

# YANGTZEKIANG GARMENT LIMITED

## 長江製衣有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 294)

### INTERIM RESULTS

#### FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

The Board of Directors of Yangtzekiang Garment Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries, associates and jointly controlled entities (the “Group”) for the six months ended 30th September, 2006 as follows. The interim results have not been audited, but have been reviewed by the Company’s Audit Committee.

#### Consolidated Income Statement – Unaudited

		Six months ended	
		30th September,	
		2006	2005
			(restated)
	Note	HK\$'000	HK\$'000
<b>Turnover</b>	3	<b>783,323</b>	753,585
Cost of sales		<b>(624,395)</b>	(592,887)
<b>Gross profit</b>		<b>158,928</b>	160,698
Other revenue		<b>5,529</b>	2,665
Other net income		<b>16,128</b>	(3,504)
Selling and distribution expenses		<b>(64,415)</b>	(59,333)
Administrative expenses		<b>(51,261)</b>	(54,125)
Other operating expenses		<b>(14,989)</b>	(18,992)
<b>Profit from operations</b>		<b>49,920</b>	27,409
Finance costs		<b>(9,015)</b>	(17,602)
Share of profits less losses of associates		<b>(210)</b>	(3,494)
Share of profits of jointly controlled entities		<b>5,499</b>	–
Impairment of a subsidiary	9(b)	<b>(8,517)</b>	–
<b>Profit before taxation</b>	4	<b>37,677</b>	6,313
Income tax	5	<b>(9,291)</b>	(1,743)
<b>Profit after taxation</b>		<b>28,386</b>	4,570
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>28,417</b>	3,034
Minority interests		<b>(31)</b>	1,536
<b>Profit after taxation</b>		<b>28,386</b>	4,570
Dividend – interim declared	6	<b>6,311</b>	–
<b>Earnings per share – Basic</b>	7	<b>13.5 cents</b>	1.4 cents

## Consolidated Balance Sheet – Unaudited

	<i>Note</i>	At 30th September, 2006 <i>HK\$'000</i>	At 31st March, 2006 <i>HK\$'000</i>
<b>Non-current assets</b>			
Fixed assets			
Investment properties		79,873	79,638
Other property, plant and equipment		127,429	137,456
Interests in leasehold land held for own use under operating leases		6,702	7,240
		<u>214,004</u>	<u>224,334</u>
Construction in progress		2,584	26
Intangible assets		2,874	2,874
Interest in associates		14,547	14,810
Interest in jointly controlled entities		296,979	281,788
Other financial assets		6,129	9,014
Deferred tax assets		–	1,553
		<u>537,117</u>	<u>534,399</u>
<b>Current assets</b>			
Inventories		140,209	151,841
Trade and other receivables	8	360,612	441,208
Tax recoverable		455	1,743
Cash and cash equivalents		35,041	43,820
		<u>536,317</u>	<u>638,612</u>
Non-current assets and assets of a disposal group classified as held for sale	9	151,593	60,000
		<u>687,910</u>	<u>698,612</u>
<b>Current liabilities</b>			
Trade and other payables	10	308,910	332,924
Bank loans and overdrafts		158,395	232,318
Tax payable		4,918	565
		<u>472,223</u>	<u>565,807</u>
Liabilities directly associated with assets of a disposal group classified as held for sale	9	88,410	–
		<u>560,633</u>	<u>565,807</u>
<b>Net current assets</b>		<u>127,277</u>	<u>132,805</u>

<i>Note</i>	<b>At 30th September, 2006 HK\$'000</b>	<b>At 31st March, 2006 HK\$'000</b>
<b>Total assets less current liabilities</b>	<b>664,394</b>	667,204
<b>Non-current liabilities</b>		
Bank loans	<b>38,983</b>	65,024
Provision for long service payments	<b>4,271</b>	4,272
Deferred tax liabilities	<b>14,332</b>	14,293
<b>NET ASSETS</b>	<b><u>606,808</u></b>	<b><u>583,615</u></b>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>105,184</b>	105,184
Reserves	<b>502,759</b>	478,431
<b>Amounts recognised directly in equity relating to assets of a disposal group classified as held for sale</b>	<b><u>(1,549)</u></b>	<u>–</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>606,394</b>	583,615
Minority interests	<b>414</b>	–
<b>TOTAL EQUITY</b>	<b><u>606,808</u></b>	<b><u>583,615</u></b>

*Notes:*

#### 1. BASIS OF PREPARATION

These consolidated interim financial statements are unaudited and have been prepared in accordance with the applicable disclosure requirements as set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

#### 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st March, 2006 except as disclosed below.

For the six months ended 30th September, 2006, the Group has also applied the new standards, amendments and interpretations issued by the HKICPA that are effective for the accounting periods beginning on or after 1st January, 2006. However, the adoption of these new standards does not have any significant effect on the accounting policies or results and financial position of the Group.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial positions of the Group.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

- <sup>2</sup> Effective for annual periods beginning on or after 1st May, 2006.
- <sup>3</sup> Effective for annual periods beginning on or after 1st June, 2006.
- <sup>4</sup> Effective for annual periods beginning on or after 1st November, 2006.

### 3. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because it is more relevant to the Group's internal financial reporting. Geographical segment information has been chosen as the secondary reporting format.

#### (a) Business segments

The Group comprises the following main business segments:

	Manufacture and sale of garments <i>HK\$'000</i>	Manufacture and sale of textiles <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Six months ended</b>					
<b>30th September, 2006</b>					
Revenue from external customers	776,901	2,493	3,929	-	783,323
Other revenue	2,497	-	372	2,660	5,529
Total revenue	<u>779,398</u>	<u>2,493</u>	<u>4,301</u>	<u>2,660</u>	<u>788,852</u>
Segment result	44,570	400	2,290	2,660	49,920
Finance costs					(9,015)
Share of profits less losses of associates and jointly controlled entities	(73)	4,812	550	-	5,289
Impairment of a subsidiary					(8,517)
Income tax					(9,291)
Profit for the period					<u>28,386</u>
<b>Six months ended</b>					
<b>30th September, 2005 (restated)</b>					
Revenue from external customers	643,864	106,135	3,586	-	753,585
Other revenue	1,971	-	372	322	2,665
Total revenue	<u>645,835</u>	<u>106,135</u>	<u>3,958</u>	<u>322</u>	<u>756,250</u>
Segment result	7,431	19,019	637	322	27,409
Finance costs					(17,602)
Share of profits less losses of associates and jointly controlled entities	41	1,684	(5,219)	-	(3,494)
Impairment of a subsidiary					-
Income tax					(1,743)
Profit for the period					<u>4,570</u>

(b) **Geographical segments**

The Group's business is managed on a worldwide basis, but participates in four principal economic environments.

	<b>Revenue from external customers Six months ended 30th September,</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
- Europe		
United Kingdom	<b>222,634</b>	117,668
France	<b>86,016</b>	107,585
Italy	<b>103,445</b>	96,281
Other European countries	<b>78,612</b>	90,893
- Asia Pacific	<b>179,822</b>	209,145
- North America	<b>95,878</b>	117,692
- Others	<b>16,916</b>	14,321
	<b><u>783,323</u></b>	<b><u>753,585</u></b>

**4. PROFIT BEFORE TAXATION**

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

		<b>Six months ended 30th September,</b>	
		<b>2006</b>	<b>2005</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Finance costs (including bank charges)		<b>9,015</b>	17,602
Amortisation of land lease premium		<b>73</b>	133
Amortisation of intangible assets		<b>-</b>	874
Depreciation		<b>14,377</b>	25,472
Change in fair value of interest rate swap agreement		<b>1,135</b>	-
Impairment of a subsidiary	<i>9(b)</i>	<b>8,517</b>	-
Tax refund upon reinvestment of dividend income from an associate		<b>(2,114)</b>	-
Gain on disposal of fixed assets		<b>(13,259)</b>	(596)
Dividend income and interest income		<b>(545)</b>	(322)
		<b><u>(545)</u></b>	<b><u>(322)</u></b>

**5. INCOME TAX**

	<b>Six months ended 30th September,</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>(restated) HK\$'000</b>
Current tax – Hong Kong Profits Tax	<b>7,521</b>	1,926
Current tax – Overseas	<b>1,770</b>	8
Deferred taxation	<b>-</b>	(191)
	<b><u>9,291</u></b>	<b><u>1,743</u></b>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the period. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## 6. DIVIDENDS

### (a) Dividend attributable to the interim period

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Interim dividend declared after the interim period end of HK3 cents per share (2005: Nil)	<u>6,311</u>	<u>–</u>

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

### (b) Dividend attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK8 cents per share (2005: HK8 cents per share)	<u>16,829</u>	<u>16,829</u>

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of HK\$28,417,000 (2005: HK\$3,034,000) and the weighted average number of 210,368,688 shares (2005: 210,368,688 shares) in issue during the period. The diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the period ended 30th September, 2006 and 30th September, 2005.

## 8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are debtors and bills receivable (net of impairment losses) with the following aging analysis:

	30th September, 2006	31st March, 2006
	HK\$'000	HK\$'000
0 – 60 days	242,555	266,101
61 – 90 days	2,609	14,521
> 90 days	2,835	5,152
Trade debtors and bills receivable	<u>247,999</u>	<u>285,774</u>
Loans receivable	1,680	1,680
Deposits, prepayments and other debtors	61,213	73,565
Prepayment for investments	–	33,235
Amounts due from related companies	6,171	7,529
Amounts due from associates and jointly controlled entities	3,183	–
Dividend receivable from associates and jointly controlled entities	40,366	39,425
	<u>360,612</u>	<u>441,208</u>

The credit terms given to trade debtors vary and are generally based on the financial strengths of individual debtors. In order to effectively manage the credit risks associated with trade debtors, credit evaluation of debtors are performed periodically.

**9. NON-CURRENT ASSETS AND ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE**

The carrying amount of major classes of assets and liabilities classified as non-current assets and assets of a disposal group classified as held for sale are analysed as follows:

	<i>Note</i>	<b>30th September, 2006 HK\$'000</b>	31st March, 2006 HK\$'000
<b>Non-current assets classified as held for sale</b>	(a)	<b>60,000</b>	60,000
<b>Assets of a disposal group classified as held for sale</b>	(b)		
Fixed assets		3,299	–
Other financial assets		3,047	–
Deferred tax assets		1,889	–
Inventories		17,367	–
Trade and other receivables, deposits and prepayments		62,082	–
Cash and cash equivalents		3,909	–
		<u>91,593</u>	<u>–</u>
		<u>151,593</u>	<u>60,000</u>
<b>Liabilities directly associated with assets of a disposal group classified as held for sale</b>			
Trade and other payables		65,805	–
Bank loans		22,605	–
		<u>88,410</u>	<u>–</u>

*Note:*

- (a) On 31st March, 2006, the Group entered into an agreement to dispose of its entire 39.12% interest in W. Haking Enterprises Limited (“W. Haking”), an associate of the Group, with one of the major shareholders of W. Haking for a consideration of HK\$60,000,000. The disposal is scheduled to be completed in March 2007.
- (b) Before the period ended 30th September, 2006, the management of the Company has committed a plan to dispose of its entire shares in a subsidiary, Yangtzekiang S.A., and as a result, a potential buyer is identified. On 17th November 2006, the Company entered into a share purchase agreement with a director of the subsidiary to dispose of its entire shares in that subsidiary at a consideration of EURO300,000 (approximately HK\$3,000,000). The disposal is expected to be completed no later than 22nd December, 2006. Details of this disposal have been disclosed in the Company’s circular to shareholders dated 12th December, 2006. Accordingly, the related assets and liabilities of Yangtzekiang S.A. have been presented as a disposal group held for sale as at 30th September, 2006. Immediately before classification as disposal group held for sale, based on the expected disposal proceeds, the carrying amount of the assets within the disposal group has been written down by HK\$8,517,000 to reflect their recoverable value.

## 10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following aging analysis:

	<b>30th September, 2006 HK\$'000</b>	31st March, 2006 HK\$'000
0 – 60 days	<b>125,655</b>	118,633
61 – 90 days	<b>5,045</b>	17,812
> 90 days	<b>14,974</b>	18,168
	<hr/>	<hr/>
Trade creditors and bills payable	<b>145,674</b>	154,613
Accrued charges and other creditors	<b>152,065</b>	166,247
Amounts due to related companies	<b>658</b>	2,877
Amounts due to associates and jointly controlled entities	<b>6,889</b>	5,467
Amount due to a shareholder	<b>3,624</b>	3,720
	<hr/>	<hr/>
	<b>308,910</b>	332,924
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## INTERIM DIVIDEND

The Board resolved that an interim dividend of HK3 cents per share (2005: Nil) be payable on 16th January, 2007. The shareholders' register will be closed from 5th January, 2007 to 10th January, 2007 (both days inclusive). In order to qualify for interim dividend, transfer must be lodged at the company registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Thursday, 4th January, 2007.

## BUSINESS REVIEW AND PROSPECTS

We are pleased to announce that the sales revenue of the Group for the six month period was HK\$783,323,000 (2005: HK\$753,585,000) and our overall profits had increased to HK\$28,386,000 (2005: HK\$4,570,000) due to the following reasons:

1. Results of our garment manufacturing and trading business in both woven and knits had improved;
2. Gain in exchange profits from the strength of both Euro and Pound Sterling during this period; and
3. Our concentration on garment and textile business and the disposal of our interest last year in those less favourable investments - aluminium plant in Qinghai and W. Haking Enterprises Ltd. as well as factories in Sri Lanka and Lesotho.

The company as aforesaid had recorded an increase in profits for the first six month period despite the impairment loss incurred when we sold our interest in our French company - Yangtzekiang S.A. Details of the transaction had already been announced as per the Company's circular to shareholders dated 12th December, 2006. Barring any unforeseen circumstance, we expect the above condition to persist in the second half of the fiscal year and overall profits will continue to improve.

## FINANCIAL POSITION AND CAPITAL STRUCTURE

During the period under review, the Group's operations continued to be financed by the internal resources and bank borrowings.



As at 30th September, 2006, the cash and bank balances of the Group were approximately HK\$35,041,000 (as at 31st March, 2006: HK\$43,820,000). As at 30th September, 2006, the bank borrowings of the Group were approximately HK\$197,378,000 (as at 31st March, 2006: HK\$297,342,000), of which approximately HK\$158,395,000 (as at 31st March, 2006: HK\$232,318,000) was short term while approximately HK\$38,983,000 (as at 31st March, 2006: HK\$65,024,000) was long term. The gearing ratio (calculated by dividing total bank borrowings net of cash and bank balances by total equity) of the Group as at 30th September, 2006 was 27% (as at 31st March, 2006: 43%). The bank borrowings including bank loans and overdrafts are mainly in Hong Kong dollars.

The Group adopts a prudent policy to hedge the fluctuation of exchange rates. Most of the operating activities are denominated in Hong Kong dollars or United States dollars. For those denominated in other currencies, the Group may enter into forward contracts to hedge its receivable and payable denominated in foreign currencies against the exchange rate fluctuations.

The share capital of the Company remained unchanged during the period under review.

### **PLEDGE OF ASSETS**

As at 30th September, 2006, the Group had pledged certain assets with carrying values of HK\$85,000,000 (as at 31st March, 2006: HK\$130,000,000) to secure banking facilities granted to the Group.

### **EMPLOYMENT AND REMUNERATION POLICIES**

As at 30th September, 2006, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed approximately of 7,000 employees. Remuneration packages are determined by reference to employees' performance and the prevailing salary levels in the market. In addition, the Group provides year end double pay, provident fund scheme, medical insurance and training to staff.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period ended 30th September, 2006.

### **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company.

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited interim financial statement of the Group for the period ended 30th September, 2006.

### **CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied throughout the period ended 30th September, 2006 with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, except that the Non-executive Directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's articles of association.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a Securities Dealing Code regarding director's securities transactions on terms no less exacting than required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and its Securities Dealing Code throughout the period under review.

## **INTERIM REPORT**

The 2006/2007 Interim Report containing all the information required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the Exchange's website in due course.

By Order of the Board  
**Chan Sui Kau**  
*Chairman*

Hong Kong, 19th December, 2006

*As at the date of this announcement, the directors of the Company are Chan Sui Kau, Chan Wing Fui Peter, Chan Wing Kee, Chan Wing To, Chan Suk Man, Chan Wing Sun Samuel, Chan Suk Ling Shirley, So Ying Woon Alan, Leung Hok Lim\*, Wong Lam\* and Lin Keping\**

*\* Independent Non-Executive Director*

Please also refer to the published version of this announcement in China Daily.