER OF DIVIDENDS PAID

In accordance with the provisions of Article 243 a of the General Tax Code, we would remind you that no dividends have been paid in the last three years.

NON-TAX DEDUCTIBLE EXPENSES

In accordance with the provisions of Articles 223 c and 223 d of the General Tax Code, we report that the accounts for the past year do not include any non-tax deductible expenses.

INFORMATION ON THE CORPORATE OFFICERS

List of positions held:

In accordance with the provisions of Article L. 225-102-1, para. 3 of the Commercial Code, we give below a list of all the offices and positions held in any company by each of the corporate officers of the Company:

. Mr. Lionnel RAINFRAY is:

- . Chairman of LTJ DIFFUSION
- . Director of the Portuguese company LTJ DIFFUSION Comercio de Vestuario Unipessoal Lda
- . Director of the Spanish company, ARTHUR ESPANA
- . Co-director of SCI COLOMBIMO

. Mr. Jean-Louis PARIENTE is:

- . Managing Director of LTJ DIFFUSION
- . Co-director of SCI COLOMBIMO

Mr. Pierre-Alain PARIENTE does not hold any office in any company.

We ask you to kindly approve the accounts and balance sheet which have just been presented to you as well as the wording of the resolutions.

The Board of Directors