

CHAIRMAN'S STATEMENT

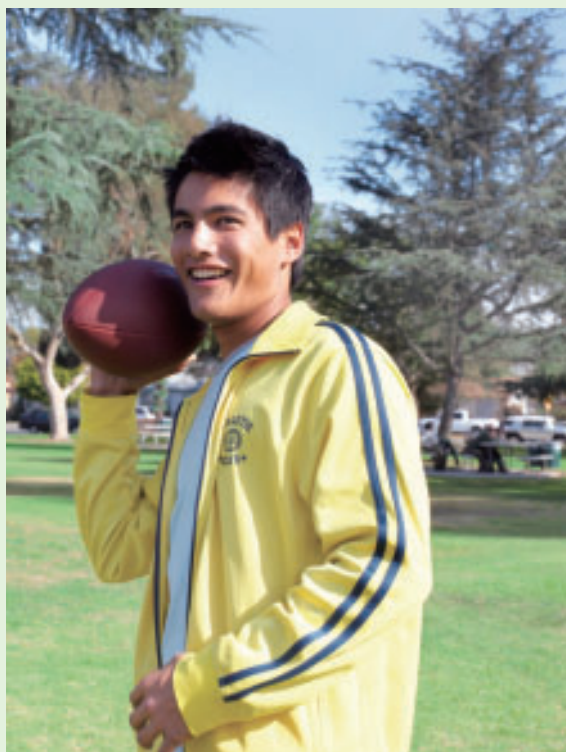


GROUP RESULTS

In 2006, underpinned by the improving global economic settings, the markets in which the Group have been principally operating were buoyant. The Group had achieved double-digit sales growth with exports increased by nearly 10% year-on-year for the year ended 31 December 2006 (the "Period"). "Jeanswest", the Group's flagship brand name retail stores, enjoyed stronger brand name recognition and popularity. It was evidenced by the fact that "Jeanswest" was selected as the "Leading Brand Name in China's Garment Industry 2006" in the category of casual apparel by Social Survey Institute of China in an extensive survey conducted by a group of experts organized by various Chinese authorities, covering 287 domestic and overseas brand names. Meanwhile, "Jeanswest" was also recognized as a "Well-known Brand Name" by the relevant Chinese authorities. The retail markets in Australia and New Zealand have been stable and performance of Jeanswest Australia in the second half of the Period managed to outperform the first half of the same Period, resulting in consistent growth in sales when compared with that recorded in the corresponding period in the previous year with improvement in gross profit margin. In 2006, the Group had acquired the entire equity interests in Jeanswest New Zealand, of which performance after the acquisition has been in line with the Management's expectation. In the fourth quarter of 2006, the Group also commenced its retail operations in the Middle East through various franchised arrangements. Initial responses were encouraging.

Quiksilver Glorious Sun saw solid growth during the Period while brand name of Quiksilver in the Mainland has been growing popular continually. The Management believes that further efforts are required to raise the business performance of GSit. As a result of rapid expansion of the retail networks during the Period, GSit's suffered heavier operating losses when compared with the previous year. The Group had set targets aiming to boost both sales and profit for the GSit's Management to meet. Overall speaking, the performance of the Group's retail operation has been good, which is an indication of initial success for the Group's strategic decision in elevating retail activities as the Group's core business.

CHAIRMAN'S STATEMENT



During the Period, the Management had closed down the manufacturing facilities in the Philippines and Indonesia, which saw less competitive in the market. Albeit such closing down, the Group managed to maintain the required production capacity, with improvement in the competitiveness as well. As a result, the Group's sales from its exports business recorded a growth of nearly 10%, compared with the previous year.

For the Period, the Group's overall financial position was solid with inventory staying at healthy levels. As at 31 December 2006, the Group had consolidated net cash of HK\$716,439,000 (2005: HK\$1,030,790,000). For the financial year ended 31 December 2006, the Group recorded sales of HK\$4,397,359,000 (2005: HK\$3,802,398,000) and the net profit attributable to the shareholders amounted to HK\$271,582,000 (2005: HK\$242,809,000), representing an increase of 15.65% and 11.85% respectively.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK12.24 cents (2005: HK10.90 cents) per share and a special dividend of HK10.00 cents (2005: HK10.00 cents) per share for the year ended 31 December 2006 at the forthcoming annual general meeting to be held on Friday, 22 June 2007. The final dividend together with the special dividend amounting to HK\$234,601,000, if approved by the shareholders, are expected to be paid on or around Friday, 29 June 2007 to those shareholders whose names appear on the register of members of the Company on Friday, 22 June 2007.

REVIEW OF BUSINESSES

Retailing

During the Period, the Group's retail operations continued to perform well. Despite stiff competition and rising rents, Jeanswest China managed to register double-digit sales growth in the Mainland. Inventory turnover days were 51 days (2005: 54 days). As at the end of 2006, the Group's retail network included 1,804 retail stores (2005: 1,507), of which 777 (2005: 628) stores were operated under franchised arrangements. New stores in Dubai, New Zealand and Macau were added to the Group's network of retail stores. For the financial year ended 31 December 2006, the Group recorded gross revenue of HK\$2,918,766,000 (2005: HK\$2,492,489,000) from the markets of China, Australia and New Zealand, up 17.10% year-

CHAIRMAN'S STATEMENT

on-year. Revenue from the Group's retail operations further increased from 65.55% of the Group's consolidated sales in 2005 to 66.38% in 2006.

1. The PRC

i. *Jeanswest*

The Group has been operating in the China's retail market principally under the brand name of Jeanswest. The Chinese retail market was robust during the Period. However, the market has been growing more competitive with new brand names added to the market every month. Upward pressure on operating costs, especially the rental expenses, during the Period also intensified. Meanwhile, the abnormal weather condition in the Mainland had brought in a warmer winter than expected and had caused some complications in our operation. Attributed to the prudent strategies adopted by the Management, Jeanswest managed to gain larger market shares in the Mainland. During the Period, the Group had teamed up with Anhui Cable TV Station to produce and host the TV show "Jeanswest Super New Talents Competition", which was broadcasted nationwide, in addition to hosting the annual Jeanswest Cup – a nationwide casual wear design competition. The events had further boosted the brand image of Jeanswest in the PRC. Additional efforts on marketing and promoting the Jeanswest brand name were also made, driving up the Group's sales from this operation to HK\$2,050,979,000 (2005: HK\$1,716,268,000), representing a year-on-year growth of 19.50%.



As at 31 December 2006, Jeanswest operated a total of 1,374 (2005: 1,162) retail stores in the Mainland, in which 717 (2005: 567) were operated under franchised arrangements, covering more than 250 cities and towns in China.

ii. *Quiksilver Glorious Sun*

Business development of Quiksilver Glorious Sun has been good. Sales grew by more than 50% when compared with the corresponding period in the previous year with number of its retail stores increased from 2005's 15 stores to 23 stores, of which 2 are operated under franchised arrangement. Market coverage has also expanded from Hong Kong and Shanghai to Shenzhen, Beijing and Macau. Through a series of promotion and marketing activities, brand name recognitions for Quiksilver and Roxy in the Mainland have been further boosted.

CHAIRMAN'S STATEMENT

iii. GSit

During the Period, both the retail footage occupied by the GSit operations and sales recorded impressive growth of more than 60%. The business activities originally operated under the "Kenzo" brand name in the Mainland have been intergraded into GSit. Nevertheless, the rapid expansion programme engaged by this operation in 2006 had fuelled rapid increase in expenses, resulting in heavier operating losses. GSit's operations in Taiwan had also been negatively affected by the poor market condition there. In view of the disappointing performance, the Group has instructed the GSit Management to take remedial actions to improve the performance. The Group had also made appropriate financial provisions against the losses.

2. Australia and New Zealand



During the Period, economic conditions in Australia were mixed. Hike in commodity prices had benefited the overall economy while unemployment rate dropped to the lowest level in 30 years. On the contrary, interest rate on Australian dollar continued to appreciate, undermining retail sentiment. Fortunately, brand name recognition for Jeanswest was good and the trendy designs managed to draw favourable market responses. As a result, this operation managed to maintain growth in sales with improvement in profit margin throughout the year in a sluggish market. During the Period, the Group had acquired the entire

Jeanswest operation in New Zealand, of which business operation was generally in line with the Management's expectation.

The total retail sales in Australia and New Zealand for the year ended 31 December 2006 was HK\$867,787,000 (2005: HK\$776,221,000) representing an increase of 11.80% when compared with last year. As at 31 December 2006, the retail networks in Australia and New Zealand comprised 220 shops (2005: 190 shops) including 6 franchised ones (2005: 6 shops).

Export

The US retail market in 2006 was good, helping the Group sustain stable average unit price for its exports. Nevertheless, the Group saw the production cost rise. As planned, the Management had closed down the Group's production facilities in the Philippines and Indonesia, which commanded lesser competitive advantages. Through a series of consolidations and restructures, the Group's production capacity remains adequate with improvement in competitiveness.

CHAIRMAN'S STATEMENT

For the financial year ended 31 December 2006, the Group witnessed a 9.23% year-on-year increase in exports to HK\$1,254,136,000 (2005: HK\$1,148,110,000), equivalent to 28.52% of the Group's consolidated sales (2005: 30.19%).

Other Businesses

Trading of fabric remained as the principal activities of the Group's other businesses. For the Period, the activities in this category generated gross revenue of HK\$224,457,000 (2005: HK\$161,799,000), increased by 38.73% on yearly basis.

FINANCIAL POSITION

The Group's financial position has grown healthier. As mentioned earlier, the Group's inventory level had improved. In 2006, the Group had entered into foreign currency forward contracts to hedge its exposure to exchange risks in respect of the Australian dollars.

HUMAN RESOURCES

As at 31 December 2006, the Group employed about 31,000 employees (2005: 31,000). The Group offers competitive remuneration packages to them. In addition, from time to time bonus and share options may be granted based on the Group's results and individual performance.

SOCIAL RESPONSIBILITY

The Group is a firm believer that a business organization should take up social responsibility while pursuing profit enhancement. Hence, when manufacturing, the Group has been adhering to the regulations on environmental protection, and making the best efforts to reduce the production of wastage water and to minimize the exhaustion of polluted air. The Group also actively participated in social welfare services. Amongst the examples are the fund-raising exercise for The Children Medical Research Institute in Australia, sponsoring the activities of the Sowers Action Hong Kong and that of the Fire Services Department Volunteer Team in Hong Kong. The Management together with its staff members also made donations to support the development of the minority peoples in the less populated areas in China, to the Hong Kong Polytechnic University, to the Jinan University in China and participated in the "against poverty" project in Jinzhou in China. During the year, the Group's major shareholders as well as the Management made personal donations to the Hong Kong AIDS Foundation to help prevent the spreading of AIDS. Against this backdrop, a member of the Management was proudly honoured as a "pioneer in making donations to the charitable businesses in the areas of Guangdong, Hong Kong and Macau" and an "ambassador of China's public welfare".

PROSPECTS

Looking forward, in spite of the possibility that growth of the US economy may decelerate in view of the problems associated with the subprime mortgage loans, the Group anticipates that the Mainland retail market will continue to improve in 2007 on persistent economic growth in China and the government's policies to pursue a consumption-driven economic growth. The

CHAIRMAN'S STATEMENT

general Australian economy is also expected to remain stable. Hereupon, the Management will continue to take an aggressive stance when expanding its retail network with emphasis on the Mainland market. Jeanswest's principal activities in China in the coming year will be on the upgrade of brand image, product design and quality, in order to bring "real value" to consumers. To consolidate the leading status currently enjoyed by Jeanswest in China, the Group will set up more image stores and flagship stores in the prime shopping areas.

As for the markets in Australia and New Zealand, to capture larger market share through the introduction of more trendy designs and provision of better quality products, the Group will focus on the product development of the jeans wear series under the brand name of Alba Fan Club and the denim jeans series under the brand name of Jeanswest in addition to the emphasis on the promotion of the Jeanswest image. Furthermore, the Group has also planned to expand its Jeanswest network of retail stores to the South East Asian markets under separate franchising arrangements to complement its strategy of operating more franchised stores in the Middle East.

In 2007, Quiksilver Glorious Sun will accelerate its development pace. Other than increasing the investment in the promotion of brand name, the Group will negotiate to produce more Quiksilver products in China with the expectation to improve its gross profit margins and to achieve breakeven. The Group will continue to focus on the upgrade of competitiveness and on cost control in the businesses of exports and manufacturing while a new factory is scheduled to be built in Vietnam.

Barring unforeseen circumstances, the Management has confidence that the Group will continue to bring reasonable returns to its shareholders in 2007.

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, 11 April 2007





JEANSWEST
真维斯