



INTERIM DIVIDEND

The Directors have resolved to pay an interim dividend of 2.70 HK cents (2002: 2.70 HK cents) per share for the six months ended 30 June 2003 to shareholders whose names appear on the register of members of the Company as at the close of business on Tuesday, 23 September 2003. The relevant dividend warrants will be despatched to shareholders by post on or around Friday, 26 September 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 19 September 2003 to Tuesday, 23 September 2003, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:00 p.m. on Thursday, 18 September 2003.

REVIEW OF OPERATION

In the first half of the financial year from January to June 2003, business conditions were affected by the Iraqi War and the epidemic of Severe Acute Respiratory Syndrome ("SARS"). Luckily the American coalition managed to take over Iraq swiftly and SARS was also contained in a relative short period of time attributed to the relentless measures enforced by all parties concerned. As soon as SARS receded at the beginning of June, economic activities in the Mainland rebounded again. The Group's retail business there also resumed its positive growth. Even our sales in April and May were adversely affected, retail turnover in the first half year in the Mainland was still higher than that of the same period of previous year. The Australian retail sentiment was lukewarm due to the global economic downturn. At the beginning of the year, the Group entered into a joint venture with Quiksilver, Inc., a US listed company, to set up retail network in the PRC to market young casual lifestyle apparel. American teenagers are



The music is the story
VISUALLY
The things will work out
if I trust and believe
where I'm from is what I can do
MUSICALLY
Let music carry me through





currently looking for fashion and function apparel relevant to their lifestyle. The brands owned by Quiksilver, Inc. include renowned brands like Quiksilver, Roxy and Hawk which are very popular among young people and teenage boys and girls. As Jeanswest is already well established as a famous brand in the Mainland, the Group is planning to develop new apparel lines that bear a strong signature of casual lifestyle and hip hop style in Mainland China, Hong Kong and Macau. The joint venture company possesses the exclusive right to market apparel under all brands owned by Quiksilver, Inc. in Mainland China, Hong Kong and Macau.

During the period under review, the financial position of the Group was sound and solid. As at 30 June 2003, net cash in hand amounted to HK\$745,065,000 (30 September 2002: HK\$587,073,000). As the Group has changed the accounting year end date from 31 March to 31 December, it is difficult to make a fair comparison between the results of this half year ended 30 June with last year interim period ended 30 September.

For the first half of the year ended 30 June 2003, the Group's unaudited consolidated accounts showed a turnover of HK\$1,529,057,000 (30 September 2002: HK\$1,621,170,000) representing a decrease of 5.68% when compared with the first half of last year. Net profit attributable to shareholders amounted to HK\$92,168,000 (30 September 2002: HK\$92,057,000) showing a slight increase of 0.12% when compared with the first half of last year.

1. Retail Operations

In the Mainland, the Group had the largest number of directly managed stores and had the most extensive network coverage among foreign retailers. Its sales volume among all single brands might also be the biggest. Although the market was very competitive, Jeanswest's business was still very strong due to the popularity of its brand name. Some store growth was impressive in the first quarter. However the outbreak of SARS in mid April adversely affected the retail activities and our sales registered a decrease of 10% and 15% respectively in April and May. Our Management took timely remedial measures and managed



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to control effectively the inventory level. During the SARS period, the Management took all possible hygiene measures to keep our shops clean and our staff healthy. Operation costs were trimmed to make preparations for the future advancement of our business after the subsidence of SARS. Right after SARS was contained in June, same store sales resumed positive growth. In the first half of the year under review, double-digit growth in sales was registered when compared with the same period of previous year.

Although Australia was not hit by SARS, the global economic slowdown turned the retail conditions there to merely stable. The Australian operation still made stable contributions to the Group, though the turnover was lesser than that of the last interim period due to the disposal of the New Zealand operation. The Management strived for further improvement in efficiency along the supply chain and in the management of inventory so as to expedite the stock turnover rate and to enhance the flexibility in product mix to keep in line with market changes. The Group also capitalized on the stronger purchasing power arising from the recent appreciation of Australian dollars to improve the quality of our products so as to further raise our brand image.

At the beginning of the year, the Group entered into a joint venture with Quiksilver, Inc., a US listed company, to enter into the apparel markets in Mainland China, Hong Kong and Macau. This venture is in line with the Group's strategy to enlarge customer base and market share. SARS did cause certain delay in the initial preparation process but had not affected the project as a whole.

As at 30 June 2003, the total number of shops in our network was 839 (30 September 2002: 734 shops). There were 663 shops (30 September 2002: 565 shops) in the PRC, and 176 shops in Australia (30 September 2002: 169 shops). During the period, the total turnover of our retail business grew to HK\$831,244,000 (30 September 2002: HK\$799,082,000) showing an increase of 4.02% when compared with last year.



2. Export business

In the first half of the financial year under review, the economy and the capital investment in North America were adversely affected by the Iraqi war. The unemployment was high. The US dollar was weak. The low US Federal Reserve interest rate meant to boost the economy did not take effect in time to turn around the economy. The risk of deflation was still there. Performances of retailers were mixed. Generally, the retailers were very cautious in their purchases. Our export business experienced pricing pressure.

The Management had streamlined the work process and enforced a series of cost saving measures in the past few years. The benefit from which plus the increase of non-quota export successfully mitigated most of the abovementioned adverse impacts. Due to seasonal factor the total export turnover for the first half year ended 30 June 2003 was HK\$584,376,000 (30 September 2002: HK\$693,550,000) showing a drop of 15.74% when compared with the period from April to September last year.

3. Financial Position

The Group's financial position kept improving during the period under review. Both net cash in hand and inventory were at very healthy level at the period end.

During the period, the Group entered into foreign currency forward contracts to hedge the currency risk in Australian dollars. The Group's contingent liabilities mainly comprised of export bills discounted with recourse. As at 30 June 2003, the said contingent liabilities were HK\$30,310,000 (30 September 2002: HK\$15,457,000).



4. Human Resources

As at 30 June 2003, 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.

PROSPECTS

The present status of the Iraqi War has taken away most of the uncertainties. Crude oil price is likely to stabilize at a lower level. The US economy is also expected to improve in the second half of the year. Recently the turnover in equity markets increased and retail sentiment appeared to improve. We therefore anticipate to have a better export prospect. The Management still takes an optimistic but cautious approach to manage the Group's finance, and to strive for bigger market share in its core business in a prudent way.

Despite the SARS impact, the economy in Mainland China remains buoyant. The prospect of the retail sector looks promising. The Management will be more aggressive in expanding its retail operations. Apart from opening more flagship stores in prime locations in the first tier cities, the Management will also endeavour to make further improvement in product quality and mix so as to elevate the brand image and to gain a bigger market share.

The joint venture with Quiksilver, Inc. will speed up the process in opening stores in the PRC. There will first be 5 to 10 directly managed stores in the first tier cities such as Shanghai and Hong Kong. The Management is fairly optimistic about the prospect of this venture.

Should the economic conditions in the US improve in the second half of the year, the retail market in Australia will improve accordingly. The Management works diligently to improve the efficiency along the supply chain to strengthen our ability in prompt delivery in the export operations. We also aim for higher inventory turnover rate and better flexibility in adjusting product mix to meet with the ever-changing market.