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# Corporate Information

## Directors

Poon Bun Chak  
*(Chairman and Managing Director)*  
Poon Kai Chak  
Poon Kei Chak  
Poon Kwan Chak  
Ting Kit Chung  
Au Son Yiu\*  
Cheng Shu Wing\*

\* Independent Non-executive Directors

## Company Secretary

Chan Chi Hon

## Registered Office

Clarendon House,  
Church Street,  
Hamilton HM11,  
Bermuda.

## Head Office and Principal Place of Business

16th Floor, Metroplaza,  
Tower II,  
223 Hing Fong Road,  
Kwai Chung,  
New Territories,  
Hong Kong.

## Principal Registrar and Transfer Office

Butterfield Fund Services  
(Bermuda) Limited  
Rosebank Centre,  
14 Bermudiana Road,  
Pembroke,  
Bermuda.

## Hong Kong Branch Registrar and Transfer Office

Tengis Limited  
4/F., Hutchison House,  
10 Harcourt Road,  
Central,  
Hong Kong.  
*(will be relocated to G/F., Bank of East  
Asia Harbour View Centre,  
56 Gloucester Road, Wanchai,  
Hong Kong with effect from  
13th January 2003)*

## Auditors

Ernst & Young  
Certified Public Accountants

## Legal Advisors

Jennifer Cheung & Co.  
Wilkinson & Grist

## Principal Bankers

Bank of America (Asia) Ltd.  
Bank of China (Hong Kong) Ltd.  
BNP Paribas  
Citibank, N.A.  
Hongkong Bank  
Hang Seng Bank  
Mizuho Corporate Bank, Ltd.

## Websites

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

# Financial Information

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	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
		Notes	
<b>TURNOVER</b>	3	2,535,676	2,484,440
Cost of sales		(1,714,499)	(1,747,033)
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)
<b>PROFIT FROM OPERATING ACTIVITIES</b>		<b>309,310</b>	276,011
Share of profit of an associate		24,873	34,647
Finance costs		(1,528)	(4,455)
<b>PROFIT BEFORE TAX</b>		<b>332,655</b>	306,203
Tax	5	(26,770)	(33,219)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>305,885</b>	272,984
Minority interests		(2,690)	(2,362)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>303,195</b>	270,622
Proposed interim dividend		145,601	101,812
Proposed interim dividend per share (HK cents)		11.0	8.0
Earnings per share (HK cents)	6		
Basic		22.9	21.2
Diluted		22.9	20.6

# Financial Information

## Condensed Consolidated Balance Sheet

	<i>Notes</i>	<b>At 30th September 2002 (Unaudited) HK\$'000</b>	<b>At 31st March 2002 (Audited) HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		900,290	851,470
Investment properties		29,260	29,260
Construction in progress		114,754	124,971
Trademarks		40,157	41,478
Interest in an associate		129,648	126,897
Rental deposits		68,646	65,905
		<b>1,282,755</b>	<b>1,239,981</b>
<b>CURRENT ASSETS</b>			
Inventories		617,128	528,013
Trade and bills receivables	7	486,595	334,921
Prepayments, deposits and other receivables		279,395	134,068
Cash and cash equivalents		481,419	556,592
		<b>1,864,537</b>	<b>1,553,594</b>
<b>CURRENT LIABILITIES</b>			
Due to an associate		58,535	21,945
Trade and bills payables	8	642,618	437,942
Other payables and accrued liabilities		126,539	147,368
Tax payable		25,982	37,506
Interest-bearing bank borrowings		24,081	19,455
		<b>877,755</b>	<b>664,216</b>

# Financial Information

## Condensed Consolidated Balance Sheet *(continued)*

	At 30th September 2002 (Unaudited) HK\$'000	At 31st March 2002 (Audited) HK\$'000
<b>NET CURRENT ASSETS</b>	<b>986,782</b>	<b>889,378</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>2,269,537</b>	<b>2,129,359</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank loans	30,625	39,538
Deferred tax	29,000	28,191
	<b>59,625</b>	<b>67,729</b>
<b>MINORITY INTERESTS</b>	<b>40,230</b>	<b>36,971</b>
	<b>2,169,682</b>	<b>2,024,659</b>
<b>CAPITAL AND RESERVES</b>		
Issued capital	66,183	66,183
Reserves	1,957,898	1,799,638
Proposed interim/final dividend reserve	145,601	158,838
	<b>2,169,682</b>	<b>2,024,659</b>

# Financial Information

## Condensed Consolidated Statement of Changes in Equity

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Goodwill on acquisition (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Investment property revaluation reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend reserve (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April 2002	66,183	331,168	1,587	3,986	(110,603)	(13,080)	7,238	7,840	1,571,502	158,838	2,024,659
Foreign exchange adjustments	—	—	—	—	—	666	—	—	—	—	666
Retained profits for the period	—	—	—	—	—	—	—	—	303,195	—	303,195
Final dividend paid for 2001/2002	—	—	—	—	—	—	—	—	—	(158,838)	(158,838)
Proposed interim dividend for 2002/2003	—	—	—	—	—	—	—	—	(145,601)	145,601	—
<b>At 30th September 2002</b>	<b>66,183</b>	<b>331,168</b>	<b>1,587</b>	<b>3,986</b>	<b>(110,603)</b>	<b>(12,414)</b>	<b>7,238</b>	<b>7,840</b>	<b>1,729,096</b>	<b>145,601</b>	<b>2,169,682</b>
At 1st April 2001	63,662	305,960	1,228	3,986	(110,603)	(10,360)	7,238	7,840	1,302,404	114,903	1,686,258
Foreign exchange adjustments	—	—	—	—	—	(124)	—	—	—	—	(124)
Exercise of share options	330	4,670	—	—	—	—	—	—	—	—	5,000
Transfer on repurchase of own shares	(259)	(11,930)	259	—	—	—	—	—	(259)	—	(12,189)
Retained profits for the period	—	—	—	—	—	—	—	—	270,622	—	270,622
Final dividend paid for 2000/2001	—	—	—	—	—	—	—	—	—	(114,903)	(114,903)
Proposed interim dividend for 2001/2002	—	—	—	—	—	—	—	—	(101,812)	101,812	—
<b>At 30th September 2001</b>	<b>63,733</b>	<b>298,700</b>	<b>1,487</b>	<b>3,986</b>	<b>(110,603)</b>	<b>(10,484)</b>	<b>7,238</b>	<b>7,840</b>	<b>1,470,955</b>	<b>101,812</b>	<b>1,834,664</b>

# Financial Information

## Condensed Consolidated Cash Flow Statement

Six months ended 30th September

	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>187,907</b>	304,134
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(98,516)</b>	(182,540)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(169,387)</b>	(110,137)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(79,996)</b>	11,457
Cash and cash equivalents at 1st April	554,746	354,562
Foreign exchange adjustments	88	(717)
<b>CASH AND CASH EQUIVALENTS AT 30TH SEPTEMBER</b>	<b>474,838</b>	365,302
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	124,981	104,993
Time deposits	356,438	262,336
Less: Bank overdrafts	(6,581)	(2,027)
	<b>474,838</b>	365,302

# Financial Information

## Notes to the Condensed Consolidated Financial Statements

### 1. Basis of preparation

The unaudited interim financial statements have been prepared in accordance with the Statement 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



# Financial Information

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:

- (a) the production, dyeing and sale of knitted fabric and yarn segment;
- (b) the casual apparel and accessory retailing and distribution segment; and
- (c) 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.

# Financial Information

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
<b>Total</b>	<b>1,558,714</b>	<b>1,533,474</b>	<b>962,671</b>	<b>927,392</b>	<b>22,567</b>	<b>34,461</b>	<b>(1,527)</b>	<b>(2,671)</b>	<b>2,542,425</b>	<b>2,492,656</b>
Segment results	290,381	256,413	8,941	5,189	7,262	12,366	(1,351)	(3,223)	305,233	270,745
Interest income									4,077	5,266
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									(26,770)	(33,219)
Profit before minority interests									305,885	272,984
Minority interests									(2,690)	(2,362)
Net profit from ordinary activities attributable to shareholders									303,195	270,622

# Financial Information

## (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	2001 (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	176,694	131,878	57,068	63,462	31,950	62,886	29,727	6,567	11,145	9,175	(1,351)	(3,223)	305,233	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.

# Financial Information

## 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.

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

# Financial Information

## 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:

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

# Financial Information

## 7. Trade and bills receivables

	At 30th September 2002 (Unaudited) HK\$'000	At 31st March 2002 (Audited) HK\$'000
Trade and bills receivables	491,394	339,737
Less: Provision for doubtful debts	(4,799)	(4,816)
	<u>486,595</u>	<u>334,921</u>
Trade and bills receivables	<u>486,595</u>	<u>334,921</u>
<p>The aged analysis of trade and bills receivables, net of provisions, is as follows:</p>		
Within 90 days	471,765	331,808
Over 90 days	14,830	3,113
	<u>486,595</u>	<u>334,921</u>

The trading terms with customers are largely on credit. Invoices are normally payable within 90 days of issue, except for certain well-established customers, where the terms are extended up to 120 days, subject to the approval of directors. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are regularly reviewed by directors.

# Financial Information

## 8. Trade and bills payables

The aged analysis of trade and bills payables is as follows:

	<b>At 30th September 2002 (Unaudited) HK\$'000</b>	<b>At 31st March 2002 (Audited) HK\$'000</b>
Within 90 days	587,968	409,630
Over 90 days	54,650	28,312
	<u>642,618</u>	<u>437,942</u>

## 9. Related party transactions

- (a) During the period, the Group had the following transactions with its associate:

		<b>Six months ended 30th September 2002 (Unaudited) HK\$'000</b>	<b>2001 (Unaudited) HK\$'000</b>
Sales to Megawell Industrial Limited ("Megawell")	<i>(i)</i>	199,570	283,974
Purchases from Megawell	<i>(ii)</i>	105,149	104,682

*Notes:*

- (i) The sales to Megawell were made according to the prices and conditions offered to the major customers of the Group.

# Financial Information

- (ii) The directors considered that the purchases from Megawell were made according to the prices and conditions similar to those offered to other customers of the associate.

In addition, the Group have provided certain guarantees of banking facilities granted to the associate, as detailed in note 10 to the financial statements.

- (b) As at 30th September 2002, Nice Dyeing Factory Limited, a wholly-owned subsidiary of the Company, has provided advances of HK\$240,809,000 (31st March 2002: HK\$228,484,000) to Baleno Kingdom Limited, a non wholly-owned subsidiary, at prime rate minus 1.25% (31st March 2002: prime rate minus 1.25%) per annum. The advances are unsecured and have no fixed terms of repayment. The principal purpose of these advances is to finance the operations of the non wholly-owned subsidiary.

## 10. Contingent liabilities

	At 30th September 2002 (Unaudited) <i>HK\$'000</i>	At 31st March 2002 (Audited) <i>HK\$'000</i>
Guarantees of banking facilities granted to an associate	14,000	14,000
Export bills discounted with recourse	111,132	86,219
	<b>125,132</b>	<b>100,219</b>

At 30th September 2002, irrevocable and unconditional guarantees aggregating HK\$1,103 million (31st March 2002: HK\$1,133 million) have been given by the Company in respect of certain subsidiaries' and an associate's banking facilities and borrowings, aggregating HK\$54,706,000 (31st March 2002: HK\$58,324,000).



# Financial Information

## 11. Capital commitments

	At 30th September 2002 (Unaudited) HK\$'000	At 31st March 2002 (Audited) HK\$'000
In respect of fixed assets, authorised but not contracted for contracted for but not provided for	375,600 46,921	— 116,891
In respect of investment in subsidiaries in The PRC, contracted for but not provided for	<u>639,349</u>	<u>388,613</u>
	<u><u>1,061,870</u></u>	<u><u>505,504</u></u>

## 12. Operating lease arrangements

### (a) As Lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

# Financial Information

At 30th September 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>At 30th September 2002 (Unaudited) HK\$'000</b>	<b>At 31st March 2002 (Audited) HK\$'000</b>
Within one year	3,642	3,765
In the second to fifth year, inclusive	1,950	3,831
	<u>5,592</u>	<u>7,596</u>

(b) *As Lessee*

The Group leases certain of its land for factories, retail stores, plant and machinery, and staff and directors' quarters under operating lease arrangements. Such leases are negotiated for terms not more than 50 years.

At 30th September 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>At 30th September 2002 (Unaudited) HK\$'000</b>	<b>At 31st March 2002 (Audited) HK\$'000</b>
Within one year	367,150	323,797
In the second to fifth year, inclusive	485,429	490,476
After five years	287,907	143,818
	<u>1,140,486</u>	<u>958,091</u>

# Management Discussion and Analysis

## **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 declared 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

# Management Discussion and Analysis

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			Retail Outlets*		
	Six months ended 30th September	2001	Growth rate	30th September	31st March	30th September
	2002 HK\$'000	2001 HK\$'000	%	2002	2002	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

# Management Discussion and Analysis

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.

# Management Discussion and Analysis

## 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.

# Other Information

## Directors' Interests in Share Capital

At 30th September 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares of the Company held and nature of interest			Total
	Personal Interests	Family Interests	Corporate Interests	
Poon Bun Chak ( <i>Note</i> )	29,720,000	168,800,104	571,200,000	769,720,104
Poon Kai Chak	7,802,800	—	—	7,802,800
Poon Kei Chak	21,477,200	—	—	21,477,200
Poon Kwan Chak	6,442,800	—	—	6,442,800
Ting Kit Chung	1,600,000	—	—	1,600,000
Au Son Yiu	—	—	—	—
Cheng Shu Wing	—	—	—	—
	<u>67,042,800</u>	<u>168,800,104</u>	<u>571,200,000</u>	<u>807,042,904</u>

*Note:* 168,800,104 shares are owned by Farrow Star Limited, which is wholly-owned by Perfection Inc. as trustee for The Evergreen Trust, a discretionary trust, the beneficiaries of which include the family members of Mr. Poon Bun Chak. These shares are held as family interests under the SDI Ordinance.

571,200,000 shares are owned by Giant Wizard Corporation in which Farrow Star Limited has an 87.51% equity interest, and are held as corporate interests under the SDI Ordinance. A 12.4% interest in Giant Wizard Corporation is owned by Mr. Poon Kei Chak, Mr. Poon Kwan Chak and Mr. Poon Kai Chak.

Save as disclosed above, none of the directors, or their respective spouses or children under 18 years of age of any of the directors or chief executives or their associates, had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

# Other Information

Apart from the share option scheme as detailed below under the heading “Share Option Scheme”, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company’s directors, their respective spouses, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Substantial Shareholders

As 30th September 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares of the Company held	Percentage of issued share capital as at 30th September 2002
The Capital Group Companies, Inc.	174,162,700	13.16%

Save as disclosed above, no person, other than Mr. Poon Bun Chak, whose interests are set out in the section “Directors’ Interests in Share Capital” above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

## 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.



# Other Information

## Share Option Scheme

The share option scheme adopted on 15th July 1992 expired on 14th July 2002 and all the outstanding share options granted thereunder lapsed before the expiry of the scheme. A new share option scheme, in compliance with the requirements of Chapter 17 of the Listing Rules, was adopted by the Company on 27th August 2002 for a period of ten years. During the interim period, the following share options were outstanding :

Name or category of participant	Date of grant of share options	Exercise price of share options HK\$	Number of share options				Exercise period of share options	Closing price of the Company's share immediately before the date of grant of share options* HK\$
			At 1st April 2002	Granted during the period	Lapsed during the period	At 30th September 2002		
<b>Directors</b>								
Poon Bun Chak	11th September 2002	4.97	—	1,000,000	—	1,000,000	11th September 2002 to 10th September 2012	4.80
Poon Kai Chak	11th September 2002	4.97	—	7,500,000	—	7,500,000	11th September 2002 to 10th September 2012	4.80
Poon Kei Chak	11th September 2002	4.97	—	7,500,000	—	7,500,000	11th September 2002 to 10th September 2012	4.80
Poon Kwan Chak	11th September 2002	4.97	—	4,000,000	—	4,000,000	11th September 2002 to 10th September 2012	4.80
Ting Kit Chung	11th September 2002	4.97	—	4,000,000	—	4,000,000	11th September 2002 to 10th September 2012	4.80
Au Son Yiu	11th September 2002	4.97	—	200,000	—	200,000	11th September 2002 to 10th September 2012	4.80
Cheng Shu Wing	11th September 2002	4.97	—	200,000	—	200,000	11th September 2002 to 10th September 2012	4.80
<b>Other employees</b>								
In aggregate	26th February 1998	0.72	200,000	—	(200,000)	—	26th February 1998 to 27th May 2002	0.93
	11th September 2002	4.97	—	4,200,000	—	4,200,000	11th September 2002 to 10th September 2012	4.80
			<u>200,000</u>	<u>28,600,000</u>	<u>(200,000)</u>	<u>28,600,000</u>		

\* The closing price of the Company's share refers to the price quoted on the Stock Exchange.

# Other Information

## *Notes:*

- (1) The vesting period of the above share options is from the date of grant of share options to the commencement of the exercise period.
- (2) No share options were granted, exercised, cancelled or lapsed subsequent to 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.

By order of the Board

**Poon Bun Chak**

*Chairman*

Hong Kong, 18th December 2002