Chairman's Statement

Introduction

Although global GDP growth is expected to continue in 2005, at 3% compared to 2004's 4%, the first half of the year was dampened by high oil prices, rising interest rates, global trade issues affecting the textile industry and overall economic uncertainty.

Despite these challenges however, the Group recorded double-digit growth in both turnover and profit. Turnover growth came from existing as well as newly-acquired businesses, while the improvement in profitability was a result of the Group's higher-margin business model that is now being implemented.

While we are still in the early days, the results of the Group in the first half of 2005 represent a positive start to the Three-Year Plan 2005-2007 and the turnover target of US$10 billion. The Group also remains in a good position — its strategy of moving into related adjacent sectors will continue to allow for incremental growth, its brand business is poised for rapid expansion and there are many opportunities for acquisitions.

Performance

In the first half of the year, Group turnover increased by 19% to HK$23 billion. Profit attributable to shareholders was HK$618 million, an increase of 23% when compared with the HK$502 million for the first half of 2004. Earnings per share were 21.2 HK cents (2004: 17.3 HK cents).

The Board of Directors has resolved to declare an interim dividend of 14.5 HK cents per share (2004: 12 HK cents).

Market and Business

The US and European consumer markets witnessed modest growth despite uncertainties created by rising oil prices and tighter monetary conditions. Outsourcing grew stronger, and private label gained further currency.

In China, the Group opened a new 260,000 square feet Shanghai office which serves as a hub to manage Central China sourcing. This now adds considerable speed and prowess to the Group's existing network of 18 offices.

Separately, the smooth integration of the Group's acquired companies and new ventures was a priority in the first half of the year. These included US knitwear specialist Ralsey Group, UK apparel supplier BMB, French buying agent Zeeking, fashion brand Ecko and discount chain Mervyn's. The contribution from these operations will be reflected in the Group's full-year results.

An important driver for growth, the Group's brand licensing business made rapid progress. Stewardship teams for all the brands are now in place and launches are taking place as planned. Market response has been encouraging. The Group's current line-up of licensed brands includes Levi Strauss Signature, Levi's Red Tab, Cannon, Royal Velvet and Disney plush toys.

The Group's readiness for the dismantling of the global quota system for textiles at the beginning of 2005, together with the stronger outsourcing trend, has meant more opportunities and upside for the Group. Customers have again responded favorably to the Group's extensive global sourcing network of over 70 offices in 40 countries and territories, and called on the Group's ability to help manage the anti-surge risk of sourcing from China.

Prospects

The Group's growth program will continue to be driven by selective acquisitions and its brand business.

Acquisitions are a core competency of the Group. With more than 10 successful acquisitions over the past five years and an institutionalized process for acquisitions and integration, the Group is now looking at opportunities that would strengthen different business areas and that would further generate back room efficiencies. New acquisitions will be actively considered and, while the timing may be good as there is an abundance of big and small targets, one important criterion would be the need to ensure that value is created and earnings are enhanced as a result. For example, the acquisition of premium and promotional products specialist PromOcean Group in June 2005, has helped to substantially expand the Group's customer base in Europe.

Brands will begin to yield high returns for the Group. All brand launches have proceeded smoothly and market response has been excellent. Group margins will be enhanced when all the brands have been introduced, while new licenses and proprietary brands will add to the momentum and fuel growth in the second half of 2005.

At the macro level, major global trends provide encouragement: outsourcing is stronger than ever, the private label business continues to grow, retail now favors national brands, direct sourcing and proprietary brands, and WTO-related changes create opportunities for the Group's business model. Developments in China also play to the Group's strengths.

The recent yuan revaluation, for example, had only minimal impact on the Group's business. Should it be necessary, the Group would be able to source outside China because of its extensive sourcing network and global presence.

Corporate Governance

The Group is in full compliance with The Stock Exchange of Hong Kong Limited's newly-implemented Code on Corporate Governance Practices (Appendix 14 of the Listing Rules). As before, the Group's commitment to good corporate governance standards remains firm.

Conclusion

I would like to express my appreciation to the members of the Board for their continued guidance and support. The Group's management team and staff have also remained dedicated and diligent, for which I would like to extend my personal thanks.

Victor FUNG Kwok King
Chairman

Hong Kong, 11 August 2005