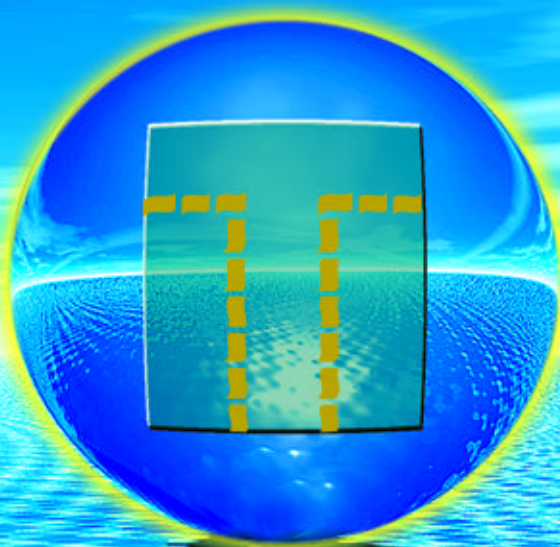


TUNGTEX (HOLDINGS) COMPANY LIMITED



INTERIM REPORT 2001-2002

RESULTS

The Directors are pleased to announce that the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended September 30, 2001 (the "period") are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2001

		Six months ended September 30	
		2001 (UNAUDITED) HK\$'000	2000 (UNAUDITED) HK\$'000
	Notes		
Turnover	3	635,988	742,198
Cost of sales		(487,250)	(576,799)
Gross profit		148,738	165,399
Other revenue		7,153	6,715
Selling and distribution expenses		(15,816)	(17,699)
Administrative expenses		(96,707)	(104,150)
Profit from operations		43,368	50,265
Finance costs		(1,031)	(1,365)
Share of results of associates		868	673
Profit before taxation	4	43,205	49,573
Taxation	5	(5,678)	(5,667)
Profit before minority interests		37,527	43,906
Minority interests		(5,739)	(5,283)
Profit attributable to shareholders		31,788	38,623
Proposed interim dividend		17,607	19,368
Earnings per share	7	9 cents	11 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2001

	Notes	September 30 2001 (UNAUDITED) HK\$'000	March 31 2001 (AUDITED) HK\$'000
Non-current assets			
Investment properties		12,100	12,100
Property, plant and equipment	8	173,062	180,218
Permanent textile quota entitlements		155	204
Investments in associates		9,997	5,127
Investments in securities		2,515	2,515
		<u>197,829</u>	<u>200,164</u>
Current assets			
Inventories		90,088	97,197
Trade and other receivables	9	170,113	222,843
Trade receivable from an associate		1,956	—
Taxation recoverable		593	27
Bank balances and cash		339,920	332,993
		<u>602,670</u>	<u>653,060</u>
Current liabilities			
Trade and other payables	10	213,472	246,508
Trade payable to an associate		—	3,831
Taxation payable		11,948	12,100
Obligations under finance leases and hire purchase contracts - due within one year		17	34
Bank borrowings		23,953	24,163
		<u>249,390</u>	<u>286,636</u>
Net current assets			
		<u>353,280</u>	<u>366,424</u>
		<u>551,109</u>	<u>566,588</u>
Capital and reserves			
Share capital	11	70,428	70,428
Reserves		90,414	90,300
Retained profits	12	317,750	303,569
Proposed dividends		17,607	52,821
Shareholders' funds			
		<u>496,199</u>	<u>517,118</u>
Minority interests			
		<u>52,261</u>	<u>46,487</u>
Non-current liabilities			
Obligations under finance leases and hire purchase contracts - due after one year		4	40
Deferred taxation		2,645	2,943
		<u>2,649</u>	<u>2,983</u>
		<u>551,109</u>	<u>566,588</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended September 30, 2001

	Six months ended September 30	
	2001	2000
	(UNAUDITED)	(UNAUDITED)
	HK\$'000	HK\$'000
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the unaudited condensed consolidated income statement	111	52
Net profit for the period	<u>31,788</u>	<u>38,623</u>
Total recognised gains	<u>31,899</u>	<u>38,675</u>
Prior period adjustment arising from the effects of changes in accounting policies (see note 2) — increase in retained profits at April 1, 2000		<u><u>52,821</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2001

	Six months ended	
	September 30	
	2001	2000
	(UNAUDITED)	(UNAUDITED)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	70,762	70,310
Net cash outflow from returns on investments and servicing of finance	(48,718)	(49,588)
Tax paid	(6,655)	(1,528)
Net cash outflow from investing activities	<u>(8,152)</u>	<u>(5,558)</u>
Net cash inflow before financing activities	7,237	13,636
Net cash inflow (outflow) from financing activities	<u>9,538</u>	<u>(2,582)</u>
Increase in cash and cash equivalents	16,775	11,054
Cash and cash equivalents at beginning of the period	313,670	194,676
Effect of foreign exchange rate changes	<u>(47)</u>	<u>(79)</u>
Cash and cash equivalents at end of the period	<u>330,398</u>	<u>205,651</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	339,920	207,377
Bank overdrafts	(2,531)	(1,726)
Trust receipt loans	<u>(6,991)</u>	<u>—</u>
	<u>330,398</u>	<u>205,651</u>

Notes:

1. Basis of preparation and principal accounting policies

The unaudited consolidated condensed interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No.25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirement of appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The condensed interim financial statements should be read in conjunction with the 2001 annual financial statements.

The unaudited consolidated condensed interim financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended March 31, 2001 except that the Group has revised certain of its accounting policies following its adoption of the new and revised SSAPs issued by the Hong Kong Society of Accountants which for the Group became effective as of April 1, 2001.

The changes to the Group's accounting policies and the effect of adopting these new and revised policies are set out below:

(a) SSAP 9 (revised): Events after the balance sheet date

In accordance with the SSAP 9 (revised), the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment (*see note 2*).

(b) SSAP 30 Business combinations

Goodwill/negative goodwill

Goodwill/negative goodwill on acquisitions of subsidiaries/associates/joint ventures by the Group occurring on or after April 1, 2001 is included as intangible assets and is amortised over its estimated useful life in accordance with the provisions of SSAP 30. For acquisitions prior to April 1, 2001, goodwill/negative goodwill was written off against/taken directly to reserves on acquisition. The Group has applied the transitional provisions in SSAP 30 and such goodwill/negative goodwill has not been retrospectively restated.

2. Prior period adjustment

The previously recorded dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended March 31, 2000 and 2001 were HK\$52,821,000 for each year. Under the Group's new accounting policy as described in Note 1(a), these have been written back to the opening reserves as at April 1, 2000 and 2001 in Note 12 and are now charged in the period in which they were proposed.

3. Segmental information

The Group operates principally in the manufacture and sale of garments, which accounted for more than 90% of the Group's turnover and operating profit for the period. The Group's turnover and contribution to profit before taxation analysed by geographical market are as follows:

	Turnover		Contribution to profit before taxation	
	Six months ended		Six months ended	
	September 30		September 30	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical market:				
U.S.A.	557,983	671,355	30,242	38,042
Canada	3,785	5,159	203	210
North America	561,768	676,514	30,445	38,252
Asia	64,878	54,822	5,133	4,459
Europe and others	9,342	10,862	637	839
	<u>635,988</u>	<u>742,198</u>	<u>36,215</u>	<u>43,550</u>
Finance costs			(1,031)	(1,365)
Share of results of associates			868	673
Other revenue			7,153	6,715
			<u>43,205</u>	<u>49,573</u>

4. Profit before taxation

	Six months ended	
	September 30	
	2001	2000
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation	11,033	10,307
Interest on borrowings wholly repayable within five years	<u>1,031</u>	<u>1,365</u>

5. Taxation

	Six months ended September 30	
	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	4,360	4,774
Taxation in other jurisdictions	1,577	1,107
Share of taxation on results of associates	39	5
	<hr/>	<hr/>
	5,976	5,886
Deferred taxation	(298)	(219)
	<hr/>	<hr/>
	5,678	5,667

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. Dividends

On September 20, 2001, a final dividend of 15 cents (2000 final dividend: 10 cents and special dividend: 5 cents) per share was paid to shareholders for 2001.

The Directors have declared an interim dividend of 5 cents per share (2001: 5.5 cents per share) payable on January 23, 2002 to shareholders whose names appear on the Register of Members on January 15, 2002.

7. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$31,788,000 (2000: HK\$38,623,000) and on the number of 352,137,298 shares (2000: 352,137,298 shares) in issue during the period.

8. Property, plant and equipment

During the period, the Group spent approximately HK\$4.3 million (six months ended September 30, 2000: HK\$5.6 million) on additions to property, plant and equipment for the purpose of expanding the Group's business.

9. Trade and other receivables

The Group allows an average credit period of 30 days to its trade customers.

Included in trade and other receivables are trade receivables with the following ageing analysis:

	September 30	March 31
	2001	2001
	HK\$'000	HK\$'000
Up to 30 days	89,831	137,181
31 - 60 days	44,458	51,298
61 - 90 days	3,407	2,544
	<u>137,696</u>	<u>191,023</u>

10. Trade and other payables

Included in trade and other payables are trade payables with the following ageing analysis:

	September 30	March 31
	2001	2001
	HK\$'000	HK\$'000
Up to 30 days	46,913	81,725
31 - 60 days	18,709	37,010
61 - 90 days	9,110	5,843
more than 90 days	20,531	6,271
	<u>95,263</u>	<u>130,849</u>

11. Share capital

There was no movement in the share capital of the Company in the current and the comparative interim reporting periods.

12. Retained profits

	<i>HK\$'000</i>
At April 1, 2000 as previously reported	255,025
Prior period adjustment (<i>note 2</i>)	<u>52,821</u>
At April 1, 2000 as restated	<u>307,846</u>
2000 final and special dividends paid	(52,821)
Profit for the year	120,733
2001 interim dividend paid	<u>(19,368)</u>
At March 31, 2001 as restated	<u><u>356,390</u></u>

12. Retained profits (Continued)

	HK\$'000
Representing:	
Retained profits	303,569
2001 final dividends proposed	52,821
	<u>356,390</u>
At April 1, 2001 as previously reported	303,569
Prior period adjustment (note 2)	52,821
	<u>356,390</u>
At April 1, 2001 as restated	356,390
2001 final dividends paid	(52,821)
Profit for the period	31,788
	<u>335,357</u>
At September 30, 2001	<u>335,357</u>
Representing:	
Retained profits	317,750
2002 interim dividend proposed	17,607
	<u>335,357</u>

13. Contingent liabilities

	September 30 2001 HK\$'000	March 31 2001 HK\$'000
Bill discounted with recourse	<u>6,282</u>	<u>41,528</u>

14. Related parties transactions

During the period, the Group had significant transactions with related parties, details of which are as follows:

	Six months ended September 30	
	2001 HK\$'000	2000 HK\$'000
Repayment from a minority shareholder (Note a)	—	102
Purchase of raw materials and finished goods from associates (Note b)	<u>3,645</u>	<u>6,030</u>

Notes:

- The loan was secured, carried interest at prime rate and was repayable on demand. The loan was fully settled during last financial year.

14. Related parties transactions *(Continued)*

Notes: (Continued)

b. The transactions were carried out at cost plus a percentage profit mark up.

Save as disclosed above, there were no other significant transactions with related parties during the period.

INTERIM DIVIDEND

The Directors have declared an interim dividend of 5 cents per share (2001: 5.5 cents per share) payable on January 23, 2002 to shareholders whose names appear on the Register of Members on January 15, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from January 10, 2002 to January 15, 2002, both days inclusive, during which no share transfer will be effected. To qualify for the interim dividend, transfers must be lodged with the Company's Registrar, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on January 9, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of operating results

In the first half of the year, the turnover of the Group decreased 14% to HK\$636 million. Operating profit before depreciation, interest and taxation were HK\$54.4 million or 8.6% as a percentage of sales, compared to 8.2% for the same period last year. Profit attributable to shareholders and earnings per share for the period declined 18% to HK\$31.8 million and 9 cents per share respectively.

Business review

Manufacture and export business

As foreseen and stressed in the last annual report, the Group's business results were adversely affected by the global economy slowdown and recorded a negative growth in the period under review. Export sales to the North America market were down 17% to HK\$562 million, representing 88% of the Group's turnover. Export sales to the sluggish Japan market posted a single digit percentage decrease, but retail sales in China recorded a continuous growth. As a result, total sales in Asia market increased to HK\$65 million and accounted for 10% of the Group's turnover.

Retail operation in China

During the period, the average domestic consumption growth remained stable and urban disposal income growth was satisfactory in China. Competition in apparel retail market was keen and price pressure was increasing. The expansion pace of the Group's retail business in China was adjusted and ahead of plan. The Group opened 9 new stores in the period and operated a total of 49 stores in the major cities in China at September 30, 2001. Total retail sales recorded an increase of over 30% compared to the same period last year.

Investment in new associates

To diversify the product mix and geographical spread of production capacities, the Group strategically entered into contracts with different experienced partners and invested in three new associates during the period. Total investments are about HK\$4 million. These associates are all apparel manufacturers based in Zhejiang Province in China. Their manufacturing operations are planned to commence by early next year and will make positive contributions to the Group in the long term.

Prospects

Difficult export environment

The gloomy worldwide economy has been deteriorating after the September tragic incident in the United States. The declared recession over there will probably linger through the coming months, with a hope of recovery by next year. Global unemployment rates recently announced were mounting. The export environment is poised to be worse off in the short term. Inevitably, the Group anticipates a continuously tough second half-year period for the core apparel export business - the export sales will decrease and the margin pressure will intensify compared to the same period last year.

Continuous expansion of retail operation in China

The accession of China to the World Trade Organization is giving a boost to its economic growth. The retail consumption market is expected to have reasonable performance in the near term, but severe competition will continue to prevail. The Group is taking a prudently optimistic approach for expanding its retail operation in China. Today, the Group is operating a total of 52 stores in the major cities in China and will open a few more stores by March 31, 2002.

Emphasis on fundamentals

Albeit facing the present global adversities, the Group is full of confidence with the long-term prospects for both export and retail business. The Group continues to focus on the fundamental operating strategies, inter alia, providing the highest value products and services to customers, diversifying markets and product mix, enhancing productivity and quality of human resources, and remaining conservative but effective financial management.

Capital expenditure

During the period, the Group spent HK\$4 million in the recurring additions and replacement of fixed assets, compared to HK\$6 million last year. Furthermore, the Group made total investments of approximately HK\$4 million in three new associates which are all apparel manufacturers based in Zhejiang Province in China.

Liquidity and financial resources

12

The Group's financial position is very solid. The Group maintains a strong balance sheet, runs a tight ship in terms of working capital and cash flow management. At September 30, 2001, the Group had a cash balance of HK\$340 million compared to HK\$207 million a year ago. Most of the cash balance was placed in USD and HKD short term deposits with major banks in Hong Kong. Total bank borrowings, denominated in both USD and HKD, were HK\$24 million, or 5% of the shareholders' funds at the period end date.

The Group adopts prudent policy to hedge the fluctuation of exchange rates. Except for the retail sales which are denominated in Renminbi, most of the export sales of the Group are denominated in USD. During the period, the Group entered into a limited number of forward contracts to hedge its receivables and payables denominated in foreign currency against the exchange fluctuation.

At September 30, 2001, certain land and buildings with an aggregate net book value of approximately HK\$39 million were pledged to banks to secure general banking facilities granted to the Group. At September 30, 2001, bills discounted with recourse were approximately HK\$6 million.

Human Resources

At September 30, 2001, the Group, excluding the associates, had approximately 6,700 employees globally, compared to 6,800 employees six months ago. The Group adopts continuous human resources development and enhancement programmes to maintain high standard workforce. Remuneration and bonus packages are structured by reference to updated market terms, individual merits and performance.

DIRECTORS' INTERESTS IN SHARES

At September 30, 2001, the interests of the Directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of Director	Number of ordinary shares held		
	Personal interests	Family interests	Corporate interests
Benson Tung Wah Wing	—	—	*
Cheung Kee Yuen	480,079	—	—
Alan Lam Yiu On	250,000	—	—
Kevin Lee Kwok Bun	9,000,000	—	—
Johnny Chang Tak Cheung	1,431,760	3,859,920	—
Tony Chang Chung Kay	5,176,760	—	—

* Mr. Benson Tung Wah Wing has beneficial interests in Corona Investments Limited, which owned 130,049,390 ordinary shares in the Company as at September 30, 2001.

Save as disclosed above, at September 30, 2001, none of the Directors or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At September 30, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the following shareholder had an interest of 10% or more in the share capital of the Company:

Name of shareholder	Number of ordinary shares held	%
Corona Investments Limited	130,049,390*	36.93

* These shares have been disclosed as corporate interests of certain directors in the “**DIRECTORS’ INTERESTS IN SHARES**” section above.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company’s issued share capital as at September 30, 2001.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, there was no purchase, sale or redemption of the Company’s shares by the Company or any of its subsidiaries.

14

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not during the period, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Benson Tung Wah Wing
Chairman

Hong Kong, December 18, 2001

Website: <http://www.irasia.com/listco/hk/tungtex>