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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,
2 Church Street,
Hamilton HM 11,
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
G/F., Bank of East Asia Harbour View Centre,
56 Gloucester Road,
Wanchai,
Hong Kong.

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.
The Bank of East Asia, 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 2003 as follows:

Condensed Consolidated Profit and Loss Account

		Six months ended 30th September	
	<i>Notes</i>	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
TURNOVER	3	2,878,344	2,535,676
Cost of sales		<u>(2,088,967)</u>	<u>(1,714,499)</u>
Gross profit		789,377	821,177
Other revenue and gains		10,116	10,826
Selling and distribution costs		(433,808)	(361,059)
Administrative expenses		(176,346)	(159,940)
Other operating expenses		<u>(3,958)</u>	<u>(1,694)</u>
PROFIT FROM OPERATING ACTIVITIES		185,381	309,310
Share of profit of an associate		18,325	24,873
Finance costs		<u>(1,739)</u>	<u>(1,528)</u>
PROFIT BEFORE TAX		201,967	332,655
Tax	5	<u>(20,859)</u>	<u>(26,770)</u>
PROFIT BEFORE MINORITY INTERESTS		181,108	305,885
Minority interests		<u>(971)</u>	<u>(2,690)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>180,137</u>	<u>303,195</u>

Financial Information

Condensed Consolidated Profit and Loss Account

(continued)

		Six months ended 30th September	
	Notes	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Proposed interim dividend		<u>105,996</u>	<u>145,601</u>
Proposed interim dividend per share (HK cents)		<u>8.0</u>	<u>11.0</u>
Earnings per share (HK cents)	6		
Basic		<u>13.6</u>	<u>22.9</u>
Diluted		<u>13.5</u>	<u>22.9</u>

Financial Information

Condensed Consolidated Balance Sheet

	Notes	At 30th September 2003 (Unaudited) HK\$'000	At 31st March 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		1,135,887	1,070,035
Investment properties		35,710	35,710
Construction in progress		129,605	52,485
Trademarks		37,416	38,814
Interest in an associate		133,934	136,265
Long term rental deposits		88,889	67,068
		1,561,441	1,400,377
CURRENT ASSETS			
Inventories		816,268	853,492
Trade and bills receivables	7	541,779	381,830
Prepayments, deposits and other receivables		221,349	247,853
Cash and cash equivalents		505,778	484,781
		2,085,174	1,967,956
CURRENT LIABILITIES			
Due to an associate		99,875	68,635
Trade and bills payables	8	745,331	680,637
Other payables and accrued liabilities		170,285	153,386
Tax payable		57,699	52,401
Dividend payable		185,437	—
Interest-bearing bank borrowings		18,249	17,901
		1,276,876	972,960

Financial Information

Condensed Consolidated Balance Sheet *(continued)*

	At 30th September 2003 (Unaudited) <i>HK\$'000</i>	At 31st March 2003 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS	<u>808,298</u>	<u>994,996</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	2,369,739	2,395,373
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	13,246	22,011
Provision for long service payments	5,538	4,941
Deferred tax	<u>2,000</u>	<u>2,000</u>
	20,784	28,952
MINORITY INTERESTS	<u>35,710</u>	<u>50,710</u>
	<u>2,313,245</u>	<u>2,315,711</u>
CAPITAL AND RESERVES		
Issued share capital	66,234	66,208
Reserves	2,141,015	2,064,066
Proposed interim/final dividend	<u>105,996</u>	<u>185,437</u>
	<u>2,313,245</u>	<u>2,315,711</u>

Financial Information

Condensed Consolidated Statement of Changes in Equity

	Issued share 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		Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
							revaluation reserve (Unaudited) HK\$'000	revaluation reserve (Unaudited) HK\$'000			
At 1st April 2003	66,208	333,628	1,587	3,986	(110,603)	(12,317)	8,960	7,840	1,830,985	185,437	2,315,711
Foreign exchange adjustments	—	—	—	—	—	151	—	—	—	—	151
Exercise of share options	26	2,657	—	—	—	—	—	—	—	—	2,683
Net profit for the period	—	—	—	—	—	—	—	—	180,137	—	180,137
Final 2002/2003 dividend declared	—	—	—	—	—	—	—	—	—	(185,437)	(185,437)
Proposed 2003/2004 interim dividend	—	—	—	—	—	—	—	—	(105,996)	105,996	—
At 30th September 2003	66,234	336,285	1,587	3,986	(110,603)	(12,166)	8,960	7,840	1,905,126	105,996	2,313,245
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
Net profit for the period	—	—	—	—	—	—	—	—	303,195	—	303,195
Final 2001/2002 dividend paid	—	—	—	—	—	—	—	—	—	(158,838)	(158,838)
Proposed 2002/2003 interim dividend	—	—	—	—	—	—	—	—	(145,601)	145,601	—
At 30th September 2002	66,183	331,168	1,587	3,986	(110,603)	(12,414)	7,238	7,840	1,729,096	145,601	2,169,682

Financial Information

Condensed Consolidated Cash Flow Statement

	Six months ended 30th September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	280,490	187,907
NET CASH USED IN INVESTING ACTIVITIES	(251,334)	(98,516)
NET CASH USED IN FINANCING ACTIVITIES	(7,821)	(170,836)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	21,335	(81,445)
Cash and cash equivalents at 1st April	484,414	556,195
Foreign exchange adjustments	(686)	88
CASH AND CASH EQUIVALENTS AT 30TH SEPTEMBER	<u>505,063</u>	<u>474,838</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	224,588	124,981
Time deposits	281,190	356,438
Less: Bank overdrafts	(715)	(6,581)
	<u>505,063</u>	<u>474,838</u>

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 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 adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31st March 2003 except the adoption of SSAP 12 (Revised): “Income taxes” which is effective for the first time for the accounting period commencing on or after 1st January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. However, the adoption of the SSAP 12 (Revised) has had no material effect on the Group’s net assets and results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

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.

Financial Information

The Group's operating businesses 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) "Others" comprises principally the Group's motor and generator repair and maintenance and trading segment and the franchise services segment.

In determining the Group's geographical segments, revenues 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.

Financial Information

(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		Others		Eliminations		Consolidated	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	1,819,964	1,553,371	1,036,759	961,174	21,621	21,131	—	—	2,878,344	2,535,676
Intersegment sales	—	—	—	—	967	935	(967)	(935)	—	—
Other revenue	6,071	5,343	2,587	1,497	535	501	(584)	(592)	8,609	6,749
Total	1,826,035	1,558,714	1,039,346	962,671	23,123	22,567	(1,551)	(1,527)	2,886,953	2,542,425
Segment results	164,727	290,381	9,553	8,941	6,540	7,262	3,054	(1,351)	183,874	305,233
Interest income									1,507	4,077
Profit from operating activities									185,381	309,310
Share of profit of an associate									18,325	24,873
Finance costs									(1,739)	(1,528)
Profit before tax									201,967	332,655
Tax									(20,859)	(26,770)
Profit before minority interests									181,108	305,885
Minority interests									(971)	(2,690)
Net profit from ordinary activities attributable to shareholders									180,137	303,195

(b) Geographical segments

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

	USA		Japan		Mainland China		Hong Kong		Others		Consolidated	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	1,189,828	945,211	190,889	170,912	753,123	749,365	377,205	353,693	367,299	316,495	2,878,344	2,535,676

Financial Information

4. Depreciation and amortisation

During the period, depreciation of fixed assets and amortisation of trademarks of the Group amounted to HK\$87,880,000 and HK\$1,460,000 (2002: HK\$75,602,000 and HK\$1,454,000), respectively.

5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Hong Kong and the People's Republic of China (the "PRC") taxes:		
Current period provision	19,203	23,840
Deferred tax	—	809
	<u>19,203</u>	<u>24,649</u>
Share of tax attributable to an associate	<u>1,656</u>	<u>2,121</u>
Tax charge for the period	<u><u>20,859</u></u>	<u><u>26,770</u></u>

Financial Information

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$180,137,000 (2002: HK\$303,195,000) and the weighted average number of 1,324,398,924 (2002: 1,323,648,104) 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	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Net profit from ordinary activities attributable to shareholders	<u>180,137</u>	<u>303,195</u>
	Number of Shares	Number of Shares
Weighted average number of shares in issue during the period used in the calculation of basic earnings per share	1,324,398,924	1,323,648,104
Weighted average number of shares deemed to be issued for no consideration on deemed exercise of all share options outstanding during the period	<u>5,522,014</u>	<u>330,944</u>
Weighted average number of shares used in the calculation of diluted earnings per share	<u>1,329,920,938</u>	<u>1,323,979,048</u>

Financial Information

7. Trade and bills receivable

An aged analysis of trade and bills receivables, net of provisions, is as follows:

	At 30th September 2003 (Unaudited) <i>HK\$'000</i>	At 31st March 2003 (Audited) <i>HK\$'000</i>
Within 90 days	511,132	373,630
Over 90 days	<u>30,647</u>	<u>8,200</u>
	<u><u>541,779</u></u>	<u><u>381,830</u></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.

8. Trade and bills payables

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

	At 30th September 2003 (Unaudited) <i>HK\$'000</i>	At 31st March 2003 (Audited) <i>HK\$'000</i>
Within 90 days	714,151	667,934
Over 90 days	<u>31,180</u>	<u>12,703</u>
	<u><u>745,331</u></u>	<u><u>680,637</u></u>

Financial Information

9. Related party transactions

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

		Six months ended 30 September	
		2003	2002
		(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>		
Sales to Megawell Industrial Limited ("Megawell")	<i>(i)</i>	126,342	199,570
Purchases from Megawell	<i>(ii)</i>	109,961	105,149

Notes:

- (i) The sales to Megawell, the associate of the Group, were made according to the prices and conditions offered to the major customers of the Group.
- (ii) The directors consider 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 interim financial statements.

- (b) As at 30th September 2003, Nice Dyeing Factory Limited, a wholly-owned subsidiary of the Company, has provided advances of HK\$304,736,000 (31st March 2003: HK\$245,651,000) to Baleno Kingdom Limited, a non wholly-owned subsidiary, at prime rate minus 1.25% (31st March 2003: 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 Baleno Kingdom Limited.

Financial Information

10. Contingent liabilities

- (a) Contingent liabilities not provided for in the interim financial statements were:

	At 30th September 2003 (Unaudited) HK\$'000	At 31st March 2003 (Audited) HK\$'000
Bank guarantees given in lieu of property rental deposits	3,902	2,358
Guarantees of banking facilities granted to an associate	12,500	14,000
Export bills discounted with recourse	140,365	158,672
	<u>156,767</u>	<u>175,030</u>

- (b) In respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, the Group has made a provision of HK\$5,538,000 (31st March 2003: HK\$4,941,000) and has a further contingent liability with a maximum possible amount of HK\$8,431,000 as at 30th September 2003 (31st March 2003: HK\$5,855,000).

11. 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 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	At 30th September 2003 (Unaudited) HK\$'000	At 31st March 2003 (Audited) HK\$'000
Within one year	2,927	3,596
In the second to fifth years, inclusive	<u>704</u>	<u>1,214</u>
	<u><u>3,631</u></u>	<u><u>4,810</u></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 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30th September 2003 (Unaudited) HK\$'000	At 31st March 2003 (Audited) HK\$'000
Within one year	466,624	359,436
In the second to fifth years, inclusive	592,511	536,479
After five years	<u>500,678</u>	<u>307,863</u>
	<u><u>1,559,813</u></u>	<u><u>1,203,778</u></u>

Financial Information

12. Commitments

In addition to the operating lease commitments detailed in note 11 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	At 30th September 2003 (Unaudited) HK\$'000	At 31st March 2003 (Audited) HK\$'000
In respect of fixed assets, contracted, but not provided for	74,402	81,507
In respect of fixed assets, authorised, but not contracted for	360,040	375,600
In respect of investment in subsidiaries in the PRC, contracted, but not provided for	<u>925,699</u>	<u>493,390</u>
	<u><u>1,360,141</u></u>	<u><u>950,497</u></u>

(b) Commitments under forward foreign exchange contracts

	At 30th September 2003 (Unaudited) HK\$'000	At 31st March 2003 (Audited) HK\$'000
Forward foreign exchange contracts	<u><u>1,790,454</u></u>	<u><u>—</u></u>

Financial Information

13. Post balance sheet event

- (a) In October 2003, the Group obtained two long term bank loans of aggregate amount HK\$300 million, with maturity due within two years, mainly for the additions of capital expenditure.
- (b) On 1st December 2003, 90,000 share options were exercised by certain employees of the Group and 90,000 new shares were issued by the Company.

Management Discussion and Analysis

Interim Dividend

The Board has declared an interim dividend of HK8.0 cents per share (2002 : HK11.0 cents) for the six months ended 30th September 2003. The interim dividend will be payable on Tuesday, 10th February 2004 to shareholders registered on the Register of Members at the close of business on Friday, 16th January 2004.

Closure of Register of Members

The Register of Members will be closed from Monday, 12th January 2004 to Friday, 16th January 2004 (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 4:00 p.m. on Friday, 9th January 2004. Tengis Limited is located at 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 amounted to HK\$2,878 million, an increase of 14 %. Net profit from ordinary activities attributable to shareholders dropped by 41% to HK\$180 million. The board of directors has declared an interim dividend of HK8.0 cents per share.

Knitted fabric

The textile business recorded a turnover of HK\$1,820 million, an increase of 17%. This represented 63% of the Group's total turnover. During the period, cotton prices went up substantially by over 60% when compared with the same period of last year. Owing to the adverse effects brought about by the Severe Acute Respiratory Syndrome ("SARS") and the global unfavourable economic conditions, the Group was unable to pass all the increase in raw material cost to the customers. As the raw material prices were volatile, the Group had to give up some rush orders which had higher profit margins. As a result, gross margin declined by 9%, to 16% from 25% last year. Despite the business environment was tough, the Group experienced strong demand from its customers. Production capacity grew by about 20% in the period with high rate of utilization.

Retail and distribution

Sales of the retail business amounted to HK\$1,037 million, a growth of 8% and represented 36% of the Group's total turnover. All our major markets experienced year-on-year revenue improvement. Sales performance was greatly affected by the SARS epidemic in the first quarter. However, business expansion was speeded up in the second quarter with promising

Management Discussion and Analysis

results. In the period, there were about 350 new stores opened in the Mainland China, exceeding the projected target of 200 stores. The growth in Hong Kong and Taiwan markets was also encouraging. At the interim end, the performance of Mainland China, Hong Kong, Taiwan and Singapore was as below:

	Sales		Growth rate %	Retail Outlets*		
	Six months ended 30th September			30th September	31st March	30th September
	2003 HK\$'000	2002 HK\$'000		2003	2003	2002
Mainland China	662,423	646,351	2	1,410	1,060	945
Hong Kong	167,818	147,169	14	56	45	39
Taiwan	165,418	142,469	16	185	155	128
Singapore	41,100	25,185	63	26	17	15
	<u>1,036,759</u>	<u>961,174</u>	8	<u>1,677</u>	<u>1,277</u>	<u>1,127</u>

* Include self-owned and franchised outlets

Garment

Net profit contributed by our associated garment manufacturing business was HK\$17 million, a drop of 27%. During the period, about 83% of the associate's fabric consumption was supplied by the Group's fabric division and the associate's sales to the Group's retail division was about 30% of the associate's turnover. Profit margin of the associate was also affected by the sharp increase in raw material cost.

Financial Condition

The Group maintained a strong financial position. As at 30th September 2003, cash and cash equivalents amounted to HK\$506 million. Total bank borrowings were HK\$31 million and unutilized bank facilities were HK\$1,100 million. Total debt to equity ratio was 0.6. The revenue and procurement of the Group were mainly denominated in U.S. dollar, Hong Kong 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 reporting period, the Group's contingent liabilities were HK\$165 million, which were mainly related to discounted export bills receivable.

Management Discussion and Analysis

Human Resources

As at 30th September 2003, the Group had a total of 15,955 employees in Greater China and Singapore. Besides offering competitive remuneration packages to the employees, discretionary bonuses and share options are also granted to eligible staff based on individual and Group's performance.

Outlook

Cotton prices are still staying at a high level. With the improvement of global economic conditions, the Group is now at a better bargaining position on the product prices. The Group is working extremely hard in cost management and margin improvement.

The Group is planning to set up a new spinning factory in the existing production site. In the first stage, the capital investment is budgeted to be HK\$150 million. Production is expected to commence in the third quarter of 2004. With spinning facilities, the Group will be more efficient in inventory control and able to capture quick response orders.

For the retail business, the Group is diversifying the product mix as well as the customer base to accelerate profit margin. While "Baleno" and "S & K" are in a stable growth, more effort will be placed on "Baleno Attitude" and "ebase" which are concentrated on ladies wears.

The global economy is still in a period of uncertainty. Although the operation environment may remain challenging in the coming days, the Group remains confident of its leading market position and its proven product quality. The management is optimistic to have an improved results in the coming half year.

Other Information

Directors' Interests in Share Capital

At 30th September 2003, the interests of the directors and their associates in the share capital of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, 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	505,200,000	703,720,104
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>505,200,000</u>	<u>741,042,904</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 SFO.

505,200,000 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 SFO. A 12.4% interest in Giant Wizard Corporation is owned by Mr. Poon Bun Chak, Mr. Poon Kei Chak and Mr. Poon Kwan 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.

Apart from the share option scheme as explained under “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.

Other Information

Substantial Shareholders

As 30 September 2003, the following interests of 5% 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 336 of the SFO:

Name	Number of shares of the Company held	Percentage of issued share capital as at 30 September 2003
The Capital Group Companies, Inc.	120,765,900	9.12%

Save as disclosed above and Mr. Poon Bun Chak, whose interests are set out in the section “Directors’ Interests in Share Capital” above, the directors are not aware of any other shareholders whose interests in the share capital of the Company are required to be recorded under Section 336 of the SFO.

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 2003.

Other Information

Share Option Scheme

A share option scheme, in compliance with the requirements of Chapter 17 of the Listing Rules, was adopted by the Company on 27 August 2002 for a period of ten years, details of which have been set out in the 2003 annual report. 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 (Note (4)) HK\$
			At 1 April 2003	Exercised during the period (Note (3))	At 30 September 2003		
Directors							
Poon Bun Chak	11 September 2002	4.97	1,000,000	—	1,000,000	11 September 2002 to 10 September 2012	4.80
Poon Kai Chak	11 September 2002	4.97	7,500,000	—	7,500,000	11 September 2002 to 10 September 2012	4.80
Poon Kei Chak	11 September 2002	4.97	7,500,000	—	7,500,000	11 September 2002 to 10 September 2012	4.80
Poon Kwan Chak	11 September 2002	4.97	4,000,000	—	4,000,000	11 September 2002 to 10 September 2012	4.80
Ting Kit Chung	11 September 2002	4.97	4,000,000	—	4,000,000	11 September 2002 to 10 September 2012	4.80
Au Son Yiu	11 September 2002	4.97	200,000	—	200,000	11 September 2002 to 10 September 2012	4.80
Cheng Shu Wing	11 September 2002	4.97	200,000	—	200,000	11 September 2002 to 10 September 2012	4.80
Other employees							
In aggregate	11 September 2002	4.97	3,700,000	(540,000)	3,160,000	11 September 2002 to 10 September 2012	4.80
			<u>28,100,000</u>	<u>(540,000)</u>	<u>27,560,000</u>		

Notes:

- (1) The vesting period of the above share options is from the date of grant of share options by eligible participants to the commencement of the exercise period.
- (2) No share options were granted, cancelled or lapsed subsequent to 30th September 2003.
- (3) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK\$6.24.
- (4) The closing price of the Company's share refers to the price quoted on the Stock Exchange.

Other Information

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 has 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, 17th December 2003



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