

Chairman's Statement

Tungtex (Holdings) Company Limited . Annual Report 2003

RESULTS

The fiscal year ended March 31, 2003 was still a year of difficulties.

Despite the challenge of weak global economies and uncertainties prevailed in the year, the Group improved the results on turnover and net profit, maintained a strong balance sheet and continued effective cash flow management.

During the year, the turnover of the Group recorded a 9% growth to HK\$1.54 billion. Audited profit attributable to shareholders and earnings per share increased by 4% to HK\$91 million and HK25.9 cents respectively. Shareholders' funds increased by 4% to HK\$554 million or HK\$1.57 per share. Return on average equity remained at 17%.

FINAL AND SPECIAL DIVIDEND

The Board of Directors has resolved with delight to recommend at the forthcoming Annual General Meeting a final dividend of HK12 cents per share (2002: HK11.5 cents per share) and a special dividend of HK3 cents per share (2002: HK2 cents per share). These dividends are payable on September 10, 2003 to shareholders whose names appear on the Register of Members on September 3, 2003. Including the interim and special dividend of HK6.5 cents in total paid (2002: HK5 cents per share), the total dividends for the year will be HK21.5 cents per share (2002: HK18.5 cents per share), representing an increase of 16%.

BUSINESS REVIEW

Manufacture and export business

The recovery of the economies of our global export markets especially the United States wavered in the year under review, and was further impeded by the anticipation of war in the second half of the year. Consumer confidence and apparel retail sales were depressed. Our customers rationally performed tight control on inventory management, with unprecedented demand on procurement efficiency and cost effectiveness. Under such challenging business environment, the Group continued to perform quality management on all fundamentals, with focus on the enhancement of productivity, the capability and flexibility of production capacities, and the dimensions of product development. As a result, total export business posted an annual growth of 8% in sales and gross profit margin is fairly stable when compared to last year.

In terms of geographical segment, the Group achieved to increase the export sales to North America market by 11% to HK\$754 million in the second half of the year, compared to a 7% increase in the first half-year period. Accordingly, total annual export sales to North America market increased by 9% to HK\$1,356 million, representing 88% of the turnover of the Group. Export sales to Europe and other markets recorded a substantial growth of 49% to HK\$46 million. However, export sales to the dismal Japan market was still disappointing and fell by 40%.

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US wholesale business

As stated in our last interim report, the Group acquired a wholesale apparel label named "Zelda" and certain related assets at a total consideration of about HK\$2 million in October 2002. The Group re-launched this label line immediately in the market and set the first primary focus on designing and developing the Fall 2003 collection, with delivery of products commencing June 2003. Due to the lack of sufficient sales income to match the operating costs, the start-up loss for "Zelda" up to the year end date was about HK\$4 million. During the year, total wholesale label business sales through the "Fashion Active Laboratory" label and the "Zelda" label in the United States accounted for about 1.5 % of the turnover of the Group.

China retail business

In the year under review, the economy of China kept a robust momentum and the apparel retail market competition was keen and accelerated. In September 2002, the Group broadened the retail product line by launching a more sophisticated "Zariah" label line and opened 2 new stores in Shanghai. For "Betu" label line, the Group opened 30 new stores and closed 3 underperforming stores, making a total of 85 stores in operation at the year end date. For "Zariah" label line, a total of 6 stores were opened and in operation up to the year end date. During the year, total retail sales in China grew by 23% with profit contribution decreased by 17%, due to the dilution effect of the start-up loss of "Zariah" label line.

Investment in associate

As stated in our last interim report, the Group strategically increased the investment by HK\$2.2 million to HK\$3.9 million in our 30% owned associate, Tungtess Fashions Company Limited (Shengzhou) ("Tungtess"), in July 2002. Tungtess is a silk-knit apparel manufacturing company based in Zhejiang Province in China. This investment will benefit the Group in widening our product mix and providing better service platform to our customers.

The Group's share of results of the total five associates for the year increased to HK\$3.5 million, representing an increase of 68% compared to last year.

PROSPECTS

Under the current uncertain and lackluster economic outlook in the United States and around our export markets in the world, the Group is performing conservative measures in all business segments' operation. The Group keeps focus on enhancement of business fundamentals, operational efficiency and effectiveness and incessant cost control. As a long-term mission, we are always to offer more competitive products and services to customers, and are positioned to deliver upgraded performance to our shareholders.

Our export sales and margin prospect for 2003/04 remains prudent. Nevertheless, based on our strenuous efforts dedicated on product development and selling service, the present order book indicates a high single-digit growth in the export sales for the 6 months ended September 30, 2003. While remaining our strong emphasis on the United States market as the core turnover and profit driver, the Group targets to increase our exports to Europe and Japan market as a long-term strategy.



North America



Europe

The market reaction to the Fall collection of “Zelda” label line is positive. Coupled with the new sales target for “Fashion Active Laboratory” label line, the total sales for US wholesale business will account for about 3% of the turnover of the Group in the 6 months ended September 30, 2003, and the operating loss will narrow gradually.

The apparel retail performance in China during April to June 2003 was devastated by the Severe Acute Respiratory Syndrome (SARS) epidemic. To mitigate the loss, the Group put through a series of spontaneous control measures, inter alia, putting on hold the expansion plan of “Betu” and “Zariah” label line, lowering of inventories through special discounts, and cost reduction actions. Since the final removal of the whole mainland China from World Health Organisation’s list of SARS infected areas in late June, normal economic order has gradually restored and the consumer sentiment is improving. Nevertheless, the Group rationally foresees that the apparel retailing in China will remain extremely price-competitive for a short period and our retail operation may record a loss for the 6 months ended September 30, 2003, in contrast to the normal profit plan.

In the long term, the Group is full of confidence on the retail business development in China. Our strategy is to keep refining and expanding the well established “Betu” label line and to explore new concepts at contained cost in parallel. We have added new professional retail management to launch a more fashionable and trendy “T+T” label line since April 2003. As at report date, the Group is operating 85 “Betu” label stores, 5 “Zariah” label stores and 4 “T+T” label stores in China.

Asia



HUMAN RESOURCES

The Group is committed to invest in human resources capital to ensure our continuous growth and profitability in the long run. We recognize and appreciate the positive contribution of our existing people and culture, yet we re-engineer our human resources management processes to recruit, retain, train and develop new professionals and talents at all levels with competence and self-compelling initiatives. We are determined to upgrade the value of every one of us in the Group and further strengthen our team spirit to ensure that we are able to embrace the challenge of this new era.

ACKNOWLEDGEMENT

I would like to thank every one of the Group for their past contribution and future commitment for our ongoing success. I would also like to express my gratitude to our customers, business associates and shareholders for their continuous support to us.

Benson Tung Wah Wing
Chairman

Hong Kong, July 9, 2003



Parkson Department Store,
Shanghai

BETU



Time Square, Beijing



Yang Hua Tang Department Store,
Beijing



Beijing Lu, Guangzhou

Retail Stores in China



Tong Luo Wan Hua Qiao Cheng Department Store,
Shenzhen



Huai Hai Chong Lu,
Shanghai



ZARIAH