

## INTERIM DIVIDEND

The Directors have resolved to pay an interim dividend of HK3.20 cents (2005: HK2.90 cents) per share for the six months ended 30 June 2006 to shareholders whose names appear on the register of members of the Company as at the close of business on Thursday, 12 October 2006. The interim dividend is expected to be paid to shareholders by post on or around Tuesday, 17 October 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 10 October 2006 to Thursday, 12 October 2006, 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, 9 October 2006.

## REVIEW OF OPERATIONS

Both the retail and export businesses of the Group achieved double-digit growth for the first six months of the current financial year (the "Period"). Whilst China's austerity programme to regulate the overheated economy is still in force, economic growth in China remained spectacular with the retail market being resilient. Jeanswest's operations in the Mainland witnessed strong performance in terms of sales during the Period. In spite of the sluggish condition in the Australian retail market, Jeanswest Australia out-performed the market performance. Average unit price of the Group's exports had started to stabilize since the fourth quarter of 2005 with turnover contributed by the Group's export business picking up gradually. Business development of Quiksilver Glorious Sun has been good and encouraging with improved brand recognition in the Mainland. Business development of GSit has been on schedule. During the Period under review, the Group's retail, manufacturing and export businesses saw general increases in operating costs and intense competitions. Accordingly, the Management has strategically initiated certain changes and adjustments in operations.

Financial position of the Group remains sound. As at 30 June 2006, the Group had net cash of HK\$640,206,000 (2005: HK\$1,077,973,000) while the inventory level stayed at a healthy level.

For the six months ended 30 June 2006, the Group recorded a turnover of HK\$2,002,435,000 (2005: HK\$1,762,520,000) and net profit attributable to equity holders of the Company of HK\$125,223,000 (2005: HK\$112,827,000) in its unaudited consolidated accounts, representing year-on-year rises of 13.61% and 10.99% respectively.

## 1. Retail Operations

Jeanswest China remains the flagship brand of the Group's retail business in the Mainland market. During the Period, turnover of Jeanswest China grew to HK\$925,946,000 (2005: HK\$799,821,000), increasing by 15.77% when compared with the corresponding period in the previous year. The retail market in the Mainland has been robust. However, market competition had resulted in general rises in costs, among which the rise in rental cost was particularly significant. Brand awareness of Jeanswest China has been growing in the recent years while the improvement in product design was well-received by the market, leading into steady growth in the Group's sales in this market.

Market condition in the Australasian retail market has been sluggish during the Period with the exchange rate of Australian dollars to Hong Kong dollars dropping by 4.90%. The Group only registered a turnover of HK\$364,914,000 (2005: HK\$377,888,000), representing a year-on-year decrease of 3.43%, during the Period. Nevertheless, in Australian dollar terms, the Group in fact achieved a slight increase in turnover and an improvement in gross operating margin, out-pacing its key competitors in the market. In late May 2006, the Group bought back the Jeanswest operations in New Zealand, which have been performing in line with the Management's expectation. The contributions from the New Zealand operations will be reflected in full in the Group's consolidated accounts in the second half of the financial year.

For the Period, the retail operations collectively registered an aggregate turnover of HK\$1,318,714,000 (2005: HK\$1,177,709,000), rising by 11.97% year-on-year and representing 65.86% of the Group's consolidated turnover.

As at 30 June 2006, the total number of the Group's retail network of shops, including that of Quiksilver Glorious Sun and GSit, was 1,640 shops (2005: 1,386 shops), of which 1,263 shops (2005: 1,071 shops) were operated under the brand name of Jeanswest China in the Mainland. Among the Jeanswest shops in the Mainland, 619 shops (2005: 576 shops) were directly managed by the Group. The Jeanswest network in Australasia comprised 218 shops (2005: 186 shops), out of which 6 shops were operated under franchised arrangement.

Business development of Quiksilver Glorious Sun has been good. By late June, it operated 15 shops (2005: 11 shops), of which 6 shops were in the Mainland and 9 shops were in Hong Kong. Turnover of Quiksilver Glorious Sun achieved a respectable 73% year-on-year growth. GSit operated a total of 144 shops (2005: 118 shops) in China, including 29 shops (2005: 14 shops) in Taiwan. 116 shops (2005: 69 shops) were under direct management.

## **2. Export Business**

During the Period, while average unit price for the Group's exports stabilized gradually, operating costs had increased. In view of the abolishment of the global export quota system for textile and garment products in 2005 and the diminishment of competitive advantage previously commanded by its production base in the Philippines, the Group had closed down the manufacturing facilities during the Period so as to avoid wastage of resources in the operations failing to yield positive economic benefits. After the consolidation, the Group's production costs have been under control with productivity maintaining at the previous levels. During the Period, sales from the Group's export business have stopped from further decline and managed to achieve growth. For the period, the Group's exports amounted to HK\$590,646,000 (2005: HK\$525,185,000), up 12.46% when compared with the corresponding period in the previous year.

## **3. Financial Position**

As disclosed above, the Group's financial position has been sound with both net cash and inventory staying at healthy levels.

During the Period, the Group had written foreign exchange future contracts, principally for the purpose of hedging the currency risks associated with the Australian dollars.

#### 4. Human Resources

As at 30 June 2006, the Group employed a total of above 30,000 staff. The Group offers competitive remuneration packages to its employees. In addition, incentives are granted to employees with reference to the Group's overall performance and performance of each individual.

### PROSPECTS

The Management is optimistic towards the business performance of the Group in the second half of 2006. While China's austerity programme is anticipated to prevail and more stringent measures are expected in the overheated markets, the Management believes that the Chinese government will be adamant on its marco-economic policies aiming at stimulating domestic consumption and relaxing its high degree of reliance on the foreign trade-led economic growth. As a result, adverse impact on China's retail business is expected to be minimal. Turnover of Jeanswest China is now on a rising trend and the Chinese authorities have recently endorsed the brand name of Jeanswest as a "Well-known Trademark" in China. Meanwhile, Jeanswest was selected as "The Leading Brand Name in the China's Garment Industry 2006" in the category of casual apparel by a group of industry experts from the China Federation of Industrial Economics, Trade Development Bureau of the Ministry of Commerce, PRC, Shanghai Garment Trade Association, etc., based on a survey covering 287 domestic and overseas brand names conducted by Social Survey Institute of China. Against this backdrop, the Management optimistically forecasts a continual upward trend for the Group's retail sales in the Mainland market. Sales recorded by Jeanswest in Australasia had already showed improvement in July and August, leading the Management to project better performance in the second half of 2006. Furthermore, the Group is proactively expanding its overseas operations. The first Jeanswest shop in Middle East under a franchise arrangement is expected to become operational in October this year. Sales growth achieved by Quiksilver Glorious Sun so far has been satisfactory. The Management will make further effort to promote this brand name in the Mainland and will speed up the expansion by opening more new Quiksilver shops in Hong Kong. Steady growth is also anticipated in the Group's export business. Barring unforeseen circumstances, the Management expects the growth rate recorded in the first half to retain in the second half of this financial year.