



## RESULTS

Year 2001 was a very challenging year for the entire garment and textile industry. The terrorist attacks in the US on September 11 further deepens the recession trend of the US market. Although we had very insignificant order cancellation, we had to offer small discounts to some of our key customers on the fourth quarter orders. The Group achieved a sales turnover of HK\$2,328,787,000 and profit attributable to shareholders of HK\$91,022,000 for the year ended December 31, 2001. Though sales slightly decreased by 4%, we were able to improve the overall operation productivity and maintain the same gross profit margin as year 2000. Profit attributable to shareholders decreased by 19% in 2001 mainly due to the

decrease in turnover, reduction in foreign exchange gain and the one off consultancy payment for the business improvement program.

## 2002 FOCUS

The management team this year will focus their efforts on improving sales process management, supply chain management and the ongoing initiative in people development.

### Sales Process Management Focus

Year 2002 will be even more challenging than year 2001. Most US retailers suffer from significant inventories pile up after the tragic events of September 11. A lot of retailers are offering all kinds of sales promotion to improve store traffic. The retailers and wholesalers do not only hold back order placements, but also press hard on price reduction. Serious over capacity is a severe global issue for the garment industry. All retailers focus on price reduction, offering more fashionable products and shorter fulfillment cycle time.

These challenges in a positive way call for the good efforts we have been cultivating in the Group. Such efforts focus on the operation process that includes total process cycle time reduction, manufacturing productivity improvement and quality enhancement. Overall, the above helps to improve our cost competitiveness, quick response to our customers' needs and fast adaptation to the fashion trend changes.

In a highly price sensitive environment, all these enhanced capabilities can help us to uphold our profit margin. To augment sales revenue, we need to be very aggressive and productive in our sales process management. We will apply the same discipline and methodology in improving our operation process management to our sales process management. We will increase our cross selling effort and broaden the scope of our target market segments. Additional high calibre senior sales management staff and marketing staff are recruited to further strengthen our sales and marketing teams.

### **Supply Chain Management Focus**

We have already initiated the effort to significantly consolidate our vendor base as well as leverage on our purchase volume by aligning our vendors' values with our core values. We have initial success in getting support from our key vendors to improve our cost competitiveness. We are also reorganizing our merchandising teams to work closer with our vendors to further shorten the response cycle time, improve the on time delivery and the first pass yield measurement on quality. Concurrent with the procurement process re-engineering effort, our information technology department provides strong support to supply real time data for our supply chain management.

### **People Development Focus**

Year 2002 is a year Tristate will further develop the skill sets, capabilities and knowledge of our middle and upper middle management on the process management. We will continue to internalize the methodology and professional discipline taught to us by the external consultants. Such practice has been deployed by the top management and is being rolled out to the middle management. Regular in house training workshops are provided at the key manufacturing and merchandising sites. External trainers and teaching resources are outsourced locally and overseas.

At the operational level, our human resources department has formed strategic alliance with a number of garment vocational schools nearby some of our major manufacturing sites. In the long run, the new recruits from these garment institutions can further upgrade the educational level of our basic workforce and hence sustain the quick adaptation to the technological and process changes in order to support the business requirements.

### **2002 OUTLOOK**

US remains as our biggest market, representing 67% of our total turnover. The sales of the first half-year of 2002 remains soft. We anticipate strong third quarter's sales partially due to late buying pattern of our customers. The fourth quarter's sales depends very much on the consumers' confidence of the economy, unemployment rate and geopolitical factors.

Our sales volume to the Japanese market improves significantly in the first quarter. The Japanese market traditionally demands the shortest fulfillment cycle time and order commitments are very much in the fashion from hand to mouth. There is potential growth in the Japanese market especially in the areas of casual wear and fashion jeans products.

Our European market remains healthy. We anticipate steady growth this year. Specialty chain retailers enjoy stronger performance than the traditional department stores. One of the key success factors to serve this segment again relies heavily on short fulfillment cycle time.

Under the current extreme competitive environment, only the fittest can survive. We are confident that we can come out of this recession even stronger than before as our key focuses on sales process management, supply chain management and people development will serve as the drivers to meet the challenges.

At the front of branding and distribution, we will be renewing a long-term license contract for distributing Nautica apparel products in China and Hong Kong. More comprehensive and aggressive marketing strategy will be launched in China market. We expect Nautica's turnover at both retail and wholesale levels will have a satisfactory growth in the coming years.

#### **APPRECIATION**

In difficult time like this, our people have shown their best in effort and commitment in a most proactive manner to steer the Group to become a world-class organization. I take this opportunity to thank our entire staff and work force for their loyalty to the past, present and more importantly to the future. I also wish to thank our shareholders for their patience, support and trust in us in creating long-term value for the Group.



**Wang Kin Chung, Peter**

*Chairman & Chief Executive Officer*

Hong Kong, April 9, 2002