

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 September 2004 to Thursday, 23 September 2004, 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 Monday, 20 September 2004.

REVIEW OF OPERATION

In the first half of the fiscal year from January to June 2004, business environment was relatively stable when compared with the same period of last year. The soaring of crude oil price and the rebound of inflation lifted the US dollar interest rate by 0.25% at the end of June. This signaled the trend of interest rate escalation. The China Government's macroeconomic measures to ease excessive investments in some sectors did dampen the stock markets. However it had no material adverse impact on the domestic retail sentiment.

Although the competition was very keen, the Group's retail operations in both Mainland China and Australia achieved double-digit growth in turnover. The overall improvement and product quality enhancement were the momentum behind the growth of same store sales.

The respective ventures with Quiksilver and I.T were still at the initial investment stage and both proceeded along their respective development plans smoothly.

In the first half of the year, downward pricing pressure prevailed in the export market and we managed to maintain our export volume at the same level as that of last year.



During the period under review, the financial position of the Group was solid. As at 30 June 2004, net cash in hand amounted to HK\$962,629,000 (2003: HK\$745,065,000).

For the first half of the year, the Group's unaudited consolidated accounts showed a turnover of HK\$1,705,386,000 (2003: HK\$1,529,057,000) representing an increase of 11.53% when compared with the first half of last year. Net profit attributable to shareholders amounted to HK\$101,685,000 (2003: HK\$92,168,000) showing an increase of 10.33% when compared with the first half of last year.

1. Retail Operations

The Group's retail operations in the Mainland were mainly under the Jeanswest brand. By the end of June 2004 Jeanswest had 860 shops out of which 547 were directly managed. The network covered more than 250 cities and was the largest and the most extensive retail chain owned by foreign investors. In the period under review 21.57% rise in retail sales was registered in the Mainland.

As the market competition intensified, besides the relentless effort in upgrading our front-store services and our product design and quality, we also strove to reinforce our brand image. Apart from the usual promotions through media, the Group actively sponsored activities that had positive effects in raising the brand image. In collaboration with China National Garment Association and China Fashion Designers Association, the nation-wide casual wear design competition known as Jeanswest Fashion Award had been held since 1993. This annual festive event gave young designers in the country unparalleled opportunities to show their talent and to earn their recognition in the trade. A few universities even required their students from the Faculty of Fashion Design to participate in the Jeanswest Fashion Award as one of their graduation projects.



The Group also sponsored the Jeanswest National Extreme Sports Master Competition, a two-day competition held in Beijing. All the contestants were respectively the most outstanding athletes in the country in BMX cycling, roller-skating and skateboarding. During the interlude of these exciting races, three skateboarding world champions from US dressed in Quiksilver apparel were arranged to give an eye-opening performance. That was a very effective way to introduce to the Mainland the game of skateboarding and the apparel of street life-style as part of the Quiksilver brand building programme.

Quiksilver had opened 3 shops in Shanghai and 2 shops in Hong Kong. The sales in both markets were in line with the forecast. Its performance in Hong Kong was even better. Meanwhile, I.T had been operating 52 shops along the coastal provinces. The fashion show held in I.T's flag-ship store in Shanghai received a very positive feed-back in the trade.

In the first half of the year under review, the turnover of the Group's retail operations in Australia in its local currency grew by more than 10%. This exciting achievement was attributed to the success of the Management in motivating every member of its staff to search for their best. The lively collections and the trendy designs of our products elevated the brand image. The improved purchasing power of the Australian dollars facilitated further enhancement in product quality. The lead-time for purchase and replenishment was shortened. The inventory turnover rate was improved and the normal mark down at the end of seasons was reduced.

As at 30 June 2004, the total number of shops in our network was 1,041 (2003: 839 shops). There were 860 shops (2003: 663 shops) in the Mainland and 181 shops (2003: 176 shops) in Australia. During the period, the total turnover of our retail business amounted to HK\$1,060,642,000 (2003: HK\$831,244,000) showing an increase of 27.60% when compared with the same period of last year.



2. Export Business

In the first half of the year under review, retail market in North America was relatively buoyant. Orders for our export business were quite in line with that of last year. But, since the export quota system would be phased out by the end of the year, importers were able to look for bargain, and thus created much pricing pressure.

The total export turnover for the first half of the year was HK\$562,775,000 (2003: HK\$584,376,000) representing a decrease of 3.70% when compared with the same period of last year.

3. Financial Position

The Group's financial position kept improving during the period under review. Net cash in hand and inventory were both maintained at healthy level.

In the period, the Group entered into foreign currency forward contracts to mainly hedge its currency risks in Australian dollars. The Group's contingent liabilities mainly comprised export bills discounted with recourse. As at 30 June 2004, the said contingent liabilities were HK\$19,947,000 (2003: HK\$30,310,000).

4. Human Resources

As at 30 June 2004, the Group's total number of employees was about 28,000. The Group offers a competitive remuneration package to its employees. In addition, incentives are given to employees based on the Group's performance and individual performance.

