



JEANSWEST

CHAIRMAN'S STATEMENT

GROUP RESULTS

In the first half of the year under review, the recovery of the global economy was weighed down by the US-led military attack on Iraq. The epidemic of Severe Acute Respiratory Syndrome ("SARS") in the Mainland China had once turned our retail sales to negative growth. Fortunately the swift ending of the Iraqi War and the prompt containment of SARS attributed to the improvement of our business environment in the second half of the year. During the prevalence of SARS, the market situation was very tough, but our retail operation in China was able to withstand the adversity and to resume positive growth in sales immediately after the subsidence of SARS. The annual growth of retail turnover was kept in double-digit. The Group's retail operation in Australia grew modestly. The stronger global economic rebound in the second half of the year and the further appreciation of Australian dollars did help our performance in Australia. The Group's export business was hinged on the US retail sentiment which turned to be quite buoyant in the second half of the year. However, the increase of our export sales mainly came from non-quota export, and the export price was still under pressure.



During the year under review, the Group had two strategic moves in our retail business. Firstly the Group entered into a joint venture with Quiksilver, Inc., a US listed company, to set up retail chain stores in the Mainland, Hong Kong and Macau to market youthful casual lifestyle apparel. Quiksilver is a trendsetter of youthful casual lifestyle apparel in the US. Their board-riding apparel (skiing, surfing, skating apparel) under the brands of Quiksilver and Roxy rank number one in sales in the US and even worldwide. Another move was the joint venture with the I.T Group to market the Japanese, European and home labels of the I.T Group in the Mainland, Taiwan, and Macau. The I.T Group is one of the most successful agents for European and Japanese apparel fashion in Hong Kong, and is particularly in a leading position in the number of brand names and the turnover of Japanese fashion it markets. Since casual wear emerged on the world fashion stage in the 80's, through the past 20 years of development, it has evolved into casual wear with particular emphasis on personalized lifestyle. This kind of casual lifestyle apparel is getting very popular in the US and Japan, and would have great potential in the Chinese apparel market. Hence, the Group had the two aforesaid strategic moves. The Management believes that through the alliance of the three leading retail operators in American, Japanese, and Chinese apparel, the latest global fashion trends would be most efficiently and effectively introduced to the Chinese customers. On the other hand, such joint ventures would also help the Group to achieve its multi-brand strategy, and further enrich the Group's product varieties and widen its market segment and market share.

JEANSWEST



CHAIRMAN'S STATEMENT

In the year under review, the Group's financial position was sound and solid. Inventory level kept on improving. All necessary asset provision had been prudently made. As at 31 December 2003 the net cash in hand amounted to HK\$929,582,000 (31 December 2002: HK\$659,029,000). The net cash in hand and the available bank facilities equipped the Group with adequate financial resources to undertake business expansion and to meet with challenges arising from any possible adversity. For the financial year ended 31 December 2003, the Group made a profit attributable to shareholders of HK\$165,025,000 (nine months ended 31 December 2002: HK\$128,080,000) on a turnover of HK\$3,310,309,000, (nine months ended 31 December 2002: HK\$2,436,567,000) showing an increase of 28.85% and 35.86% respectively when compared with the nine month period in last year.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK7.50 cents (nine months ended 31 December 2002: HK7.50 cents) per share for the year ended 31 December 2003 at the forthcoming Annual General Meeting to be held on Monday, 17 May 2004. The final dividend amounting to HK\$75,044,000, if approved by the shareholders, is expected to be paid on or around Monday, 24 May 2004 to those shareholders whose names appear on the Register of Members on Monday, 17 May 2004.

REVIEW OF OPERATIONS

Retailing

In the year under review, the overall performance of the retail operations was quite satisfactory. The China retail operation was particularly impressive. It not only withstood the impact of SARS, but was able to maintain the growth momentum in double-digit. The front line management and staff were able to take timely and right remedial measures in adversity. Inventory level kept on improving. Inventory turnover days had been reduced to 56 days from 59 days of last period.

The total number of shops in our retail network as at 31 December 2003 was 986 (31 December 2002: 806) including 269 franchised ones (31 December 2002: 158 shops). For the financial year ended 31 December 2003, total retail turnover of HK\$1,836,446,000 was registered (nine months ended 31 December 2002: HK\$1,252,698,000) showing a rise of 46.60% when compared with the nine month period of previous year. It also accounted for 55.48% of the Group's total turnover.



JEANSWEST

CHAIRMAN'S STATEMENT

1. *In Mainland China*

In the year, the outbreak of SARS in the Mainland and the consequential dumping of excess inventory from other retailers dampened the retail market, and intensified competition. During the prevalence of SARS, customer traffic was thin and the drop of sales was substantial in the first tier cities such as Beijing and Shanghai. The front line Management and staff made the right measures at the right time. On the one hand they took all possible hygiene measures to keep our shops clean and our staff healthy. On the other hand they made every endeavour to prepare for the business development work after the subsidence of SARS. Besides, focus was shifted to the business in the second and third tier cities as most of the consumers at that time preferred to stay and shop in their own cities. Sales in those cities during the SARS period increased instead of decreased. Thus, our total sales during the most critical period of SARS in April and May were down by only 10% and 15% respectively. Positive growth in sales was registered right after the containment of SARS. Growth momentum had rebounded back to double-digit since October. In this financial year, the retail turnover in the Mainland amounted to HK\$1,251,322,000 (nine months ended 31 December 2002: HK\$840,610,000) representing an increase of 48.86% when compared with the nine month period of previous year.

On 31 December 2003, the retail network in the Mainland comprised 773 shops (31 December 2002: 633 shops) including 263 franchised shops (31 December 2002: 152 shops). Together with the 30 shops under the joint venture with the I.T Group, the retail network of the Group in the Mainland reached 803 shops.

2. *In Australia*

During the year, business in Australia was stable. The Management endeavoured to improve the efficiency along the supply chain so as to enhance the product quality, lower the product cost, raise the inventory turnover rate to reduce the inventory carrying cost and risks. Besides, tailored-made product mix was set for individual stores, and was well accepted by customers. In this financial year, the rise in turnover came mainly from same store sales. The Management opted for using the additional purchasing power arising from the appreciation of Australian dollars to improve the quality of our products, as a way to raise the brand image and to fulfil our commitment of offering good value for money for our customers.

The total retail sales in Australia for the financial year ended 31 December 2003 amounted to HK\$585,124,000 (nine months ended 31 December 2002: HK\$412,088,000) representing a rise of 41.99% when compared with the nine month period of last year. The Australian retail network comprised 183 shops (31 December 2002: 173 shops) including 6 franchised ones (31 December 2002: 6 shops).

JEANSWEST



CHAIRMAN'S STATEMENT

Export

The retail market in North America was rather sluggish in the first half of the year, but turned buoyant in the second half when the economic recovery gained momentum. As this economic rebound did not create the expected improvement in the job market, retailers were very cautious in their purchases. Our export pricing was therefore still under considerable pressure. The Management worked very hard in streamlining the production process to enhance the efficiency and manufacturing versatility. Due to the rise of non-quota export, the total turnover of our export operation increased to HK\$1,266,510,000 (nine months ended 31 December 2002: HK\$981,686,000) representing a growth of 29.01% when compared with the nine month period of last year.

Other Businesses

Among other businesses, trading of fabric was the main operation. In the year under review, a turnover of HK\$207,353,000 (nine months ended 31 December 2002: HK\$202,183,000) was recorded representing a rise of 2.56% when compared with the nine month period of last year.

FINANCIAL POSITION

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

During the year, the Group entered into foreign currency forward contracts to mainly hedge the currency risk in Australian dollars. The Group's contingent liabilities mainly comprised export bills discounted with recourse. As at 31 December 2003, the said contingent liabilities were HK\$7,537,000 (31 December 2002: HK\$35,479,000).

HUMAN RESOURCES

As at 31 December 2003, the Group's total number of employees was about 28,000. 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.

SOCIAL RESPONSIBILITY

We firmly believe that searching for profit maximization and discharging of social responsibility are compatible. On top of fair and reasonable compensation and benefits, the Group also provides members of our staff with opportunity to learn and develop. In all of our production bases, factory managers have to comply strictly with the Management's guidelines and regulations on working conditions, wages, working hours, discrimination, child labour and



JEANSWEST

CHAIRMAN'S STATEMENT

environmental requirements. With the charitable foundation set up by the Management and the voluntary participation from our staff, we provide medical and health care, scholarships, educational facilities and other services to the needy ones and in particular to children and youths. To the people suffering from natural disasters, we also provide nourishment food and shelter. Our staff is encouraged to live up to the traditional ethical values, which are applicable to our business as well as our being. Only by upholding these basic values, the Group and our staff are able to grow healthily.

PROSPECTS

Looking forward to the ensuing year, the Management takes a cautious but optimistic view. Year 2004 is an election year. The outcomes of the elections in Taiwan, Australia and the US may affect the Group's business environment. Macro economic conditions in election year are usually better. However, the present economic recovery in terms of job creation is lagging behind expectation. The retail market in the US may not be too buoyant, but the general market condition should still be good.

The Group's retail business should have a relatively better performance. The Australian retail operations will have a steady development and as usual provide the Group with stable profit contribution. In the coming year, the Chinese Government may cause banks to tighten credits extended to certain over stretched sectors, but it is believed that the improving macro economy would not be affected. Therefore, the 2004 retail market in China is still quite promising. The Management will take a more aggressive approach in expanding its China retail operations and will focus on raising the brand image and enlarging the market share.

In February 2004, the first Quiksilver shop under the joint venture company commenced business in Shanghai. In March, two more retail shops were set up in Hong Kong. As planned, the number of shops is expected to increase to 5 or 10 by the end of this year. The joint venture company will actively sponsor youth activities such as board-riding competitions to promote the brands under Quiksilver, Inc in the China market.

The retail network under the joint venture company with I.T Group comprises 30 stores stretching over Beijing, Shanghai, Guangzhou and the other first tier cities. It is expected that the number of shops will increase to 80 or 100 by the end of this year. In this year, the Management is also prepared to build a network in Taiwan to market the popular brands under the I.T Group. The total number of shops under the joint venture company is expected to reach 150 to 200 in the first three years.

JEANSWEST



CHAIRMAN'S STATEMENT

In the absence of major unforeseeable adverse changes, the Management has confidence to have better Group results in 2004.

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, 6 April 2004