

# YANGTZEKIANG GARMENT MFG. CO. LTD.

(Incorporated in Hong Kong with limited liability)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST MARCH, 2002

The Board of Directors of Yangtzejiang Garment Mfg. Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries and associates (the "Group") for the year ended 31st March, 2002 as follows:

### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	2002 HK\$'000	2001 HK\$'000 (Restated)
<b>Turnover</b>	1	<b>1,159,929</b>	1,243,679
Cost of sales		<b>(984,681)</b>	(1,036,000)
		<hr/>	<hr/>
Other revenue		<b>175,248</b>	207,679
Other net income		<b>9,884</b>	16,149
Selling and distribution expenses		<b>16,343</b>	21,875
Administrative expenses		<b>(38,459)</b>	(44,997)
Other operating expenses		<b>(106,197)</b>	(102,139)
		<b>(18,502)</b>	(30,779)
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<b>Profit from operations</b>		<b>38,317</b>	67,788
Finance cost		<b>(17,346)</b>	(23,935)
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Share of profits less losses of associates		<b>20,971</b>	43,853
		<b>20,950</b>	23,623
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<b>Profit from ordinary activities before taxation</b>	2	<b>41,921</b>	67,476
Taxation	3	<b>(10,520)</b>	(12,837)
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<b>Profit from ordinary activities after taxation</b>		<b>31,401</b>	54,639
Minority interests		<b>(3,810)</b>	(6,671)
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<b>Profit attributable to shareholders</b>		<b>27,591</b>	47,968
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<b>Dividends attributable to the year:</b>	4		
Interim dividend declared during the year		<b>2,805</b>	4,230
Final dividend proposed after the balance sheet date		<b>11,220</b>	14,025
		<hr/>	<hr/>
		<b>14,025</b>	18,255
		<hr/>	<hr/>
<b>Earnings per share</b>			
Basic	5	<b>HK\$0.20</b>	HK\$0.34
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Notes:-

## 1. Segment information

Gross turnover represents the gross invoiced value of products sold.

An analysis of the turnover and segment result by geographical locations of the assets of the Group is given below:

	Gross turnover		Segment result	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	<b>713,458</b>	773,585	<b>30,373</b>	70,735
The People's Republic of China	<b>263,027</b>	267,566	<b>16,463</b>	13,309
Asia Pacific	<b>165,221</b>	169,952	(7,748)	(2,597)
Europe	<b>17,995</b>	32,576	(2,002)	(15,737)
South Africa	<b>228</b>	—	<b>137</b>	—
	<b>1,159,929</b>	<b>1,243,679</b>	<b>37,223</b>	65,710
Unallocated operating income and expense			<b>1,094</b>	2,078
Finance cost			(17,346)	(23,935)
			<b>20,971</b>	43,853
Share of profits less losses of associates			<b>20,950</b>	23,623
Profit from ordinary activities before taxation			<b>41,921</b>	67,476

As the Group's turnover and profits are almost entirely attributable to the manufacture and sale of garments, no analysis by business segment is provided.

## 2. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
Finance costs	<b>17,346</b>	23,935
Amortisation of permanent quota	<b>659</b>	1,669
Amortisation of goodwill	<b>1,039</b>	—
Cost of inventories	<b>984,681</b>	1,036,000
Depreciation	<b>22,714</b>	28,333
Impairment losses on land and buildings (reversed)/made	(2,242)	6,377
Dividend income from unlisted equity securities	(358)	(342)
Net realised losses on disposal of non-trading securities	—	110
Net (profit)/loss on sale of fixed assets	<b>(4,873)</b>	347

## 3. Taxation

	2002 HK\$'000	2001 HK\$'000
Provision for Hong Kong Profits Tax for the year	<b>3,816</b>	5,768
Overprovision in respect of the prior years	(749)	(5)
	<b>3,067</b>	5,763
Overseas taxation	<b>2,851</b>	631
	<b>5,918</b>	6,394
Share of associates' taxation	<b>4,602</b>	6,443
	<b>10,520</b>	12,837

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31st March, 2002. Taxations for overseas subsidiaries and branch are similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

#### 4. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid of \$0.02 (2001: \$0.03) per share	<b>2,805</b>	4,230
Final dividend proposed after the balance sheet date of \$0.08 (2001: \$0.10) per share	<b>11,220</b>	14,025
	<b><u>14,025</u></b>	<b><u>18,255</u></b>

#### 5. Earnings per Share

##### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$27,591,000 (2001: HK\$47,968,000) and on the weighted average of 140,311,800 shares (2001: 140,980,685 shares) in issue during the year.

##### (b) Diluted earnings per share

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence.

#### 6. Transfer to/(from) reserves

	2002 HK\$'000	2001 HK\$'000
Deficit on revaluation of:		
– investment properties	(1,728)	–
– investments in securities	(53)	(184)
Share of associate's revaluation surplus on investment properties	895	1,892
Exchange differences on translation of the financial statements of foreign entities	2,650	(1,232)
Appropriation to general reserve	<b>476</b>	<b>1,562</b>
	<b><u>476</u></b>	<b><u>1,562</u></b>

#### DIVIDEND

The Board resolved that a final dividend of 8 cents (2001: 10 cents) per share be payable on 27th September, 2002. The shareholders' register will be closed from 16th September, 2002 to 26th September, 2002 (both days inclusive). In order to qualify for final dividend, transfers must be lodged at the company registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Friday, 13th September, 2002.

#### BUSINESS REVIEW AND PROSPECTS

It has been a very difficult year for the garment industry. Although we can maintain more or less our sales volume, selling prices dropped drastically due to keen competitions from over supply of garments from many parts of the world. This has severely impacted results of many of our factories in particular Tac Cheong Lda. in Macau. Macau has always been a relatively high cost area but remained profitable the last few years because of reasonable gross margin from orders received. However as selling prices dropped, Tac Cheong Lda. incurred losses immediately. Restructuring of this factory is currently underway. Other factories incurred losses are Hongkong Knitters Lanka (PVT) Ltd. in Sri Lanka and YGM (Cambodia) Ltd. However our factories in Myanmar and Lesotho can still produce a small profit while Exquisite Knitters (Guangzhou) Ltd. our factory in Panyu, China maintained a reasonable one although it has dropped from previous years.

Our investment in Wuxi Changxin Textile Co. Ltd. remain profitable although result has decreased compared to last year because of drop in selling prices of both yarn and fabrics. However we have increased our investment and the textile factory will expand its capacity because we believe in the business potential after 2004 when China's textile and garment will enjoy quota free access to most countries.

Our investment in Qinghai Changqing Aluminium Corporation in Qinghai, China, an aluminium smelter, achieved better result than last year because of lower raw material cost. However we expect profit will decrease in the coming year because we are experiencing some disruptions from converting all its smelter pots from self-baked to pre-baked technology which will meet the new national environmental standard and will bring future increase in annual production from 30,000 tons to 50,000 tons.

Yangtzejiang S.A., our French associated company continues to suffer losses although less so than last year. Hopefully with the surge of Euro exchange rate the company can return to profitability in the coming year. Re-organization of this company in both management and shareholding is underway.

During the current year, our company has made a new investment in W. Haking Enterprises Ltd., a long established manufacturer in optical instruments. This company will expand into digital camera and our investment is expected to breakeven in the fiscal year of 2002/2003.

### **Woven business**

Our woven department manufactures men's and women's shirts, pants and shorts. Our head office in Hong Kong is the sales and management office for the whole Group. In Hong Kong, we concentrate in the role of garment trading and have production facilities in China, Macau, Malaysia, Myanmar, Bangladesh, Cambodia, and Lesotho in Africa.

Our factory in Macau, Tac Cheong Lda. has been operating for over 30 years. Currently restructuring of this factory is underway. The size of the factory will be drastically cut down and will eventually assemble only outward processing garment parts made from our factory in China where manufacturing costs are considerably lower.

Our factory in Myanmar, Yangtzejiang Industries (Myanmar) Ltd. with over 180,000 sq.ft. of production space is the largest factory we have under one compound. It produces woven and knit shirts mainly for export to Europe. The Myanmar operation has been profitable for the past few years. Myanmar has lower manufacturing costs and even with the current low order prices, we can still maintain a small profit. Result of the coming year should improve if Euro can maintain its current high exchange rate.

Our factory in Cambodia, YGM (Cambodia) Ltd. started production late in the year 2000 manufacturing woven bottoms as well as some polo shirts. It continues to face tremendous problems in efficiency and relatively high costs. However capacity is fully booked and we are paying all attention to improve its production efficiency.

Bangladesh remains an important area for us in woven shirts production. We have over a dozen factories which we have production agreements with. We have over 30 staffs in our office in Bangladesh overseeing this production which are all exported to Europe.

### **Knit business**

We manufacture polo knit shirts under the company name – Hong Kong Knitters Ltd. Manufacturing locations are: Panyu China [Exquisite Knitters (Guangzhou) Ltd.]; Hong Kong [Easeley Knitwear Ltd.], Sri Lanka [Hongkong Knitters Lanka (PVT) Ltd.]; Cambodia [YGM (Cambodia) Ltd.] and Myanmar [Yangtzejiang Ind. (Myanmar) Ltd.].

Exquisite Knitters (Guangzhou) Ltd. in Panyu China also operates a knitting and dyeing factory. It manufactures both double-mercerized knit fabrics and polo knit shirts which achieved another year of good results although profit has dropped compared with previous year.

Hongkong Knitters Lanka (PVT) Ltd. in Sri Lanka incurred losses this year because of significantly lower order prices received. We expect Sri Lanka will continue to make a loss this coming year due to current high U.S. quota prices purchased from open market.

## **OUTLOOK**

Although garment manufacturing is our core business, the Directors recognize the difficulties of this industry especially in the years ahead when most of the world will be quota free to ship to all major markets creating even greater competition and lower order prices. While the management will employ all efforts to increase or maintain profitability of all our factories, still some factories might not be able to produce satisfactory results because of high basic manufacturing costs. We, therefore, will closely examine each factory's ability for profitability and will take corrective action.

We will continue to branch out into related business such as garment trading or even brand apparel marketing and retailing. We will also continue to seek opportunities to invest in other non-garment related business.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its working capital requirements and capital commitments with internally generated cashflow and banking facilities provided by its bankers in Hong Kong.

As at 31st March, 2002, the Group maintained a cash and bank deposit of HK\$50 million (2001: 29 million). The bank borrowings were trade finance related and short to medium in nature, amounted to HK\$197 million as at 31st March, 2002 (2001: HK\$126 million). This represents a net debt to equity ratio of 42% (2001: 34%). The increase in bank borrowings was mainly because certain medium term bank loans have been drawn down to finance the current investment activities and refinance the short term bank loans. Borrowings are closely monitored by the Group to maintain gearing at a reasonable level.

The Group adopts a prudent policy to hedge the fluctuation of exchange rates. As most of the operating activities are mainly denominated in Hong Kong dollars and United States dollars. The Group has entered into some forward contracts to hedge its receivable and payable denominated in foreign currency against the exchange fluctuation.

## **EMPLOYEES**

The Group employs a total of 16,000 employees. In addition to receiving salaries and bonuses, employees are also entitled to other benefits, including medical subsidies and a retirement scheme contribution.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Details of repurchase of shares made by the Company on The Stock Exchange of Hong Kong Limited during the year ended 31st March, 2002 are as follows:-

Month/Year	Number of shares	Highest price paid	Lowest price paid	Aggregate price paid
	Repurchased	per share HK\$	per share HK\$	HK\$'000
April 2001	140,000	1.30	1.28	182
May 2001	61,000	1.34	1.34	82
June 2001	205,000	1.46	1.38	300
	<hr/> <u>406,000</u>			<hr/> <u>564</u>

The above repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount of HK\$361,000 representing the premium on the aforesaid repurchases was charged against retained profits. In addition, pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of HK\$203,000 was transferred from the retained profits to the capital redemption reserve. The repurchases were made because the directors were of the opinion that the repurchases would enhance the earnings per share of the Company.

Save as disclosed above, at no time during the year was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

## **CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules throughout the year, except that the non-executive directors of the Company were not appointed for a specific term but are subject to rotation in Annual General Meeting pursuant to Articles 95 and 104 of the Company's Articles of Association.

## **AUDIT COMMITTEE**

To comply with the revised Code of Best Practice as set in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, the Company set up an audit committee (the "Committee") with written terms of reference, for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors.

**PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

A detailed result announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board

**S. K. Chan**

*Chairman*

Hong Kong, 15th July, 2002

# **NOTICE OF ANNUAL GENERAL MEETING**

**NOTICE** is hereby given that the Annual General Meeting of the members of the Company will be held at Yau Yat Chuen Garden City Club, 7 Cassia Road, Yau Yat Chuen, Kowloon on Thursday, 26th September, 2002 at 12:00 noon for the following purposes: –

1. To receive and consider the Statement of Accounts and the Reports of the Directors and Auditors thereon for the year ended 31st March, 2002.
2. To declare a final dividend.
3. To elect Directors.
4. To appoint Auditors and fix their remuneration.
5. As special business to consider and, if thought fit, pass the following resolutions as ordinary resolutions: –

**5.1 “THAT:** –

- (a) subject to paragraph (b) the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;
- (c) for the purpose of this Resolution: –
  - (i) “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of: –
    - (aa) the conclusion of the next Annual General Meeting of the Company; and
    - (bb) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and
    - (cc) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and
  - (ii) “Shares” means shares of all classes in the capital of the Company and securities which carry a right to subscribe or purchase shares of the Company including, without limitation, ordinary shares of HK\$0.50 each in the capital of the Company.”

**5.2 “THAT:** –

- (a) subject to paragraph (c), the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of rights of subscription or conversion under the terms any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles

of Association of the Company, shall not exceed the aggregate of: (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution plus (bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution), and the said approval shall be limited accordingly; and

- (d) for the purposes of this Resolution: –

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of: –

- (i) the conclusion of the next Annual General Meeting of the Company; and
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and
- (iii) the revocation or variation of the approval given by this Resolution by ordinary resolution of the shareholders in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

- 5.3 “**THAT** the Directors be and they are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as Resolution 5.2 in the notice of this meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution.”

By Order of the Board

**Hui Sau Ling**

*Secretary*

Hong Kong, 15th July, 2002

*Notes:*

- (a) The Transfer Books and Register of Members of the Company will be closed from 16th September, 2002 to 26th September, 2002 both days inclusive. In order to qualify for a dividend transfer should be lodged with Computershare Hong Kong Investor Services Limited, before 4:00 p.m. on Friday, 13th September, 2002.
- (b) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (c) In order to be valid, a form of proxy must be deposited at the Company’s registered office, 22 Tai Yau Street, San Po Kong, Kowloon, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (d) With regard to item 5 of the above notice, attention is drawn to the circular to shareholders regarding the general mandate to repurchase shares which is enclosed with the Annual Report and Accounts of the Company.

Please also refer to the published version of this announcement in The Standard.