TUNGTEX (HOLDINGS) COMPANY LIMITED

Interim Report 2002-2003

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, 2002 (the "period") are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2002

		Six months ended September 30,	
		2002	2001
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	2	**681,126**	635,988
Cost of sales		**(516,622)**	(487,250)
Gross profit		**164,504**	148,738
Other operating income		**3,641**	7,153
Selling and distribution expenses		**(19,727)**	(15,816)
Administrative expenses		**(103,928)**	(96,707)
Profit from operations		**44,490**	43,368
Finance costs		**(640)**	(1,031)
Share of results of associates		**785**	868
Profit before taxation	3	**44,635**	43,205
Taxation	4	**(5,405)**	(5,678)
Profit after taxation		**39,230**	37,527
Minority interests		**(3,802)**	(5,739)
Profit attributable to shareholders		**35,428**	31,788
Proposed dividends			
– Interim		**19,368**	17,607
– Special		**3,521**	–
		22,889	17,607
Dividends paid	5	**47,539**	52,821
Earnings per share	6	**10.1 cents**	9.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2002

	Notes	**September 30, 2002 (Unaudited)**	March 31, 2002 (Audited)
		HK$'000	*HK$'000*
Non-current assets			
Investment properties		**12,100**	12,100
Property, plant and equipment	7	**165,447**	169,385
Permanent textile quota entitlements		**128**	153
Investments in associates		**12,307**	9,392
Investments in securities		**2,129**	2,129
		192,111	193,159
Current assets			
Inventories		**109,941**	107,680
Trade and other receivables	8	**180,368**	187,948
Taxation recoverable		**3,182**	2,397
Bank balances and cash		**332,050**	335,060
		625,541	633,085
Current liabilities			
Trade and other payables	9	**210,065**	207,794
Trade payable to an associate		**8,138**	8,410
Taxation payable		**2,017**	1,785
Obligations under finance leases – due within one year		**137**	64
Bank borrowings		**15,849**	16,852
		236,206	234,905
Net current assets		**389,335**	398,180
		581,446	591,339
Capital and reserves			
Share capital		**70,428**	70,428
Reserves		**451,428**	464,368
Shareholders' funds		**521,856**	534,796
Minority interests		**57,155**	53,907
Non-current liabilities			
Obligations under finance leases – due after one year		**186**	108
Deferred taxation		**2,249**	2,528
		2,435	2,636
		581,446	591,339

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2002

	Six months ended September 30, 2002 (Unaudited)	2001 (Unaudited)
	HK$'000	*HK$'000* (as restated)
Net cash from operating activities	**52,797**	63,076
Net cash used in investing activities	**(7,204)**	(3,018)
Net cash used in financing	**(49,112)**	(50,837)
Net (decrease) increase in cash and cash equivalents	**(3,519)**	9,221
Cash and cash equivalents at beginning of the period	**331,145**	328,215
Effect of foreign exchange rate changes	**(12)**	(47)
Cash and cash equivalents at end of the period	**327,614**	337,389
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS:		
Bank balances and cash	**332,050**	339,920
Bank overdrafts	**(4,436)**	(2,531)
	327,614	337,389

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2002

	Share capital	Investment property revaluation reserve	Capital redemption reserve	Share premium account	Goodwill	Negative goodwill	Exchange reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at April 1, 2001	70,428	756	3,848	84,880	(12,381)	19,636	(6,439)	356,390	517,118
Realised on dissolution of a subsidary	–	–	–	–	3	–	–	–	3
Exchange differences arising on consolidation	–	–	–	–	–	–	111	–	111
Profit attributable to shareholders	–	–	–	–	–	–	–	31,788	31,788
Dividend	–	–	–	–	–	–	–	(52,821)	(52,821)
Balance at September 30, 2001	70,428	756	3,848	84,880	(12,378)	19,636	(6,328)	335,357	496,199
Exchange differences arising on consolidation	–	–	–	–	–	–	103	–	103
Profit attributable to shareholders	–	–	–	–	–	–	–	56,101	56,101
Dividend	–	–	–	–	–	–	–	(17,607)	(17,607)
Balance at March 31, 2002	70,428	756	3,848	84,880	(12,378)	19,636	(6,225)	373,851	534,796
Exchange differences arising on consolidation	–	–	–	–	–	–	(829)	–	(829)
Profit attributable to shareholders	–	–	–	–	–	–	–	35,428	35,428
Dividends	–	–	–	–	–	–	–	(47,539)	(47,539)
Balance at September 30, 2002	**70,428**	**756**	**3,848**	**84,880**	**(12,378)**	**19,636**	**(7,054)**	**361,740**	**521,856**

Notes:

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The condensed interim financial statements should be read in conjunction with the 2002 annual financial statements.

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2002, except as described below.

In the current period, the Group adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

(a) Foreign currencies

The revisions to SSAP 11 (Revised) *Foreign Currency Translation* have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

(b) Cash flow statements

In the current period, the Group adopted SSAP 15 (Revised) *Cash Flow Statements*. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents has had no significant effect on the disclosures for the current or prior accounting periods.

2. Segment 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:

Six months ended September 30, 2002

	U.S.A.	**Canada**	**Asia**	**Europe and others**	**Con-solidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
TURNOVER					
Sales of goods	**590,809**	**10,712**	**62,260**	**17,345**	**681,126**
SEGMENT RESULT	**33,571**	**690**	**5,088**	**1,500**	**40,849**
Other operating income					**3,641**
Profit from operations					**44,490**
Finance costs					**(640)**
Share of results of associates					**785**
Profit before taxation					**44,635**
Taxation					**(5,405)**
Profit after taxation					**39,230**

Six months ended September 30, 2001

	U.S.A.	Canada	Asia	Europe and others	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER					
Sales of goods	557,983	3,785	64,878	9,342	635,988
SEGMENT RESULT	30,242	203	5,133	637	36,215
Other operating income					7,153
Profit from operations					43,368
Finance costs					(1,031)
Share of results of associates					868
Profit before taxation					43,205
Taxation					(5,678)
Profit after taxation					37,527

3. Profit before taxation

	Six months ended September 30, 2002	2001
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Depreciation and amortisation	**11,210**	11,033
Interest on borrowings wholly repayable within five years	**640**	1,031
Interest income	**(1,812)**	(5,133)

4. Taxation

	Six months ended September 30, 2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax	**4,188**	4,360
Taxation in other jurisdictions	**1,423**	1,577
Share of taxation on results of associates	**73**	39
	5,684	5,976
Deferred taxation	**(279)**	(298)
	5,405	5,678

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.

5. Dividends

	Six months ended September 30, 2002	2001
	HK$'000	*HK$'000*
2002 final dividend of 11.5 cents and special dividend of 2.0 cents (2001 final dividend: 15.0 cents) per share	**47,539**	52,821

5. Dividends *(continued)*

No interim dividends have been paid during the six months ended September 30, 2002 and September 30, 2001.

The directors have determined that an interim dividend of HK5.5 cents (2002: 5.0 cents) and a special dividend of 1.0 cent (2002: Nil) per share will be paid to the shareholders of the Company whose names appear in the Register of Members on January 16, 2003.

6. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK$35,428,000 (2001: 31,788,000) and on the number of 352,137,298 shares (2001: 352,137,298 shares) in issue during the period.

7. Property, plant and equipment

During the period, the Group spent approximately HK7.4 million (six months ended September 30, 2001: HK$4.3 million) on additions to property, plant and equipment for the purpose of expanding the Group's business.

8. 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, 2002	March 31, 2002
	HK$'000	*HK$'000*
Up to 30 days	**118,773**	141,796
31 – 60 days	**22,575**	21,704
61 – 90 days	**1,730**	3,719
	143,078	167,219

9. Trade and other payables

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

	September 30, 2002	March 31, 2002
	HK$'000	*HK$'000*
Up to 30 days	**69,665**	65,204
31 – 60 days	**25,220**	25,543
61 – 90 days	**8,677**	7,738
more than 90 days	**4,040**	3,721
	107,602	102,206

10. Share capital

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

11. Contingent liabilities

	September 30, 2002	March 31, 2002
	HK$'000	*HK$'000*
Bill discounted with recourse	**5,875**	42,506

12. 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,	
	2002	2001
	HK$'000	*HK$'000*
Purchase of raw materials and finished goods from associates *(Note)*	**4,681**	3,645

Note: 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 AND SPECIAL DIVIDEND

In light of the long-term business confidence and the strong net cash balance maintained, the Directors have declared with delight an interim dividend of 5.5 cents per share (2002: 5.0 cents per share) and a special dividend of 1.0 cent per share (2002: Nil) payable on January 23, 2003 to shareholders whose names appear on the Register of Members on January 16, 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from January 11, 2003 to January 16, 2003, both days inclusive, during which no share transfer will be effected. To qualify for the interim and special dividend, transfers must be lodged with the Company's Registrar, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong (please be informed that, with effect from January 13, 2003, the location of the Company's Registrar will be changed to G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong), not later than 4:00 p.m. on January 10, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of operating results

In the first six months of the year under review, the turnover of the Group increased by 7% to HK$681 million. Profit attributable to shareholders and earnings per share for the period both increased by 11% to HK$35.4 million and 10.1 cents respectively.

The increase in turnover was caused by the combined effect of 7% increase of export sales to North America, 4% decrease of total sales to Asia, and 86% increase of export sales to Europe and other markets. The contribution to operating profit from North America segment increased by 13% to HK$34 million. The contribution to operating profit from Asia segment decreased marginally by 1% to HK$5 million. The contribution to operating profit from Europe and other markets segment increased by 135% to HK$1.5 million. As a result, the consolidated contribution to operating profit increased by 13% to HK$41 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Summary of operating results *(continued)*

In the six-month period under review, the Group kept investing and spending in the on-going production process re-engineering and upgrading projects. Productivity and operating cost effectiveness of the core apparel manufacture and export business continued to improve, which helped alleviate the price pressure from the markets. Meanwhile, the apparel retail business with relatively higher gross margin percentage by business nature continued to grow. As a result, gross margin as a percent of turnover for the period was 24.2%, compared to 23.4% for the same period last year. Total selling, distribution and administrative expenses as a percent of turnover were 18.2%, compared to 17.7% for the same period last year. Due to the consecutive cuts in interest rate, both interest income and finance costs dropped drastically in the period. Accordingly, other revenue decreased by 49% and finance costs decreased by 38%. Share of results of associates for the period dropped by 10% to HK$0.8 million, mainly attributable to losses incurred by the two new associates in their first year of operation.

Business review

Manufacture and export business

In the period under review, the recovery of economies of our global export markets still wavered with weak pace. In the United States, adverse economic conditions including high jobless rate, shriveling corporate profits, coupled with the negative impact of the accounting scandals suppressed the consumer confidence and demand in the market. Under such difficult circumstances, the Group strove and achieved to increase the total export sales by adopting more aggressive sales strategy and effort with the support of our competitive fundamentals. Export sales to North America increased by 7% to HK$602 million which represented 88% of the turnover of the Group. Export sales to the sluggish Japan market drastically dropped by 46%. Export sales to Europe and other markets posted a strong growth of 86% to HK$17 million, partly attributable to the strenuous marketing work of the sales team in London office.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business review *(continued)*

Retail operation in China

In the period under review, the economic growth in China exceeded market expectations, buoyed by strong public investments, export growth and expanding domestic demand. Meanwhile, apparel retail market remained to be very competitive. The expansion pace of the retail operation of the Group in China was adjusted and ahead of target plan. Total retail sales in China increased by 19% with profit contribution increased by about 10% in the period. The Group had a net addition of 18 "Betu" label stores, making a total of 76 "Betu" label stores in operation in the major cities in China at the period end date. In September 2002, the Group opened the first 2 "Zariah" label stores in Shanghai.

Increase in investment in associate

In July, the Group entered into agreement with the other shareholders of Tungtess Fashions Company Limited (Shengzhou) to enlarge the share capital of that associate and increase the investment in the original shareholding proportion by each of the shareholder. As a result, the Group strategically increased the investment by HK$2.2 million to HK$3.9 million in that silk-knit apparel manufacturing associate which is based in Zhejiang Province in China.

Prospects

Short-term hindrance to export growth

Among the economic uncertainty and the threat of war lie ahead, it is difficult to predict the strength of recovery of our major export markets. It is rational to expect that the growth of the export business will be hindered in the short term. Nevertheless, the Group is confident to weather the winter outside by focusing on creating the best-value products and services to our customers with the support of our ever-enhancing competitive fundamentals. According to the order book as at the report date and barring any unforeseen circumstances, the Group anticipates to achieve a marginal growth for the export sales in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects *(continued)*

Continuous expansion of retail operation in China

Given the strong economic conditions at present, China is expected to keep its momentum in economic growth in 2003. The Group foresees that competition will accelerate in the apparel retail market in China. As at the report date, the Group is operating 77 "Betu" label stores and 6 "Zariah" label stores in China. In the remainder of the year, the Group will continue to open new stores for both labels in accordance with the set long-term strategy and expansion plan.

New investment in the United States

In October 2002, the Group acquired a wholesale apparel label named "ZELDA" and certain related assets at a total consideration of about HK$2 million. This label has been launched since 1987 and offers a range of sportswear product that reinterprets vintage details and styling for the modern woman, and is positioned at the bridge market. The average annual turnover through this label for the three years from 1999 to 2001 is well over HK$50 million. The Group believes that this investment, coupled with the presently owned interactive sportswear label "Fashion Active Laboratory" or "FAL", will gradually add the significance of the wholesale label business to the Group in the long term. At present, wholesale label business sales in the United States accounts for about 1% of the turnover of the Group.

Capital expenditure

During the period, the Group spent HK$7.4 million in the recurring additions and replacement of fixed assets, compared to HK$4.3 million for the same period last year. Furthermore, the Group increased the investment by HK$2.2 million in the associate as mentioned in business review section.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and financial resources

The Group's financial position remains very solid. The Group maintains a strong balance sheet and tight working capital management, and continues to run a healthy cash-generating business model. At September 30, 2002, the Group had a cash balance of HK$332 million, compared to HK$335 million six months 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$16 million which represented 3% of the shareholders' funds.

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, 2002, certain land and buildings with an aggregate net book value of approximately 36 million were pledged to banks to secure general banking facilities granted to the Group. At September 30, 2002, bills discounted with recourse were approximately HK$6 million.

Human Resources

The Group has set a long-term strategy for human resources investment and development. During the period, the Group recruited proactively new talents with experience, competence and energy to strengthen the quality of our senior and middle management team. Meanwhile, the Group adopted continuous human resources development and training programmes, both external and internal, in order to maintain high-quality workforce. At September 30, 2002, the Group, excluding the associates, had approximately 7,000 employees globally, compared to 6,700 employees six months ago. Remuneration and bonus packages are structured by reference to updated market terms, individual merits and performance.

DIRECTORS' INTERESTS IN SHARES

At September 30, 2002, 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:

	Number of ordinary shares held		
Name of Director	Personal interests	Family interests	Corporate interests
Benson Tung Wah Wing*	–	–	130,049,390
Alan Lam Yiu On	250,000	–	–
Cheung Kee Yuen	480,079	–	–
Kevin Lee Kwok Bun	9,000,000	–	–
Johnny Chang Tak Cheung	1,431,760	3,619,920	–
Tony Chang Chung Kay	4,376,760	–	–

* *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, 2002.*

Save as disclosed above, at September 30, 2002, 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, 2002, 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, 2002.

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.

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, 2002

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