

## CHAIRMAN'S STATEMENT



### GROUP RESULTS

In the year under review, we experienced the surge of crude oil price and the escalation of interest rate as well as the consequential concerns of the advent of inflation and possible economic slowdown. However, the global economy was quite stable and buoyant. The China Government's austerity to cool down those over invested sectors did not have material adverse impact on the retail sentiment. In the period, downward plunging of price and the uncertainties brought about by the lifting of export quota in 2005 were unfavourable to our export business. Thanks to the Management which was well prepared for this and had gradually shifted our business focus to retailing in the last few years, this adverse impact was minimized and became manageable. In this financial year, the Group's retail operations in both China and Australia performed impressively. Their contribution to the Group's consolidated turnover increased from the previous 55.48% to 63.56% and pushed down the turnover of export business from 38.26% to 31.94%. Although the export sales showed a drop of 9.63%, the profit of the Group attributable to shareholders still grew in double digits. The respective ventures with Quiksilver, Inc. and I.T Group all rolled out smoothly according to the plans and hit their respective operation targets. They implemented the Group's multi-branding strategy, expanded our retail network to Hong Kong and Taiwan, enriched our product and designs as well as the enlargement of our market share. These joint ventures delivered their due shares of contribution.

In the financial year under review, the Group's financial position was sound and solid. Inventory level was healthy. As at 31 December 2004 the net cash in hand increased to HK\$1,122,548,000 (2003: HK\$929,582,000). The Management opined that with the cash in hand and the available banking facilities, the Group had the financial resources for expansion and strategical acquisitions. For the financial year ended 31 December 2004, the Group made a profit attributable to shareholders of HK\$220,075,000 (2003: HK\$165,025,000) on a turnover of HK\$3,583,751,000 (2003: HK\$3,310,309,000) representing increases of 33.36% and 8.26% respectively when compared with last year.

### DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK10.50 cents (2003: HK7.50 cents) per share for the year ended 31 December 2004 at the forthcoming Annual General Meeting to be held on Friday, 13 May 2005. The final dividend amounting to HK\$105,061,000, if approved by the shareholders, is expected to be paid on or around Friday, 20 May 2005 to those shareholders whose names appear on the Register of Members on Friday, 13 May 2005.

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### REVIEW OF OPERATIONS

#### Retailing

In the year under review, the performance of the retail operations performed impressively. As strategically planned, retail has become the primary driving force for the sustainable growth of the Group. Inventory turnover was kept at healthy level. Inventory turnover days were 57 days (2003: 56 days).

The total number of shops in our retail network as at 31 December 2004 was 1,278 (2003: 986) including 473 franchised shops (2003: 269). For the year ended 31 December 2004 total retail sales of HK\$2,277,659,000 (2003: HK\$1,836,446,000) were registered showing a growth of 24.03% when compared with previous year and accounted for 63.56% of the Group's total turnover.

I. In the PRC

i. *Jeanswest*

The Group's retail operations in the Mainland were focused at the Jeanswest brand. To meet the challenge of stiffening competition, we uplifted our standards in terms of product quality and design. In the period, our commitment in offering value for dollar and good services to our customers has earned their patronage. Brand building was prioritized. Apart from the usual promotions through media and hosting the nation-wide casual wear design competition – Jeanswest Fashion Award and the Jeanswest National Extreme Sports Master Competition, the Group also sponsored the country-wide fashion model contest – Jeanswest National Model Competition so as to elevate the brand recognition. All our stores were touched up and renovated regularly to ensure all visitors would find our shops comfortable and trendy. Spacious flag ship stores were opened in prime locations with heavy traffic to uplift the brand image. The customers' responses and the yield from those larger stores were encouraging. The brand image has thus been enhanced. In this financial year, the Jeanswest retail sales in the Mainland amounted to HK\$1,477,645,000 (2003: HK\$1,251,322,000) representing an increase of 18.09% when compared with last financial year.

On 31 December 2004, the retail network of Jeanswest in the Mainland comprised 982 shops (2003: 773 shops) including 417 franchised shops (2003: 263 shops) which spread over more than 250 cities.

ii. *GSit*

Pursuant to the joint venture with the I.T Group, a jointly owned and controlled company known as G.S-i.t Limited was formed to market the multi-brand products of the I.T Group exclusively in China except Hong Kong. The development was in line with the expectation of the Management. By the end of the year 2004, the total number of stores in GSit network was 101 including 89 stores in the PRC and 12 stores in Taiwan operated by a joint venture company in which G.S-i.t Limited has 51% equity. Although the GSit business was still in the investment stage, the development trend was encouraging. In the coming year or the year to follow, profit contribution is expected from this operation.

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### iii. *Quiksilver Glorious Sun*

Aiming at the huge market potential for youthful casual lifestyle apparel in the Mainland and Hong Kong, Quiksilver Glorious Sun commenced retailing of Quiksilver and Roxy apparel there. In the year under review, Quiksilver Glorious Sun opened 10 stores, 5 of which in the Mainland and the other 5 in Hong Kong. These stores were situated either in prime shopping area known for trendy lifestyle merchandises or in reputable department stores.

Although the brands were yet to be popularly recognized, business was proceeded as planned to build a sound foundation for future development. Due to the unique designs of the products, the striking visual effects in the stores and the dynamic promotion strategy, the sales in Hong Kong achieved the set target. In the Mainland, consumers started to appreciate the world class status of these brands as well.

### 2. In Australia

Jeanswest operation in Australia delivered an encouraging result attributed from significant increase in turnover, higher inventory turnover rate and thinner mark downs. Such an impressive achievement was attributable to the seamless coordination for the supply of richer collections of better quality products with trendy touch. The up-graded management information system helped the Management to fine-tune its strategy promptly and accurately to meet with the needs of the ever-changing market and to procure a higher level of satisfaction to our customers in our products and services. The market share of Jeanswest thus has been improved.

The total retail sales in Australia for the financial year ended 31 December 2004 was HK\$800,014,000 (2003: HK\$585,124,000) representing an increase of 36.73% when compared with last year. As at 31 December 2004 the Australian retail network comprised 185 shops (2003:183 shops) including 6 franchised ones (2003: 6 shops).

### **Export**

In the year under review, the retail sentiment in US was relatively resilient. However, due to the lifting of the quota system by the end of the year and the early slip of the export price, the export market was just dominated by the buyers. Average unit price went down by more than 10%. Although the Management had been tightening cost control to enhance competitiveness in the last few years, export business in the year under review was inevitably affected particularly when the export volume was still bound by the vanishing quote system. For the year ended 31 December 2004 the total turnover of our export operations was HK\$1,144,528,000 (2003: HK\$1,266,510,000) showing a drop of 9.63% when compared with last year. Its share in the Group's total turnover was 31.94% (2003: 38.26%).

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### Other Businesses

Among other businesses, trading of fabric and quota income were the main items. In the year under review, a turnover of HK\$161,564,000 (2003: HK\$207,353,000) was recorded showing a decline of 22.08% when compared with last year.

### FINANCIAL POSITION

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

In the period, the Group entered into foreign currency forward contracts to hedge its currency risks in Australian dollars. The Group's contingent liabilities mainly comprised export bills discounted with recourse. As at 31 December 2004, the said contingent liabilities were HK\$104,086,000 (2003: HK\$7,537,000).

### HUMAN RESOURCES

As at 31 December 2004, the Group's total number of employees was about 31,000 (2003: 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 results and individual performance.

### SOCIAL RESPONSIBILITY

In the process of maximizing return for shareholders, we strictly adhere to good practices of a responsible corporation and discharge our social responsibilities accordingly. In the period under review, through the charitable foundation set up by the Management and the voluntary participation of our staff, 11 primary schools in the Mainland had been built as part of the "Long March for Education Project". It marked the beginning of our programme to alleviate poverty in those inner parts of the Mainland.

### PROSPECTS

Looking forward to the ensuing year, the Management remains optimistic about our retail business and conservative about our export operations. It is anticipated that the global economy in 2005 might slow down mildly with immaterial impacts on our export operations. However, the uncertainties brought about by the lifting of the quota system will not be cleaned up till the second half of the year. Pricing pressure is expected to continue. The Management therefore takes a cautious and defensive stand in operating our export business. Export sales in the Group's consolidated turnover are expected to be further shrunken.

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For the ensuing year, economic growths in the Mainland China, Hong Kong, Taiwan and Australia are all expected to continue. The retail sentiments will remain relatively strong. As Jeanswest businesses in both Mainland China and Australia are in the up-trend, a more aggressive expansion strategy will be deployed. Efforts will be made to further elevate our brand image and to pursue firmer and higher customers' loyalty so as to enlarge our market share and to uplift our profitability. GSit has planned to increase the number of stores to 200. It is projected that by the end of the ensuing year, the total number of stores in the Group's networks will increase to about 1,500 stores and retail operations will contribute more to the Group's consolidated turnover.

In the absence of major unforeseeable adverse changes, the Management has confidence to deliver better Group results in 2005.

### 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, JP**  
*Chairman*

Hong Kong, 11 April 2005