

CHAIRMAN'S STATEMENT



GROUP RESULTS

The year 2001/2002 was an unstable one. In the first half of the financial year, the business environment was badly affected by the global economic slow-down. In the second half of the year, the September 11 tragedy and the US military maneuver in Afghanistan further deteriorated the economic situation. Many countries slipped into recession. The U.S. Federal Reserve cut the interest rate to the lowest level in 40 years to stimulate the economy. Not until the first quarter of year 2002 was any sign of economic recovery detected. However, the strength of the rebound was far weaker than anticipated. Since the Group's main export market was in North America, our export business plunged accordingly. The adverse impact reduced not only our export volume but also our unit price. Although the reduction of interest rates did contain the economic downturn, it also reduced our interest income. After the restructuring of the Australian retail operation last year, operating loss was greatly reduced. The most encouraging sector was our retail operation in Mainland China. Turnover and same store sales both grew with double digits. However, the gain from the Mainland retail operation could hardly offset the downturn in our export operation.

In the financial year under review, despite very competitive markets and the unfavourable business environment, the Management still managed to keep within the Group's prudent financial strategy and continued to develop its business at a steady pace. Except for the export operation which was dragged down by the adverse economic conditions in its main markets, all other operations made progress. The performance of our Mainland retail operation was most encouraging. The Group had a very strong balance sheet, and inventory turnover kept improving. Net cash in hand further increased to HK\$555,236,000 (2001: HK\$389,805,000). In this financial year, the Group earned a profit attributable to shareholders of HK\$152,765,000 (2001: HK\$180,626,000 (as restated)) on a turnover of HK\$2,924,850,000 (2001: HK\$3,003,243,000), showing a decrease of 15.42% and 2.61% respectively when compared with the previous year.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of 7.50 HK cents (2001: 7.50 HK cents) per share for the year ended 31 March 2002 at the forthcoming Annual General Meeting to be held on Monday, 9 September 2002. The final dividend amounting to HK\$75,044,000, if approved by shareholders, is expected to be paid on or around Monday, 16 September 2002 to those shareholders whose names appear on the Register of Members on Monday, 9 September 2002.

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REVIEW OF OPERATIONS

Retailing

In the year under review, the overall performance of the Group's retail operation made a remarkable progress. The Australian operation which suffered substantial loss last year, though not yet made profit, still managed to reduce its loss significantly. The Mainland retail operation continued to improve, and the sales in the second half of the year were particularly impressive. The total number of shops in our network increased to 724 (2001: 709 shops) including 57 franchised shops (2001: 29 shops). Retail turnover of HK\$1,532,257,000 (2001: HK\$1,346,586,000) was recorded representing an increase of 13.79%. It was attributed to the double-digit growth of sales in Mainland China, and a slightly decrease of turnover in Australia due to substantial reduction in the number of shops there. Inventory was kept at a healthy level with inventory turnover reduced from the previous 63 days to 61 days.

1. *In Mainland China*

During the year, the retail market in the Mainland remained buoyant, competition was fierce, a deflationary environment still persisted. Even though the net increase of shops was only marginal, our customers found our shops more easily accessible as a result of relocation of shops. The enhancement of operational efficiency by streamlining the process of purchase, product allocation and stock replenishment, enabled the Group to adapt to the ever-changing market more easily. The improvement of storefront services and renovation of all major shops provided our customer with a comfortable shopping environment. All these further strengthened our brand image and market recognition, and hence the double-digit growth in same store sales.

In the period under review, the turnover amounted to HK\$1,016,435,000 (2001: HK\$822,470,000) showing an increase of 23.58%. The retail network in the Mainland comprised 527 shops (2001: 483 shops) including 51 franchised shops (2001: 23 shops).

2. *In Australia and New Zealand*

In the year under review, the Management realigned the operations in Australia and New Zealand. The Group disposed of the "Old Garage" line and suspended the "Sunshine" line so as to focus on the core "Jeanswest" line. In order to minimize the adverse impact of weak Australian dollar, the Management endeavoured to explore more flexible and competitive sources of supplies to restore the operating margin to a healthy level. Even though the exchange rate of Australian dollars was still lingering at a fairly low level, the operating loss was significantly reduced.

For the whole year, the total sales in Australia and New Zealand amounted to HK\$515,822,000 (2001: HK\$524,116,000) representing a mild decrease of 1.58% when compared with last year. The retail network there comprised 197 shops (2001: 226 shops) including 6 franchised shops (2001: 6 shops).

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Export

The manufacturing operations continued to support the retail and export business. North America was our main market. The September 11 tragedy dragged the global economic slow-down into recession which deeply affected our export business. The sluggish demand and depressed selling prices caused a drastic fall in our export revenue. Our past effort in streamlining operational process and enhancing our adaptability to changes, curtailed the adverse impact. In the period under review a total turnover of HK\$1,196,541,000 (2001: HK\$1,392,138,000) was recorded showing a decline of 14.05% when compared with the previous year.

Other Businesses

Among other businesses, trading of fabric was the main operation. Due to the fact that export activities faltered, turnover declined to HK\$196,052,000 (2001: HK\$264,519,000), representing a decrease of 25.88% from last year.

Financial position

The Group continued to manage its financial matters in a prudent manner, and thus maintained a healthy financial position during the period under review. As at the year end date, total bank and related borrowings amounted to HK\$335,340,000 (2001: HK\$490,906,000) while cash and bank balances amounted to HK\$890,576,000 (2001: HK\$880,711,000). The Group held net cash of HK\$555,236,000 (2001: HK\$389,805,000). The calculation of debt to equity ratio (expressed as a percentage of bank and related borrowings net of cash and bank balances over total net assets of the Group) is therefore not applicable.

During the year under review, the Group entered into foreign currency forward contracts to hedge the currency risk in Australian dollars. As at the year end date, the Group had contingent liabilities of HK\$4,769,000 (2001: HK\$16,068,000) associated with the export bill discounted with recourse.

Human Resources

As at 31 March 2002, the Group's total number of employees was about 26,000. The Group offers a competitive remuneration package to its employees. In addition, bonus and share options may be granted to employees based on the Group's performance and individual performance.

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PROSPECTS

Looking forward to the year 2002/2003, the Management takes an optimistic attitude. After a series of interest rate reductions, US economy gradually recovers though without much momentum. At least the worst is over. The recovery in US economy will encourage consumption and will lead the global economy out from the bottom. A more favourable business environment is therefore expected.

The Group's current position is that momentum has been gathered for business expansion. Since sales order has been increased, we expect our export business will gradually recover, although the pricing level may not be the same as that before the September 11 event. Because the Group's competitive edge is still in place, we expect to have a better performance in the coming year.

After the re-structuring of the retail operations in Australia last year, operating loss has been substantially reduced and same store sales achieved positive growth. With a wider sources of supply, we have also managed to restore operating margin to a healthy level. Effective July 2002, the operation in New Zealand has been disposed of due to its immaterial return on its assets. This enabled the Management to have a more focused utilization of the Group's resources. The Management will continue to implement appropriate strategies aiming at a better result for the Australian business.

The upsurge of the Mainland retail business since the second half of last year still persists. The Management will take a more aggressive strategy to expand the Mainland market. In addition, more resources will be deployed to improve product development, marketing and promotion as well as storefront services so as to retain and enlarge the market share. The Group has set up a task force to explore all viable means to further develop business in the Mainland.

In the absence of major unforeseeable adverse changes, the Management has confidence to have satisfactory profit growth in 2002/2003.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere appreciation to the shareholders for their support, and to the Management and staff for their dedicated efforts.

Charles Yeung, J.P.
Chairman

Hong Kong, 15 July, 2002