同得仕

Interim Report 2003-2004

二零零三／零四年中期報告

TUNGTEX (HOLDINGS) COMPANY LIMITED

同得仕（集團）有限公司

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, 2003 (the "period") are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2003

	Notes	Six months ended September 30, 2003 (Unaudited) HK$'000	2002 (Unaudited) (Restated) HK$'000
Turnover	2	**775,120**	681,126
Cost of sales		**(583,679)**	(516,622)
Gross profit		**191,441**	164,504
Other operating income		**2,668**	3,641
Selling and distribution expenses		**(34,379)**	(19,727)
Administrative expenses		**(113,892)**	(103,928)
Profit from operations		**45,838**	44,490
Finance costs		**(425)**	(640)
Share of results of associates		**403**	785
Profit before taxation	3	**45,816**	44,635
Taxation	4	**(5,359)**	(5,283)
Profit after taxation		**40,457**	39,352
Minority interests		**(1,564)**	(3,802)
Profit attributable to shareholders		**38,893**	35,550
Dividends, paid	5		
– Final		**42,256**	40,496
– Final special		**10,564**	7,043
		52,820	47,539
Dividends, proposed			
– Interim		**21,128**	19,368
– Interim special		**–**	3,521
		21,128	22,889
Earnings per share – Basic	6	**11.0 cents**	10.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2003

	Notes	September 30, 2003 (Unaudited) HK$'000	March 31, 2003 (Audited) (Restated) HK$'000
Non-current assets			
Investment properties		**11,740**	11,740
Property, plant and equipment	7	**163,897**	163,572
Intangible assets		**730**	799
Investments in associates		**13,034**	14,677
Investments in securities		**1,848**	1,848
Deferred tax assets		**5,902**	4,926
		197,151	197,562
Current assets			
Inventories		**120,933**	133,345
Trade and other receivables	8	**217,210**	231,137
Amount due from an associate		**735**	735
Taxation recoverable		**2,309**	2,303
Bank balances and cash		**312,497**	340,938
		653,684	708,458
Current liabilities			
Trade and other payables	9	**201,800**	252,313
Amount due to an associate		**13,396**	11,708
Taxation payable		**8,979**	5,135
Obligations under finance leases – due within one year		**174**	181
Bank borrowings		**19,355**	16,138
		243,704	285,475
Net current assets		**409,980**	422,983
		607,131	620,545
Capital and reserves			
Share capital	10	**70,428**	70,428
Reserves		**472,876**	487,874
Shareholders' funds		**543,304**	558,302
Minority interests		**60,236**	58,849
Non-current liabilities			
Obligations under finance leases – due after one year		**141**	242
Deferred tax liabilities		**3,450**	3,152
		3,591	3,394
		607,131	620,545

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2003

	Six months ended September 30,	
	2003	2002
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash from operating activities	**32,826**	52,797
Net cash used in investing activities	**(11,579)**	(7,204)
Net cash used in financing	**(50,676)**	(49,112)
Net decrease in cash and cash equivalents	**(29,429)**	(3,519)
Cash and cash equivalents at beginning of the period	**335,199**	331,145
Effect of foreign exchange rate changes	**23**	(12)
Cash and cash equivalents at end of the period	**305,793**	327,614
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS:		
Bank balances and cash	**312,497**	332,050
Bank overdrafts	**(6,704)**	(4,436)
	305,793	327,614

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2003

	Share capital HK$'000	Share premium account HK$'000	Investment property revaluation reserve HK$'000	Capital redemption reserve HK$'000	Goodwill HK$'000	Negative goodwill HK$'000	Exchange reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
Balance at April 1, 2002									
– as originally stated	70,428	84,880	756	3,848	(12,378)	19,636	(6,225)	373,851	534,796
– adjustment on adoption of SSAP 12 (Revised) *(Note 1)*	–	–	–	–	–	–	–	2,100	2,100
– as restated	70,428	84,880	756	3,848	(12,378)	19,636	(6,225)	375,951	536,896
Exchange differences arising on consolidation not recognised in the consolidated income statement	–	–	–	–	–	–	(829)	–	(829)
Profit attributable to shareholders (Restated)	–	–	–	–	–	–	–	35,550	35,550
Dividends	–	–	–	–	–	–	–	(47,539)	(47,539)
Balance at September 30, 2002	70,428	84,880	756	3,848	(12,378)	19,636	(7,054)	363,962	524,078
Deficit arising on revaluation of investment properties	–	–	(360)	–	–	–	–	–	(360)
Exchange differences arising on consolidation	–	–	–	–	–	–	(11)	–	(11)
Net loss not recognised in the consolidated income statement	–	–	(360)	–	–	–	(11)	–	(371)
Profit attributable to shareholders (Restated)	–	–	–	–	–	–	–	57,484	57,484
Dividends	–	–	–	–	–	–	–	(22,889)	(22,889)
Balance at March 31, 2003	70,428	84,880	396	3,848	(12,378)	19,636	(7,065)	398,557	558,302
Exchange differences arising on consolidation not recognised in the consolidated income statement	–	–	–	–	–	–	(1,071)	–	(1,071)
Profit attributable to shareholders	–	–	–	–	–	–	–	38,893	38,893
Dividends	–	–	–	–	–	–	–	(52,820)	(52,820)
Balance at September 30, 2003	**70,428**	**84,880**	**396**	**3,848**	**(12,378)**	**19,636**	**(8,136)**	**384,630**	**543,304**

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 2003 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, 2003, except as described below.

In the current period, the Group adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the opening balance on accumulated profits at April 1, 2003 has been increased by HK$3,806,000 (April 1, 2002: HK$2,100,000). The profit for the six months ended September 30, 2003 has been increased by approximately HK$678,000 (six months ended September 30, 2002: increased by approximately HK$122,000).

2. Segment information

The Group's manufacture and sale of garments business accounted for more than 90% of the Group's turnover and operating profit for the period. Accordingly, no business segment analysis of financial information is provided. The Group reports its primary segment information on geographical location of its customers and the segment information about these geographical markets is presented below:

Six months ended September 30, 2003

	U.S.A. HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated HK$'000
TURNOVER					
Sales of goods	**683,196**	**9,453**	**62,292**	**20,179**	**775,120**
SEGMENT RESULT	**39,424**	**474**	**952**	**2,320**	**43,170**
Other operating income					**2,668**
Profit from operations					**45,838**
Finance costs					**(425)**
Share of results of associates	**368**	**4**	**10**	**21**	**403**
Profit before taxation					**45,816**
Taxation					**(5,359)**
Profit after taxation					**40,457**

2. Segment information *(continued)*

Six months ended September 30, 2002

	U.S.A. HK$'000	Canada HK$'000	Asia HK$'000	Europe and others HK$'000	Consolidated 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	645	15	98	27	785
Profit before taxation					44,635
Taxation					(5,283)
Profit after taxation					39,352

3. Profit before taxation

	Six months ended September 30, 2003 HK$'000	2002 HK$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**69**	25
Depreciation and amortisation of property, plant and equipment	**12,665**	11,185
Interest on borrowings wholly repayable within five years	**425**	640
and after crediting:		
Rental income	**1,611**	1,829
Interest income	**1,057**	1,812

4. Taxation

	Six months ended September 30, 2003 HK$'000	Six months ended September 30, 2002 HK$'000
The charge comprises:		
Hong Kong Profits Tax	**5,346**	4,188
Taxation in other jurisdictions	**679**	1,423
Share of taxation on results of associates	**12**	73
	6,037	5,684
Deferred taxation	**(678)**	(401)
	5,359	5,283

Hong Kong Profits Tax is calculated at 17.5% (2002: 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, 2003 HK$'000	Six months ended September 30, 2002 HK$'000
2003 final dividend of HK12.0 cents (2002: HK11.5 cents) and special dividend of HK3.0 cents (2002: HK2.0 cents) per share paid	**52,820**	47,539

No interim dividends have been paid during the six months ended September 30, 2003 and September 30, 2002.

The directors have determined that an interim dividend of HK6.0 cents (2003: interim dividend of HK5.5 cents per share and special dividend of HK1.0 cent per share) will be paid to the shareholders of the Company whose names appear in the Register of Members on January 13, 2004.

6. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK$38,893,000 (2002: HK$35,550,000) and on the number of 352,137,298 shares (2002: 352,137,298 shares) in issue during the period.

7. Property, plant & equipment

During the period, the Group spent approximately HK$13.2 million (six months ended September 30, 2002: HK$7.4 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 aged analysis:

	September 30, 2003 HK$'000	March 31, 2003 HK$'000
Up to 30 days	**129,544**	149,406
31 – 60 days	**49,738**	45,684
61 – 90 days	**4,935**	8,463
	184,217	203,553

9. Trade and other payables

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

	September 30, 2003 HK$'000	March 31, 2003 HK$'000
Up to 30 days	**72,219**	96,935
31 – 60 days	**25,882**	36,581
61 – 90 days	**9,138**	15,232
More than 90 days	**1,780**	2,061
	109,019	150,809

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, 2003 HK$'000	March 31, 2003 HK$'000
Bills discounted with recourse	**272**	86,842

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,	
	2003	2002
	HK$'000	HK$'000
Purchase of raw materials and finished goods from associates *(Note)*	**5,611**	4,681

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 DIVIDEND

The Directors have declared with delight an interim dividend of HK6.0 cents per share (2003: interim dividend of HK5.5 cents per share and special dividend of HK1.0 cent per share) payable on January 20, 2004 to shareholders whose names appear on the Register of Members on January 13, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from January 8, 2004 to January 13, 2004, 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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on January 7, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of operating results

In the first six-month period under review, the Group recorded a turnover of HK$775 million, a healthy growth of 14%. Profit attributable to shareholders and earnings per share for the period increased 9% to HK$38.9 million and HK11.0 cents respectively.

The overall increase in turnover was mainly attributable to a low double-digit growth in the manufacture and export sales, and the surge in wholesale label sales in the United States after the acquisition of the new label last year. Retail sales in China posted only a very slight increase, due to the severe negative impact of Severe Acute Respiratory Syndrome ("SARS") epidemic in the period.

Analyzed by geographical market segments, sales to North America increased 15% to HK$693 million. Sales to Asia were flat at HK$62 million. Export sales to Europe and other markets increased 16% to HK$20 million. The pre-tax contribution from North America increased 16% to HK$39.9 million. The pre-tax contribution from Asia decreased drastically by 81% to HK$1.0 million, due to the loss incurred in China retail business in the period. The pre-tax contribution from Europe and other markets increased 55% to HK$2.3 million. As a result, the consolidated pre-tax contribution to operating profit increased 6% to HK$43 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Summary of operating results *(continued)*

Thanks to the combined effect of export business growth leverage, the continuous improvement in productivity and production cost effectiveness, and the surge in US wholesale brand business with relatively higher gross margin, the gross margin as a percent of sales further increased slightly to 24.7%, compared to 24.2% for the same period last year. Selling and distribution expenses as a percent of sales increased from 2.9% to 4.4%. Such increase was caused by the expansion of retail operation in China and the continuous increase in product design and development costs in both manufacture and wholesale business of the Group. Administrative expenses as a percent of sales decreased from 15.3% to 14.7%. As a result of lower interest rate, interest income and expenses decreased HK$0.8 million and HK$0.2 million respectively. Rental income recorded a decrease of HK$0.2 million during the period, attributable to the weak industrial property market condition.

Business review

Manufacture and export business

In the six-month period under review, the recovery pace of the economy remained weak in the United States, the core sales market of the Group. Based on our strenuous efforts dedicated on product development and selling services, the Group finally achieved a 15% growth to HK$693 million in sales to North America, representing 89% of the turnover of the Group. Export sales to Europe and other markets posted an increase of 16% to HK$20 million. Diluted by the decrease of export sales to Japan, total export sales of the Group recorded a low double-digit growth, beating the expectation as stated in the last annual report.

US wholesale label business

The customer response to the Fall collection offer of the newly acquired “Zelda” label line was positive and encouraging. The operation of Zelda business performed as planned and the Group achieved a solid progress in effort to reduce its operating loss. Meanwhile, the Group’s another US label line “Fashion Active Laboratory” (“FAL”) gained satisfactory recognition in the US Active-Wear market and achieved its targeted improvement in sales and loss level. In the six-month period under review, total US wholesale label business turnover accounted for over 3% of the turnover of the Group and the operating loss was insignificant.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business review *(continued)*

China retail business

As indicated in the last annual report, the apparel retail performance in China during April to June 2003 was devastated by the SARS epidemic and which in fact, led to an extremely price-competitive market environment in the aftermath period during July to September 2003. The Group put through a series of spontaneous control measures, rationalized the retail outlet composition and closed underperforming stores. In the six-month period under review, total China retail sales increased only 2%, and were about 20% below initial plan at the beginning of the period. Coupled with the start-up losses of the two new retail label lines, the China retail business of the Group inevitably incurred an operating loss, in contrast to the normal profit plan. At the period-end date, the Group was operating 79 "Betu" label stores, 6 "Zariah" label stores and 6 "T+T" label stores.

Re-alignment of investment in associates

As part of the long-term strategic re-alignment of production capacity development, the Group disposed its insignificant investment in two associates. The Group reduced its equity holding from 36% to 25% in an associate, Shenzhen Zhesi Fashion Co. Ltd. in August 2003, and further disposed its entire investment in another associate, Hangzhou Jinbiao Fashion Co. Ltd. in October 2003.

Prospects

Based on the economic indices for the past few weeks, it appears that the recovery of the US economy is gaining traction. The US apparel retail market sentiment is recently improving, especially in November 2003 compared to the previous months. According to the order book status as at the report date and assuming such momentum to continue through the remainder of the year, the Group anticipates that the growth rate in total export sales for the full year ending March 31, 2004 will be higher than the growth rate just achieved in the first six-month period ended September 30, 2003.

To cope with the anticipated increase in market demands in future, the Group is now planning to add wholly-owned new production capacity and facility in Zhejiang Province in China in 2004. Such investment will cost about HK$30 million and will significantly increase the production capacity of the Group upon completion.

While developing the US wholesale label business in a positive pace, the Group will continue to perform tight control over the operations in parallel. Driving by sales growth and cost effectiveness upgrade, the Group targets to contain the operating losses of the two wholesale label lines at an insignificant level in the short term and to achieve breakeven in the next fiscal year ending March 31, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects *(continued)*

The Group is full of confidence in the apparel retail business development in China in the long term. The Group believes that long-term positive effect will be sustained by the China government's focus and effort on boosting employment, improving social security network, expanding consumption demand and upgrading living standards of both urban and rural residents. At the report date, the Group is operating 80 "Betu" stores, 7 "Zariah" stores and 6 "T+T" stores in China. In the balance of the year, the Group will open 5 to 8 additional new stores in total. The Group expects that the operating results of China retail business will improve in the second half of the year, compared to the first six-month period just reviewed.

Capital expenditure

During the period under review, the Group invested HK$13.2 million in the recurring additions and replacement of property, plant machinery and equipment, compared to HK$7.4 million for the same period last year.

Liquidity and financial resources

The financial position of the Group remained very solid throughout the period and at the period-end date. At September 30, 2003, the Group had total cash and bank balances of HK$312 million, compared to HK$341 million six months ago. The cash and bank balances were placed mainly in USD and HKD short-term deposits with major banks in Hong Kong. Total bank borrowings were HK$19 million, denominated in both USD and HKD and representing 4% of the shareholders' funds of HK$543 million. The Group will continue to maintain a strong balance sheet, effective working capital management, and a healthy cash-generating business model.

The Group adopts prudent policy to hedge the fluctuation of exchange rates. The sales of the Group, except for the retail sales which are denominated in Renminbi, are principally denominated in USD. The purchases and operating expenses are transacted mainly in USD, HKD and Renminbi. During the period, the Group entered into a limited number of forward contracts to hedge its receivables and payables denominated in foreign currency, mainly Euro, against the exchange fluctuation.

At September 30, 2003, certain land and buildings with an aggregate net book value of approximately HK$34 million were pledged to banks to secure general banking facilities granted to the Group. At September 30, 2003, bills discounted with recourse were approximately HK$0.3 million.

Human Resources

At September 30, 2003, the Group, excluding the associates, employed a total number of 7,700 staff and workers in Hong Kong, the United States, the United Kingdom, China and other Asian countries, compared with 7,400 six months ago. The Group adopts a competitive remuneration package for its employees, by reference to market terms, individual merits and performance evaluation. Meanwhile, the Group places strong emphasis on continuous human resources development and maintains high-quality global workforces.

DIRECTORS' INTERESTS IN SHARES

At September 30, 2003, the interests or short positions of the directors and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in Shares of the Company (Long position)

	Number of ordinary shares held		
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**
Benson Tung Wah Wing*	–	–	125,049,390
Alan Lam Yiu On	250,000	–	–
Kevin Lee Kwok Bun	9,000,000	–	–
Johnny Chang Tak Cheung	1,400,680	2,731,000	–
Tony Chang Chung Kay	3,894,760	–	–

* Mr. Benson Tung Wah Wing has beneficial interests in Corona Investments Limited, which owned 125,049,390 ordinary shares in the Company as at September 30, 2003.

Save as disclosed above, at September 30, 2003, none of the Directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register maintained under Section 352 of the SFO.

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

As at September 30, 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests or short positions in the issued share capital of the Company:

Name of shareholder	**Number of ordinary shares held**	**%**
Corona Investments Limited	125,049,390*	35.51
Webb David Michael	19,596,000	5.56 *(Note)*

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

SUBSTANTIAL SHAREHOLDERS *(continued)*

Note: At September 30, 2003, Preferable Situation Assets Limited owned 17,624,000 ordinary shares in the Company as recorded in the register maintained under Section 336 of the SFO. The interests of Preferable Situation Assets Limited is controlled by Mr. Webb David Michael.

All the interests above represents long position. Save as disclosed above, the Company has not been notified of any other interests or short positions in shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO as at September 30, 2003.

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 17, 2003

Website: http://www.tungtex.com

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