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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*
Wong Tze Kin, David*

* *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.baleno.com.hk/>
<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 30 September 2004 as follows:

Condensed Consolidated Profit and Loss Account

		Six months ended 30 September	
	<i>Notes</i>	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
TURNOVER	3	3,600,250	2,878,344
Cost of sales		<u>(2,588,114)</u>	<u>(2,088,967)</u>
Gross profit		1,012,136	789,377
Other revenue and gains		18,458	10,116
Selling and distribution costs		(569,067)	(433,808)
Administrative expenses		(213,572)	(176,346)
Other operating expenses, net		<u>2,941</u>	<u>(3,958)</u>
PROFIT FROM OPERATING ACTIVITIES		250,896	185,381
Share of profit of an associate		18,503	18,325
Finance costs		<u>(3,760)</u>	<u>(1,739)</u>
PROFIT BEFORE TAX		265,639	201,967
Tax	5	<u>(25,832)</u>	<u>(20,859)</u>
PROFIT BEFORE MINORITY INTERESTS		239,807	181,108
Minority interests		<u>(2,925)</u>	<u>(971)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>236,882</u></u>	<u><u>180,137</u></u>

Financial Information

Condensed Consolidated Profit and Loss Account

(continued)

		Six months ended 30 September	
	Notes	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Proposed interim dividend		<u>132,588</u>	<u>105,996</u>
Proposed interim dividend per share (HK cents)		<u>10.0</u>	<u>8.0</u>
Earnings per share (HK cents)	6		
Basic		<u>17.9</u>	<u>13.6</u>
Diluted		<u>17.7</u>	<u>13.5</u>

Financial Information

Condensed Consolidated Balance Sheet

	Notes	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		1,678,146	1,370,124
Investment properties		41,920	41,920
Construction in progress		202,331	185,064
Trademarks		34,532	35,995
Interest in an associate		119,794	133,275
Long term rental deposits		91,736	72,826
		<u>2,168,459</u>	<u>1,839,204</u>
CURRENT ASSETS			
Inventories		970,375	1,041,678
Trade and bills receivable	7	538,613	534,834
Prepayments, deposits and other receivables		330,870	341,211
Cash and cash equivalents		719,628	633,758
		<u>2,559,486</u>	<u>2,551,481</u>
CURRENT LIABILITIES			
Due to an associate		62,614	94,334
Trade and bills payable	8	825,185	758,328
Other payables and accrued liabilities		257,659	188,409
Tax payable		98,198	79,719
Dividend payable		159,047	—
Interest-bearing bank borrowings		199,748	213,029
Short term shareholder loan		101,162	100,000
		<u>1,703,613</u>	<u>1,433,819</u>

Financial Information

Condensed Consolidated Balance Sheet *(continued)*

	At 30 September 2004 (Unaudited) <i>HK\$'000</i>	At 31 March 2004 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS	<u>855,873</u>	<u>1,117,662</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	3,024,332	2,956,866
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	137,222	154,483
Long term shareholder loan	260,205	260,205
Provision for long service payments	8,193	7,954
Deferred tax	<u>3,000</u>	<u>3,000</u>
	408,620	425,642
MINORITY INTERESTS	<u>85,501</u>	<u>82,766</u>
	<u>2,530,211</u>	<u>2,448,458</u>
CAPITAL AND RESERVES		
Issued capital	66,279	66,239
Reserves	2,331,344	2,223,172
Proposed interim/final dividend	<u>132,588</u>	<u>159,047</u>
	<u>2,530,211</u>	<u>2,448,458</u>

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	Investment property		Exchange fluctuation reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	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 1 April 2004	66,239	336,728	1,587	3,986	(110,603)	8,960	7,840	1,987,912	159,047	2,448,458		
Foreign exchange adjustments	—	—	—	—	—	—	—	—	—	—	—	(38)
Exercise of share options	40	3,916	—	—	—	—	—	—	—	—	—	3,956
Net profit for the period	—	—	—	—	—	—	—	236,882	—	—	—	236,882
Final 2003/2004 dividend declared	—	—	—	—	—	—	—	—	—	—	(159,047)	(159,047)
Proposed 2004/2005 interim dividend	—	—	—	—	—	—	—	—	(132,588)	132,588	—	—
At 30 September 2004	66,279	340,644	1,587	3,986	(110,603)	8,960	7,840	2,092,206	132,588	2,530,211		
At 1 April 2003	66,208	333,628	1,587	3,986	(110,603)	8,960	7,840	1,830,985	185,437	2,315,711		
Foreign exchange adjustments	—	—	—	—	—	—	—	—	—	—	—	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 30 September 2003	66,234	336,285	1,587	3,986	(110,603)	8,960	7,840	1,905,126	105,996	2,313,245		

Financial Information

Condensed Consolidated Cash Flow Statement

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	528,438	280,490
NET CASH USED IN INVESTING ACTIVITIES	(416,287)	(251,334)
NET CASH USED IN FINANCING ACTIVITIES	<u>(27,617)</u>	<u>(7,821)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,534	21,335
Cash and cash equivalents at 1 April	633,355	484,414
Foreign exchange adjustments	<u>1,739</u>	<u>(686)</u>
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	<u><u>719,628</u></u>	<u><u>505,063</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	215,205	224,588
Non-pledged time deposits with original maturity within three months when acquired	504,423	281,190
Bank overdrafts	<u>—</u>	<u>(715)</u>
	<u><u>719,628</u></u>	<u><u>505,063</u></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 Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities (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 31 March 2004.

3. Segment information

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

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:

- (i) the production, dyeing and sale of knitted fabric and yarn segment;
- (ii) the casual apparel and accessory retailing and distribution segment; and
- (iii) others mainly comprise 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 attributable to segments based on the location of the markets.

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 for the six months ended 30 September:

	Production, dyeing and sale of knitted fabric and yarn		Casual apparel and accessory retailing and distribution		Others		Eliminations		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	2,272,210	1,819,964	1,302,901	1,036,759	25,139	21,621	—	—	3,600,250	2,878,344
Intersegment sales	—	—	—	—	1,084	967	(1,084)	(967)	—	—
Other revenue	9,045	6,071	3,913	2,587	750	535	(606)	(584)	13,102	8,609
Total	2,281,255	1,826,035	1,306,814	1,039,346	26,973	23,123	(1,690)	(1,551)	3,613,352	2,886,953
Segment results	223,597	164,727	12,780	9,553	6,982	6,540	2,181	3,054	245,540	183,874
Interest income									5,356	1,507
Profit from operating activities									250,896	185,381
Share of profit of an associate									18,503	18,325
Finance costs									(3,760)	(1,739)
Profit before tax									265,639	201,967
Tax									(25,832)	(20,859)
Profit before minority interests									239,807	181,108
Minority interests									(2,925)	(971)
Net profit from ordinary activities attributable to shareholders									236,882	180,137

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments for the six months ended 30 September:

	USA		Mainland China		Japan		Hong Kong		Others		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	1,593,901	1,189,828	911,107	753,123	167,010	190,889	396,070	377,205	532,162	367,299	3,600,250	2,878,344

Financial Information

4. Depreciation and amortisation

During the period, depreciation of fixed assets and amortisation of trademarks of the Group amounted to HK\$106,105,000 and HK\$1,463,000 (2003: HK\$87,880,000 and HK\$1,460,000), respectively.

5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong for the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Hong Kong and the People's Republic of China (the "PRC") taxes:		
Current period provision	23,848	19,203
Share of tax attributable to an associate	1,984	1,656
Tax charge for the period	25,832	20,859

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 for the period of HK\$236,882,000 (2003: HK\$180,137,000) and the weighted average number of 1,325,289,623 (2003: 1,324,398,924) 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 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net profit from ordinary activities attributable to shareholders	<u>236,882</u>	<u>180,137</u>
	Number of shares	Number of shares
Weighted average number of shares in issue during the period used in the calculation of of basic earnings per share	1,325,289,623	1,324,398,924
Weighted average number of shares deemed to be issued for no consideration on deemed exercise of all share options outstanding during the period	<u>9,914,379</u>	<u>5,522,014</u>
Weighted average number of shares used in the calculation of diluted earnings per share	<u><u>1,335,204,002</u></u>	<u><u>1,329,920,938</u></u>

Financial Information

7. Trade and bills receivable

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

	At 30 September 2004 (Unaudited) <i>HK\$'000</i>	At 31 March 2004 (Audited) <i>HK\$'000</i>
Within 90 days	524,947	515,387
Over 90 days	<u>13,666</u>	<u>19,447</u>
	<u>538,613</u>	<u>534,834</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 payable

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

	At 30 September 2004 (Unaudited) <i>HK\$'000</i>	At 31 March 2004 (Audited) <i>HK\$'000</i>
Within 90 days	790,715	730,696
Over 90 days	<u>34,470</u>	<u>27,632</u>
	<u>825,185</u>	<u>758,328</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	
	<i>Notes</i>	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Sales to Megawell Industrial Limited ("Megawell")	<i>(i)</i>	150,900	126,342
Purchases from Megawell	<i>(ii)</i>	<u>131,814</u>	<u>109,961</u>

Notes:

- (i) The sales to Megawell, the associate of the Group, were made according to the prices and terms offered to the major customers of the Group.
- (ii) The directors consider that the purchases from Megawell were made according to the prices and terms 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.

- (b) As at 30 September 2004, Nice Dyeing Factory Limited, a wholly-owned subsidiary of the Company, has provided advances of HK\$423,272,000 (31 March 2004: HK\$323,520,000) to Baleno Kingdom Limited, a non wholly-owned subsidiary, at the annual interest rate of Hong Kong Interbank Offered Rate ("HIBOR") plus 2% (31 March 2004: prime rate minus 1.25% and HIBOR plus 2% for the period from April to October 2003, and from November 2003 to March 2004, respectively). 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

- (c) As at 30 September 2004, the outstanding shareholder loan of HK\$361,367,000 (31 March 2004: HK\$360,205,000) is unsecured, interest-bearing at HIBOR plus 0.4% (31 March 2004: HIBOR plus 0.4%) per annum and not repayable within one year, except for an amount of HK\$101,162,000 which is repayable on or before 30 September 2005 (31 March 2004: except for an amount of HK\$100,000,000 which is repayable on or before 31 March 2005). Total interest expenses paid for the shareholder loan was HK\$1,162,000 (2003: nil) for the period.
- (d) A minority shareholder of the Group's 54% owned subsidiary had provided an unconditional guarantee to indemnify the Group from any loss arising from the recoverability of prepayments for purchases made to a supplier of the Group of HK\$16,741,000 (31 March 2004: HK\$16,741,000) as included in the prepayments, deposits and other receivables balance of the Group as at 30 September 2004.

10. Contingent liabilities

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

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Bank guarantees given in lieu of property rental deposits	2,288	3,934
Guarantees of banking facilities granted to an associate	12,500	12,500
Export bills discounted with recourse	<u>205,970</u>	<u>255,870</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\$8,193,000 (31 March 2004: HK\$7,955,000) and has a further contingent liability with a maximum possible amount of HK\$7,502,000 as at 30 September 2004 (31 March 2004: HK\$5,320,000).

Financial Information

- (c) There have been no material changes in contingent liabilities in respect of the Group's litigations since 31 March 2004. Details of the litigations have been set out in note 31(c) and (d) to the financial statements for the year ended 31 March 2004.

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 require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 September 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within one year	2,351	2,717
In the second to fifth years, inclusive	2,357	103
	4,708	2,820

- (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.

Financial Information

At 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within one year	493,099	415,530
In the second to fifth years, inclusive	729,108	709,874
After five years	381,580	441,511
	<u>1,603,787</u>	<u>1,566,915</u>

12. Commitments

(a) Capital commitments

Commitments for capital expenditure at the balance sheet date were as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
In respect of fixed assets, contracted, but not provided for	80,807	84,478
In respect of fixed assets, authorised, but not contracted for	332,361	345,206
In respect of investment in subsidiaries in the PRC, contracted, but not provided for	355,928	722,380
	<u>769,096</u>	<u>1,152,064</u>

- (b) At 30 September 2004, the Group had outstanding foreign exchange forward contracts with an equivalent aggregate principal amount of HK\$3,344 million (31 March 2004: HK\$3,336 million).

Management Discussion and Analysis

Interim Dividend

The Board has declared an interim dividend of HK10.0 cents per share (2003 : HK8.0 cents) for the six months ended 30 September 2004. The interim dividend will be payable on Wednesday, 2 February 2005 to shareholders registered on the Register of Members at the close of business on Friday, 14 January 2005.

Closure of Register of Members

The Register of Members will be closed from Monday, 10 January 2005 to Friday, 14 January 2005 (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, 7 January 2005. 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 ended 30 September 2004, the Group's total turnover amounted to HK\$3,600 million, an increase of 25%. Net profit from ordinary activities attributable to shareholders rose by 32% to HK\$237 million. The Board has declared an interim dividend of HK10.0 cents, an increase of 25% over last year's HK8.0 cents.

Textile business

The business recorded a turnover of HK\$2,272 million, an increase of 25% over the same period last year. This shared 63% of the Group's total turnover. During the period, the operating environment was more favourable when compared with last year as cotton prices were stabilizing. As planned, production capacity grew by about 20% and the Group remained strong in capturing uninterrupted order flow. The new spinning plant has commenced trial operation since October 2004 and is expected to supply about 10% of internal yarn requirements. This upstream integration would help to handle more rush orders and to shorten the inventory turnover days.

Retail and distribution

Sales of the retail operation reached HK\$1,303 million, a rise of 26%, and represented 36% of the Group's total turnover. All our major markets achieved good year-on-year revenue growth. In the period, business expansion was speeded up in view of improved market conditions. There were about 640 new stores opened in Asia, much exceeding the original

Management Discussion and Analysis

target of 250 stores. Mainland China remained the focus market with outlets existed in 256 cities. Gross profit margin improved to 48.4% from last year's 46.5%. At the interim end, the performance of our major markets was as below:

	Sales			Growth rate %	Retail Outlets*		
	Six months ended 30 September		2003 HK\$'000		30 September	31 March	30 September
	2004 HK\$'000	2004 HK\$'000			2004	2004	2003
Mainland China	821,640	662,423		24	2,322	1,750	1,410
Hong Kong and Macau	195,890	167,818		17	72	62	56
Taiwan	222,261	165,418		34	241	196	185
Singapore and Malaysia	63,110	41,100		54	45	32	26
	<u>1,302,901</u>	<u>1,036,759</u>		26	<u>2,680</u>	<u>2,040</u>	<u>1,677</u>

* Include self-owned and franchised outlets

Garment

The associated garment business recorded a turnover of HK\$418 million, a growth of 14%. During the period, about 77% of its fabric consumption was supplied by the Group's textile division and its sales to the Group's retail division accounted for about 32% of its turnover. During the period, production capacity grew by about 15%.

Financial condition

Liquidity and financial resources

Liquidity of the Group remained strong. The net cash inflow from operating activities during the interim period increased by HK\$248 million to HK\$528 million compared with the same period of last year. The robust increase in the net cash inflow from operating activities was mainly attributable to :

- (i) the increase in profit from operating activities by HK\$66 million to HK\$251 million;
- (ii) the reduction of inventory turnover days and receivable turnover days by 3 days to 49 days and by 7 days to 27 days respectively.

Management Discussion and Analysis

At 30 September 2004, the cash and cash equivalents and the unutilized banking facilities were HK\$720 million and HK\$1,633 million respectively. The Group mainly financed its operation by internal resources, bank borrowings and a shareholder loan. The bank borrowings outstanding at 30 September 2004 amounted to HK\$337 million and these borrowings were mainly HIBOR based HKD loans with maturity due within three years. At 30 September 2004, the shareholders' equity and the gearing ratio were HK\$2,530 million and 0.9 respectively. Gearing ratio refers to the ratio of total liabilities and minority interests to shareholders' equity. For the period under review, the interest coverage ratio was 72 times.

Contingent liabilities

At 30 September 2004, the contingent liabilities, not reflected in the interim financial statements, were HK\$228 million. These mainly represented the discounted export bills of HK\$206 million and the guarantees of HK\$13 million made by the Group in respect of the banking facilities of an associated company.

Capital expenditure

Total capital expenditure of the Group for the period under review was HK\$438 million. Capital expenditure of HK\$333 million was incurred by the Textile Business mainly for the increase of the production capacity of the knitting and dyeing factories and the establishment of a new spinning factory. Capital expenditure of HK\$104 million was incurred by the Retail & Distribution Business for the addition of outlets and the establishment of a commercial mall in Taiwan.

Pledge of assets

As at 30 September 2004, no significant assets were pledged.

Foreign exchange and interest rate risks

The Group has clear policies in managing the foreign exchange and interest rate risks. During the interim period, the Group's major revenues, expenses, procurements and loans were denominated in HKD, USD, Renminbi, Euro and Yen. To reduce the foreign exchange risk, the Group had arranged forward contracts to cover its foreign exchange exposure.

Management Discussion and Analysis

Human Resources

As at 30 September 2004, the Group had about 19,100 employees in the Greater China, Singapore and Malaysia. The remuneration of the employees was largely based on industry practice and the performance of individual employee.

Outlook

Cotton prices have been softening and the operating environment has stabilized. The Group will continue to grow production capacity to enlarge market share. The removal of quotas next year will also provide a growth opportunity.

For the retail business, the Group will continue its aggressive expansion in Mainland China by using the multi-brand strategy. More self-managed stores will be established there to facilitate tighter management control. The Group is also working extremely hard to extend the retail profit margin.

The global economic recovery is likely to continue. The management is optimistic to enhance an improved results in the coming half year.

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 September 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Interest in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued capital
	Directly, beneficially owned	Through spouse or minor children	Through controlled corporations		
Poon Bun Chak (<i>Note</i>)	29,720,000	168,800,104	505,200,000	703,720,104	53.1
Poon Kai Chak	7,802,800	—	—	7,802,800	0.6
Poon Kei Chak	21,477,200	—	—	21,477,200	1.6
Poon Kwan Chak	6,442,800	—	—	6,442,800	0.5
Ting Kit Chung	1,600,000	—	—	1,600,000	0.1
Au Son Yiu	—	—	—	—	—
Cheng Shu Wing	—	—	—	—	—
Wong Tze Kin, David	—	—	—	—	—
	<u>67,042,800</u>	<u>168,800,104</u>	<u>505,200,000</u>	<u>741,042,904</u>	<u>55.9</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 through his spouse or minor children in accordance with the SFO.

505,200,000 shares are owned by Giant Wizard Corporation in which Farrow Star Limited has an 87.51% equity interest. A 12.4% interest in Giant Wizard Corporation is owned by Messrs. Poon Bun Chak, Poon Kei Chak and Poon Kwan Chak.

Save as disclosed above, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

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.

Substantial Shareholders’ and Other Person’s Interests in Shares and Underlying Shares

As 30 September 2004, the following interests of 5% or more of the issued 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	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company’s issued capital as at 30 September 2004
State Street Corporation	Directly and beneficially owned	66,311,194	5.0

Save as disclosed above, the Company has not been notified by any person, other than the directors of the Company, whose interests are set out in the section “Directors’ Interests and Short Positions in Shares and Underlying Shares” above, who had interests or short positions in the shares or underlying shares of the Company as at 30 September 2004 which were required to be recorded pursuant to Section 336 of the SFO.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 September 2004.

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 2004 annual report. As at 30 September 2004, 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 2004	Exercised during the period (Note (3))	At 30 September 2004		
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
	26 March 2004	5.6	3,000,000	—	3,000,000	26 March 2004 to 25 March 2014	5.55
			10,500,000	—	10,500,000		
Poon Kei Chak	11 September 2002	4.97	7,500,000	—	7,500,000	11 September 2002 to 10 September 2012	4.80
	26 March 2004	5.6	3,000,000	—	3,000,000	26 March 2004 to 25 March 2014	5.55
			10,500,000	—	10,500,000		
Poon Kwan Chak	11 September 2002	4.97	4,000,000	—	4,000,000	11 September 2002 to 10 September 2012	4.80
	26 March 2004	5.6	6,000,000	—	6,000,000	26 March 2004 to 25 March 2014	5.55
			10,000,000	—	10,000,000		
Ting Kit Chung	11 September 2002	4.97	4,000,000	—	4,000,000	11 September 2002 to 10 September 2012	4.80
	26 March 2004	5.6	6,000,000	—	6,000,000	26 March 2004 to 25 March 2014	5.55
			10,000,000	—	10,000,000		
Au Son Yiu	11 September 2002	4.97	200,000	—	200,000	11 September 2002 to 10 September 2012	4.80
	26 March 2004	5.6	200,000	—	200,000	26 March 2004 to 25 March 2014	5.55
			400,000	—	400,000		

Other Information

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 2004	Exercised during the period (Note (3))	At 30 September 2004		
Cheng Shu Wing	11 September 2002	4.97	200,000	—	200,000	11 September 2002 to 10 September 2012	4.80
	26 March 2004	5.6	200,000	—	200,000		26 March 2004 to 25 March 2014
			<u>400,000</u>	<u>—</u>	<u>400,000</u>		
Wong Tze Kin, David	26 March 2004	5.6	200,000	—	200,000	26 March 2004 to 25 March 2014	5.55
Other employees In aggregate	11 September 2002	4.97	3,070,000	(796,000)	2,274,000	11 September 2002 to 10 September 2012 1 April 2006 to 25 March 2014	4.80
	26 March 2004	5.6	7,650,000	—	7,650,000		5.55
			<u>10,720,000</u>	<u>(796,000)</u>	<u>9,924,000</u>		
			<u>53,720,000</u>	<u>(796,000)</u>	<u>52,924,000</u>		

Notes:

- (1) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (2) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (3) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK\$6.15.
- (4) The closing price of the Company's share refers to the closing price quoted on the Stock Exchange.
- (5) Subsequent to 30 September 2004, 304,000 share options were exercised by certain employees which resulted in the issue of 304,000 ordinary shares of the Company, new share capital of HK\$15,000 and share premium of HK\$1,496,000.

Other Information

Audit Committee

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

For the interim period under review, 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.

Model Code for Securities Transactions by Directors

During the interim period under review, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Following specific enquiry, the directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the period under review.

By order of the Board
Poon Bun Chak
Chairman

Hong Kong, 17 December 2004



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