

## CHAIRMAN'S STATEMENT

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### RESULTS AND DIVIDENDS

I am honored to announce to our shareholders the encouraging results achieved by the Group for the year ended March 31, 2001. The turnover of the Group grew by 16% to HK\$1.7 billion. Audited profit attributable to shareholders and earnings per share rose 33% to HK\$121 million and HK34.3 cents respectively. After the recommended final dividend, shareholders' funds were up 11% to HK\$464 million or HK\$1.32 per share. Return on average equity climbed up to 27% from 22% last year.

Based on the strong income statement and solid balance sheet, the Directors have resolved with great pleasure to recommend at the forthcoming Annual General Meeting a final dividend of HK15 cents per share (2000: final dividend of HK10 cents per share and special dividend of HK5 cents per share) payable on September 20, 2001 to shareholders whose names appear on the Register of Members on September 12, 2001. Coupled with the interim dividend paid, the total dividends for the year will be HK20.5 cents per share (2000: HK20 cents per share).

### BUSINESS REVIEW

The year under review was a year of profitable growth to the Group. Our simple focus to offer a total satisfaction to our valued customers worked well. The strategic expansion in production capacities for the apparel manufacture and export operation during the past few years, especially the setting up of new factories exclusively for producing the non-silk apparels, added effective diversification to our product range and enabled us to better serve the increasing needs of our customers. Most importantly, the continuous refinement of our production processes and cost structures provided a solid platform for us to deliver the best value products to our customers and greatly enhanced the mutual resonance to meet the severe market challenges.

Despite the gradual slowdown of the economy in the United States during the second half of the year, the Group still managed to increase the sales to North America by 12% in that period. Total yearly sales to North America posted an increase of 17% to HK\$1.5 billion which represented 91% of the turnover of the Group. We are satisfied with the 90% growth in exports to the sluggish Japan market but disappointed with the continuous decrease in sales to Europe.

During the year, the economy of China remained satisfactory. The consumption market was further improving and inflation was under control. The Group continued to expand its apparel retail operation in China at the target pace. Benefiting from the gradual net addition of 15 stores during the year, total retail sales in China recorded an increase of 31%, which accounted for nearly 5% of the turnover of the Group and made a positive contribution albeit not significant. At the year-end date, the Group was operating a total of 40 stores in the major cities in China.

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### PROSPECTS

In the United States, with the consecutive interest rate cuts and the future tax reduction and refund, the latest consumer confidence index was acceptable and lit up cautious hope that an economic turnaround would be within sight. However, the prevailing harsh conditions including the rising unemployment, the fast shriveling in corporate profits, the slowdown in capital spending and the piling up of inventories from boom times are all burdens to the sluggish growth. In Japan, jobless rate is worsening, deflationary pressure continues to build and the economy is further deteriorating. Meanwhile, the Euro zone is also suffering from contraction in consumption and production. Facing such increasingly gloomy global economy, demands in the apparel sector in the United States and other major export markets will be inevitably depressed, and rationally our customers are very cautious in placing their purchasing orders. The Group is to take a pessimistically prudent short-term outlook in contrast to the good performance just achieved in this year, and foresees a fall in the sales turnover and operating results for the first half of the coming year. Nevertheless, the Group is full of confidence with the long-term prospects.

To alleviate the possible adverse impacts on our core export business, we keep strengthening our designing and selling forces for all our export markets, especially the United States, and are setting up direct marketing office in the United Kingdom to serve the Europe market. We remain simple in strategy to provide the best value package of products and services to our customers to earn their total satisfaction. Meanwhile, we continue to make positive changes in our organization. We adopt new ways of thinking and apply re-engineered processes in ongoing daily routines and ever-enhance our productivity in all operational functions.

The Group continues to perform tight financial management over cash flow, working capital and capital expenditure. Based on our solid balance sheet and abundant standby banking facilities, the Group will pursue prioritized projects and strategic investments including productivity enhancement, diversification of products and services of core manufacturing operation, expansion of retail operation in China, and certainly, continuous developing and upgrading of human resources, the most important resources of the Group.

We foresee that China's economic growth will be accelerated after the imminent entry into the World Trade Organization but the competition in China's retail market will become more severe. We will keep our prudent "positive contribution" approach in expanding the scale of retail operation in China, yet relatively in a bit more aggressive pace. We opened 4 additional stores in the last four months, making a total of 44 stores in operation as of today and targeting to reach over 50 stores by end of March 2002. Our "Betu" brand has gained great market recognition as fashionable and quality career wear and casual wear at value price for young and independent ladies in China. Based on this solid foundation, the retail operation in China is gradually building its importance to the Group.

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### ACKNOWLEDGEMENT

Today, I would like to extend my deep appreciation to all dedicated people in Tungtex Group for their contribution in the past and their commitment for our future achievement. I also would like to express my gratitude to our valued customers, business associates and shareholders for their continuous support to us.

**Benson Tung Wah Wing**

*Chairman*

Hong Kong, July 12, 2001