

CHAIRMAN'S STATEMENT



GROUP RESULTS

Year 2005 was the first year after the entire lifting of textile export quota among WTO members. In response to the surging of textile export from the PRC, related interest groups in importing countries made various appeals to their respective governments to re-impose substituting restrictions. After several rounds of negotiation, the PRC finally reached agreements with European Union and US respectively in June and November to put ceilings to certain categories of textile exports. Thus export market in the year under review was disturbed by these uncertainties. With sustained prudence, the Management refrained from expanding the garment production and got away from the problems of excess production capacity as well as the related damages arising therefrom. The retail market, though competitive, was still very resilient because the macro economic development in the PRC really progressed at high speed. The Management upheld the strategy of developing only its core and leading business but not other diversified investments. Retail business was identified by the Group as its core and leading business which deserved the Group's huge amount of human and financial supports. As a contrast, the Group just maintained or even scaled down its non-core businesses such as apparel manufacturing and merely took those businesses as the supporting operations for the retail business. This strategy was proven to be a correct one. The Jeanswest brand had become one of the most successful brands in casual apparel products in the PRC and the retail business became the main driving force for the Group's turnover and profit.

In the period, notwithstanding the uncertainties and price pressure in the export market, the business of the Group was stable and smooth. Though Jeanswest in Australia was affected by lacklustre retail sentiment and the comparatively weak Aussie dollar, it outperformed its competitors in that market. In the PRC, even Jeanswest business model was the target for imitation, the Management managed to increase the sales in double-digit driving the Group's net profit to rise to the same extent.

The development plan of GSit rolled out smoothly. Turnover increased 174%. Quiksilver Glorious Sun's operations in Hong Kong were encouraging. Its brand recognition in the PRC had been greatly enhanced after various brand promotion activities.

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In the year under review, the Group's financial position was sound and solid. Inventory level was healthy. As at 31 December 2005, the net cash in hand was HK\$1,030,790,000 (2004: HK\$1,122,548,000). For the financial year ended 31 December 2005, the Group's net profit attributable to shareholders amounted to HK\$242,809,000 (2004 (Restated): HK\$219,193,000) on a turnover of HK\$3,802,398,000 (2004: HK\$3,583,751,000) representing increases of 10.77% and 6.10% respectively when compared with last year.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK10.90 cents (2004: HK10.50 cents) per share and a special dividend of HK10.00 cents (2004: Nil) per share for the year ended 31 December 2005 at the forthcoming annual general meeting to be held on



Friday, 26 May 2006. The final dividend together with the special dividend amounting to HK\$219,320,000, if approved by the shareholders, is expected to be paid on or around Friday, 2 June 2006 to those shareholders whose names appear on the register of members on Friday, 26 May 2006.

REVIEW OF OPERATIONS

Retailing

In the year under review, retail operations performed well and became the main driving force behind the growth of the Group's turnover and profit. Despite the keen competition in the PRC, Jeanswest managed to keep the sales to grow at double digits. Inventory turnover days were 54 (2004: 57 days). The total number of shops in the retail network as at 31 December 2005 was 1,507 (2004: 1,278 shops) including 628 franchised shops (2004: 473 shops). For the year ended 31 December 2005, total retail sales of Jeanswest in the Mainland and Australia amounted to HK\$2,492,489,000 (2004: HK\$2,277,659,000) representing an increase of 9.43% when compared with the previous year and accounted for 65.55% of the Group's total turnover (2004: 63.56%).

1. In the PRC

i. Jeanswest

The Group's retail operations in the Mainland were focused at the Jeanswest brand. In the period under review, some exporters were uncertain about the export prospects and sold their products in the domestic market. This intensified the competition in the local retail market. Fortunately the retail markets were buoyant

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and Jeanswest managed to push up the sales to HK\$1,716,268,000 (2004: HK\$1,477,645,000) representing an increase of 16.15% when compared with last year. On 31 December 2005, the retail network of Jeanswest in the Mainland comprised 1,162 shops (2004: 982 shops) including 567 franchised shops (2004: 417 shops) covering more than 250 cities.

ii. GSit

G.S - i.t Limited, the joint venture with I.T Group moved ahead as planned. The sales generated from its 140 stores (2004: 101 stores) were more than HK\$190,000,000. The network at the end of the year comprised 23 stores in Taiwan and 117 in the Mainland (2004: 101 stores) including 53 franchised stores (2004: 50 stores). The operation scale doubled that of last year.

iii. Quiksilver Glorious Sun

In view that brand recognition of Quiksilver and Roxy was higher in Hong Kong, the Management put up more shops in Hong Kong and focused on brand building in the Mainland. The performance in Hong Kong was very impressive with huge growth potential. Brand image of Quiksilver had been greatly uplifted after a series of promotion activities such as "Quiksilver-Great Wall of China Jump". The introduction of an additional brand-DC shoes was met with warm support from the customers as it enriched the existing collections of Quiksilver and Roxy. As at 31 December 2005, there were 9 stores (2004: 5 stores) in Hong Kong and 6 stores (2004: 5 stores) in the Mainland including 2 franchised ones.

2. *In Australia*

In the year under review, the effects of the economic stimuli introduced in 2004 had already faded out. The weakening of Australian dollar and deflating of the property market turned the retail market fairly lukewarm. Jeanswest was affected but its performance out-matched its peers. It was attributable to the proficiency of the local management in handling the ever-changing market conditions and the trendy collections which strengthened the pricing power and customer base.

The total retail sales in Australia for the year ended 31 December 2005 was HK\$776,221,000 (2004: HK\$800,014,000) representing a decrease of 2.97% when compared with last year. As

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at 31 December 2005, the Australian retail network comprised 190 shops (2004: 185 shops) including 6 franchised ones (2004: 6 shops).

Export

In the year under review, textile export from the PRC surged right after the lifting of export quotas. Relevant interest groups in those importing countries advocated for limitation on the textile export volume from the PRC. Possible embargo became the common concern among exporters and importers. The Management on one hand consolidated selected oversea production facilities to alleviate the price pressure so as to stay competitive and on the other hand prudently refrained from following the others in production expansion in the PRC. Therefore, over-capacity was not a problem and our export business development became stable.

For the year ended 31 December 2005, the total turnover of our export operations was HK\$1,148,110,000 (2004: HK\$1,144,528,000) showing an increase of 0.31% when compared with the previous year. Its share in the Group's total turnover was reduced from 31.94% in 2004 to 30.19%.

Other Businesses

Among other businesses, trading of fabric was the main items. In the year under review, a turnover of HK\$161,799,000 (2004: HK\$161,564,000) was recorded showing an increase of 0.15% 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. During the year, the Group entered into foreign currency forward contracts to hedge mainly its exposures in Australian dollars.

HUMAN RESOURCES

As at 31 December 2005, the Group's total number of employees was about 31,000 (2004: 31,000). 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

The Management firmly believes that in addition to the enhancement of equity return, the Group also has its social responsibilities to discharge. All colleagues are encouraged to actively participate in all kinds of public services. In the period under review, the Management in collaboration with the major shareholders put up a fund of around RMB10,000,000 to provide

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scholarship for those needy undergraduates with outstanding results and good conduct. The purpose of the fund is to facilitate the recipients to complete their university study and to encourage them to serve the society.

PROSPECTS

Looking forward to the ensuing year, the Management anticipates that the business environment will be better than that in 2005. As the market generally expects the economy in Australia to be stable and that in the PRC to continue with its impressive growth momentum, the Management will aggressively expand the retailing operations in the PRC with the aim to enlarge its market share. More effort will be put in the brand building exercise. This will include the opening of more shops in prime locations and organising more aggressive promotion campaigns at nation-wide scale so as to reinforce the leading position of the Jeanswest brand in the PRC. Jeanswest in Australia had entered into agreement with two famous designers Dan Single and George Gorrow to introduce a new line known as Alba Fan Club in coming April in our Australian network so as to enrich our product collection. The Management is also expanding the retail network to East and South East Asia. It is believed that solid progress will be made in the ensuing year.

The development of GSit and Quiksilver Glorious Sun will be expedited according to their respective plans. GSit is expected to be profitable in 2006. More products to be produced in the Mainland to expand margin for licensing is the targets of Quiksilver Glorious Sun to be achieved in the ensuing year.

Year 2006 is the second post export quota year. A lot of uncertainties were settled along with new agreements between the PRC and its trading counterparts. In consideration of those issues such as over-capacity in the Mainland are still prevailing, the Management opts for maintaining the present production scale and uplifting production efficiency to maximize our return.

In the absence of major unforeseeable adverse changes, the Management has confidence to deliver better Group results in 2006.

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.

Dr. Charles Yeung, SBS, JP
Chairman

Hong Kong, 20 April 2006

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