



TEXWINCA HOLDINGS LIMITED

德永佳集團有限公司

(Incorporated in Bermuda with limited liability)

Websites: <http://www.texwinca.com/>
<http://www.irasia.com/listco/hk/texwinca/>

INTERIM RESULTS

The Board of Directors of Texwinca Holdings Limited (the "Company") has pleasure in presenting the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30th September	
	Notes	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
TURNOVER			
Cost of sales	3	<u>2,535,676</u> <u>(1,714,499)</u>	<u>2,484,440</u> <u>(1,747,033)</u>
Gross profit		821,177	737,407
Other revenue and gains		10,826	13,482
Selling and distribution costs		(361,059)	(319,298)
Administrative expenses		(159,940)	(154,494)
Other operating expenses		(1,694)	(1,086)
PROFIT FROM OPERATING ACTIVITIES		309,310	276,011
Share of profit of an associate		24,873	34,647
Finance costs		(1,528)	(4,455)
PROFIT BEFORE TAX		332,655	306,203
Tax	5	<u>(26,770)</u>	(33,219)
PROFIT BEFORE MINORITY INTERESTS		305,885	272,984
Minority interests		<u>(2,690)</u>	(2,362)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		303,195	270,622
Proposed interim dividend		<u>145,601</u>	101,812
Proposed interim dividend per share (HK cents)		<u>11.0</u>	8.0
Earnings per share (HK cents)			
Basic	6	<u>22.9</u>	21.2
Diluted		<u>22.9</u>	20.6

Notes:

1. Basis of preparation

The unaudited interim financial statements have been prepared in accordance with the Statements of Standard Accounting Practice (the "SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA") and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Principal accounting policies

The principal accounting policies and methods of computation adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the latest audited annual financial statements, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's interim financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 25 (Revised) : "Interim financial reporting"
- SSAP 34 : "Employee benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) "Presentation of financial statements" prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) "Foreign currency translation" prescribes the basis for the translation of foreign currency transactions and financial statements. The main revision to this SSAP is that the profit and loss account of subsidiaries and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This revised SSAP has had no major impact on the preparation of these interim financial statements.

SSAP 15 (Revised) "Cash flow statements" prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flow during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 25 (Revised) "Interim financial reporting" prescribes the presentation and disclosures following changes in SSAP 1 (Revised) and SSAP 15 (Revised). The condensed consolidated financial statements for the current interim period and comparative figures have been presented in accordance with these revised SSAPs.

SSAP 34 "Employee benefits" prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on the preparation of these interim financial statements.

3. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- the production, dyeing and sale of knitted fabric and yarn segment;
- the casual apparel and accessory retailing and distribution segment; and
- the corporate and other segment comprises the motor and generator repair and maintenance and trading segment and the franchise services segment.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the market.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following table presents revenue and profit information for the Group's business segments:

	Production, dyeing and sale of knitted fabric and yarn		Casual apparel and accessory retailing and distribution		Corporate and other		Eliminations		Consolidated	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	1,553,371	1,526,524	961,174	926,094	21,131	31,822	—	—	2,535,676	2,484,440
Intersegment sales	—	—	—	—	935	2,611	(935)	(2,611)	—	—
Other revenue	5,343	6,950	1,497	1,298	501	28	(592)	(60)	6,749	8,216
Total	1,558,714	1,533,474	962,671	927,392	22,567	34,461	(1,527)	(2,671)	2,542,425	2,492,656
Segment results	<u>290,381</u>	256,413	<u>8,941</u>	5,189	<u>7,262</u>	12,366	<u>(1,351)</u>	(3,223)	<u>305,233</u>	270,745
Interest income									<u>4,077</u>	5,266
Profit from operating activities									<u>309,310</u>	276,011
Share of profit of an associate									<u>24,873</u>	34,647
Finance costs									<u>(1,528)</u>	(4,455)
Profit before tax									<u>332,655</u>	306,203
Tax									<u>(26,770)</u>	(33,219)
Profit before minority interests									<u>305,885</u>	272,984
Minority interests									<u>(2,690)</u>	(2,362)
Net profit from ordinary activities attributable to shareholders									<u>303,195</u>	270,622

(b) Geographical segments

The following table presents revenue and profit information for the Group's geographical segments:

	USA		Mainland China		Japan		Hong Kong		Corporate and other		Eliminations		Consolidated	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	
Segment revenue:														
Sales to external customers	945,211	785,112	749,365	741,033	170,912	374,386	353,693	300,506	316,495	283,403	—	—	2,535,676	2,484,440
Segment results	<u>176,694</u>	131,878	<u>57,068</u>	63,462	<u>31,950</u>	62,886	<u>29,727</u>	6,567	<u>11,145</u>	9,175	<u>(1,351)</u>	(3,223)	<u>305,233</u>	270,745

4. Depreciation and amortisation

During the period, depreciation of fixed assets and amortisation of trademarks of the Group amounted to HK\$75,602,000 and HK\$1,454,000 (2001: HK\$72,857,000 and HK\$1,450,000), respectively.

5. Tax

Hong Kong profits tax has been provided at the rate of 16.0% (2001: 16.0%) on the estimated assessable profits arising in Hong Kong for the period.

Taxes on profits in respect of subsidiaries operating overseas have been calculated at the rates of tax prevailing in the respective tax jurisdictions in which they operate based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30th September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Hong Kong and The PRC taxes:		
Current period provision	<u>23,840</u>	26,549
Deferred tax	<u>809</u>	3,712
Share of tax attributable to an associate	<u>24,649</u>	30,261
	<u>2,121</u>	2,958
	<u>26,770</u>	33,219

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share was based on the net profit from ordinary activities attributable to shareholders of HK\$303,195,000 (2001: HK\$270,622,000) and the weighted average number of 1,323,648,104 (2001: 1,276,310,956) shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share was based on the followings:

	Six months ended 30th September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Net profit from ordinary activities attributable to shareholders	<u>303,195</u>	270,622
Weighted average number of ordinary shares used in calculation of basic earnings per share	<u>1,323,648,104</u>	1,276,310,956
Deemed issue of ordinary shares for no consideration arising from share options	<u>330,944</u>	38,152,447
Weighted average number of ordinary shares used in calculation of diluted earnings per share	<u>1,323,979,048</u>	1,314,463,403

INTERIM DIVIDEND

The Board has declared an interim dividend of HK11 cents per share (2001 : HK8 cents) for the six months ended 30th September 2002. The interim dividend will be payable on Monday, 10th February 2003 to shareholders registered on the Register of Members at the close of business on Monday, 27th January 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 20th January 2003 to Monday, 27th January 2003 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Tengis Limited not later than 4:00p.m. on Friday, 17th January 2003. Tengis Limited is located at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong. With effect from 13th January 2003, it will be relocated to G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

BUSINESS REVIEW

For this interim period, the Group's total turnover and net profit from ordinary activities attributable to shareholders were HK\$2,536 million and HK\$303 million respectively. These represented an increase of 2% and 12% over the same period of last year. The Board has recommended an interim dividend of HK11 cents per share, which represents an increase of 37.5% on top of the HK8 cents per share for the same period of last year.

Knitted fabric

The knitted fabric business recorded a turnover of HK\$1,553 million, or an increase of 2% over the same period last year, which represented 61% of total turnover. The economic condition of our major markets remained weak, consumer confidence, especially in the US, was low. As a result we continued to see downward pressure on selling prices. Nevertheless, the profit margin remained satisfactory because the prices of raw materials were down as well. Moreover, higher returns were generated due to our ability to handle orders that required greater demands and shorter lead times. The more efficient coal-fired generator, which is expected to bring substantial cost-saving in fuel, has been in operation since September 2002. Looking ahead, the management will continue to expand productivity with an aim to further gain market share and improve cost effectiveness.

Retail and distribution

Turnover for the retail and distribution business reached HK\$961 million, an increase of 4%, and represented 38% of total turnover. The sales performance and distribution of retail stores across Mainland China, Hong Kong, Taiwan and Singapore at the end of the period were as follows:

	Sales		Growth rate %	Retail Outlets*		
	2002 HK\$'000	2001 HK\$'000		30th September 2002	31st March 2002	30th September 2001
Mainland China	646,351	637,672	1	945	831	747
Hong Kong	147,169	143,690	2	39	37	37
Taiwan	142,469	127,705	12	128	114	117
Singapore	25,185	17,027	48	15	15	13
	<u>961,174</u>	<u>926,094</u>	4	<u>1,127</u>	<u>997</u>	<u>914</u>

* Include self-owned and franchised outlets

Store expansion was aggressive in China. Despite the general deflation and the more competitive environment in this country, we achieved a mild sales growth through stable store growth of Baleno and the significant expansion of S&K. To promote S&K, in June 2002 we signed an advertising contract for two years with "F4", the most popular boys' band in Greater China. With "F4's" promotion, we have decided to open at least 150 new S&K stores in China in this fiscal year. Regarding the Taiwanese market, more S&K stores were also opened. With the closing and restructuring of non-performing stores in Taiwan, the overall sales and thus profitability continued to improve. The outlook for Hong Kong and Singapore was encouraging due to more reasonable rental costs.

Garment

The profit before tax contributed by our associated garment business for the period was HK\$25 million, with a drop of 28% over last year. This was due primarily to the worldwide deflation of garment prices. Since the end of 2001, Vietnam has acquired the Normal Trade Status to enjoy quota-free exports to the U.S., and our garment facilities there have been in full operation to handle orders from the reputed U.S. retailers. On the other hand, the China factory has been serving mainly Asian customers. We remain committed expanding our garment operations in order to capitalize on the current sourcing trend that favours large manufacturers, and to capture growth opportunities when the current quota system for finished garments is abolished in Year 2005.

FINANCIAL CONDITION

The financial condition of the Group remained sound. On 30th September 2002, cash and cash equivalents amounted to HK\$481 million. Total bank borrowings were HK\$55 million. At the end of the period, unutilized banking facilities were HK\$680 million. Total debt to equity ratio was 0.4. The revenue and procurement of the Group were mainly denominated in US dollar, HK dollar and Renminbi. During the period, the Group had entered into forward foreign exchange contracts and other financial instruments to reduce foreign exchange risks. At the end of the interim period, the Group's contingent liabilities were HK\$125 million, which were mainly related to discounted export bills.

HUMAN RESOURCES

As at 30th September 2002, the Group had a total of 12,656 employees, an increase of 1,154 people compared to the end of last year. The Group offers very competitive remuneration packages for its employees, these as well as the remuneration policy are reviewed on a regular basis. We are fully committed to the training of our staff, moreover, the personal development of our employees is also a concern of the Group.

OUTLOOK

Although the US economy had been sluggish, the Group had not only weathered the situation but had also acquired a higher market share, and achieved higher turnover and solid profit contribution from the three operations. We are optimistic that the U.S. economy will recover soon and that more business opportunities will develop in different markets. As we foresee that deflation pressure will linger in the short term, it is imperative that we will continue to enhance productivity in order to sustain turnover and profit margins.

One of the global trends for the apparel industry is the short-listing of fabric and garment suppliers to a few big ones. The abolishment of the quota system by Year 2005 will boost demand for fabric and garment exports from China. As a result, given our better production and management skills, experience and higher competitiveness in the industry, we are confident that our fabric and garment businesses will have an excellent prospect.

Regarding the retail arm, our major focus will remain in China. We expect the ongoing promotional campaigns with "F4" will bring impressive results for S&K for the next year. Although the operating environment may remain challenging in the coming year, the management is optimistic about the growth of market share due to the extensive coverage of the market by our stores under our different brand names. For Taiwan, Hong Kong and Singapore, market coverage will be expanded cautiously, in an effort to achieve more customer traffic and better sales.

The management remains optimistic about all the businesses of the Group. With a sound financial condition, the management does not foresee any obstacles in our business development, and is confident about the results of the coming half year.

ARRANGEMENTS TO PURCHASE, REDEEM AND SELL SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed, or sold any of the Company's listed securities during the six months ended 30th September 2002.

AUDIT COMMITTEE

The Audit Committee (the "Committee") of the Group comprises the two independent non-executive directors, Messrs. Au Son Yiu and Cheng Shu Wing. At the time of establishment, the terms of reference and duties have been laid down as guideline for the Committee. The duties of the Committee include the review and supervision of the financial reporting process and internal controls.

For the interim period, the Committee has reviewed and discussed with management the interim report and the internal controls of the Group and made recommendations to the Board.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the accounting period covered by the interim report.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
Poon Bun Chak
Chairman

Hong Kong, 18th December 2002