TEXWINCA HOLDINGS LIMITED

德永佳集團有限公司

(Incorporated in Bermuda with limited liability)

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

INTERIM RESULTS

The Board of Directors of Texwinca Holdings Limited (the "Company") has pleasure in presenting the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2001 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30th September 2001 (Unaudited) HK$'000	2000 (Unaudited) HK$'000
TURNOVER	4	**2,484,440**	2,089,975
Cost of sales		**(1,747,033)**	(1,523,390)
Gross profit		**737,407**	566,585
Other revenue		**13,482**	9,910
Selling and distribution costs		**(319,298)**	(203,110)
Administrative expenses		**(154,494)**	(130,048)
Other operating expenses		**(1,086)**	(10,047)
PROFIT FROM OPERATING ACTIVITIES	5	**276,011**	233,290
Share of profit of an associate		**34,647**	25,648
Finance costs		**(4,455)**	(3,693)
PROFIT BEFORE TAX		**306,203**	255,245
Tax	6	**(33,219)**	(22,984)
PROFIT BEFORE MINORITY INTERESTS		**272,984**	232,261
Minority interests		**(2,362)**	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**270,622**	232,261
Interim dividend		**101,812**	76,531
Interim dividend per share (HK cents)		**8.0**	6.0
Earnings per share (HK cents)	7		
Basic		**21.2**	18.2
Diluted		**20.6**	17.9

Notes:

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 as described below:

Dividend proposed or declared after the balance sheet date

In prior years, dividend proposed or declared after the balance sheet date was recognised as liabilities at the balance sheet date. Under the SSAP 9 (Revised) "Events After the Balance Sheet Date" issued by the HKSA, dividend proposed or declared after the balance sheet date is no longer recognised as a liability at the balance sheet date, but is disclosed as a separate component of the shareholders' fund. The change in accounting policy has been applied retrospectively, resulting in a prior year adjustment. As a result of the change, the shareholders' fund and the current liabilities as at 31st March, 2001 were increased and decreased by HK$114,903,000 respectively.

Trademarks

Trademarks are stated at costs less any accumulated amortisation and any impairment losses. Amortisation is calculated on a straight line basis to write off the costs over their estimated useful lives. Following the introduction of the new SSAP 29 "Intangible Assets" and SSAP 31 "Impairment of Assets" issued by the HKSA, the directors have reassessed the useful lives of the trademarks held by the Group and decided to change their original estimates from 30 years to 20 years for prudence purpose. As a result of the change, the amortisation of trademarks of current period was HK$1,450,000 (2000: HK$873,000).

Leases

The Group has adopted the SSAP 14 (Revised) "Leases" during the period. The SSAP mainly prescribes the accounting policy and disclosure requirements in respect of finance and operating leases. The adoption of the revised SSAP does not have any impact on the financial statements of the Group except that the disclosure of operating lease commitments has been revised according to the new disclosure requirements. *(See note 12)*

Business combinations

In prior years, goodwill arising from acquisitions was charged against reserves and was written back to the profit and loss account upon the disposal of the relevant subsidiary or associate. According to the newly introduced SSAP 30 "Business Combinations", goodwill arising from acquisitions is capitalised and amortised over its estimated useful life of not more than 20 years on a straight-line basis. Negative goodwill arising from acquisition is treated as a deduction from assets and will be recongised as income based on the situation giving rise to the negative goodwill. The Group has adopted the accounting policy in current period and has taken advantage of the transitional provisions of the SSAP 30 of not restating any goodwill written off in prior years.

3. Principal activities

The Group's principal activities during the period include the production, dyeing and sale of knitted fabric and yarn, the retailing and distribution of casual apparel and accessories, the provision of repair and maintenance services for motors and generators and the trading of generators. There was no change in the principal activities of the Group during the period.

4. Segmental information

An analysis of the Group's turnover and profit from operating activities by principal activity and geographical area during the period is shown as follows:

	Turnover Six months ended 30th September 2001 (Unaudited) HK$'000	2000 (Unaudited) HK$'000	Profit/(loss) from operating activities Six months ended 30th September 2001 (Unaudited) HK$'000	2000 (Unaudited) HK$'000
By activity:				
Production, dyeing and sale of knitted fabric and yarn	**1,526,524**	1,353,754	**257,518**	193,212
Retailing and distribution of casual apparel and accessories	**945,964**	720,293	**19,916**	39,016
Repair and maintenance services for motors and generators, and trading of generators	**11,952**	15,928	**(1,423)**	1,062
	2,484,440	2,089,975	**276,011**	233,290
By geographical area:				
United States of America ("US")	**785,112**	705,462	**132,445**	100,686
Mainland China	**739,883**	650,239	**61,342**	71,737
Japan	**374,386**	242,895	**63,157**	34,667
Hong Kong	**301,656**	253,585	**11,654**	5,936
Elsewhere	**283,403**	237,794	**7,413**	20,264
	2,484,440	2,089,975	**276,011**	233,290

5. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30th September 2001 (Unaudited) HK$'000	2000 (Unaudited) HK$'000
Depreciation:		
Owned fixed assets	**72,857**	57,376
Leased fixed assets	**—**	62
Amortisation of trademarks	**1,450**	873
Net rental income	**(2,078)**	(2,102)
Interest income	**(5,266)**	(4,208)

6. Tax

Hong Kong profits tax is provided at the rate of 16.0 % (2000: 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 2001 (Unaudited) HK$'000	2000 (Unaudited) HK$'000
Group:		
Hong Kong and PRC profits tax:		
Current period provision	**26,549**	19,369
Deferred tax	**3,712**	1,350
	30,261	20,719
Associate	**2,958**	2,265
	33,219	22,984

7. Earnings per share

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK$270,622,000 (2000: HK$232,261,000) and the weighted average number of 1,276,310,956 (2000: 1,277,676,716) shares in issue during the period.

(b) Diluted earnings per share

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

	Six months ended 30th September 2001 (Unaudited) HK$'000	2000 (Unaudited) HK$'000
Net profit from ordinary activities attributable to shareholders	**270,622**	232,261
Weighted average number of ordinary shares used in calculation of basic earnings per share	**1,276,310,956**	1,277,676,716
Deemed issue of ordinary shares for no consideration arising from share options	**38,152,447**	17,770,423
Weighted average number of ordinary shares used in calculation of diluted earnings per share	**1,314,463,403**	1,295,447,139

8. Trade and bills receivables

	At 30th September 2001 (Unaudited) HK$'000	At 31st March 2001 (Audited) HK$'000
Trade and bills receivables	**525,935**	406,749
Less: Provision for doubtful debts	**(4,870)**	(5,089)
Trade and bills receivables	**521,065**	401,660

The ageing analysis of trade and bills receivables was as follows:

Within 90 days	**500,328**	383,897
Over 90 days	**20,737**	17,763
	521,065	401,660

The trading terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, 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.

9. Trade and bills payables

The ageing analysis of trade and bills payables was as follows:

	At 30th September 2001 (Unaudited) HK$'000	At 31st March 2001 (Audited) HK$'000
Within 90 days	**553,438**	504,072
Over 90 days	**60,364**	19,953
	613,802	524,025

10. Contingent liabilities

Contingent liabilities not provided for in the financial statements were:

	Group At 30th September 2001 (Unaudited) HK$'000	At 31st March 2001 (Audited) HK$'000
Guarantees of banking facilities granted to an associate	**14,000**	14,000
Export bills discounted with recourse	**56,694**	97,942
Bank guarantee in lieu of rental deposits	**2,214**	—
	72,908	111,942

At 30th September, 2001, irrevocable and unconditional guarantees aggregating HK$1,222 million (31st March, 2001: HK$1,091 million) have been given by the Company in respect of an associate's and certain subsidiaries' banking facilities and borrowings aggregating HK$65,625,000 (31st March, 2001 : HK$50,204,000).

11. Capital commitments

The aggregate commitments for capital expenditure not being provided for in the financial statements were:

	At 30th September 2001 (Unaudited) HK$'000	At 31st March 2001 (Audited) HK$'000
In respect of fixed assets,		
authorised but not contracted for	**40,689**	—
contracted for but not provided for	**97,153**	43,131
In respect of investment in subsidiaries in the PRC,		
contracted for but not provided for	**23,837**	65,323
	161,679	108,454

12. Operating lease commitments

At 30th September, 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 30th September 2001 (Unaudited) HK$'000	At 31st March 2001 (Unaudited) HK$'000 (Restated)
In respect of land and buildings:		
Within one year	**260,210**	328,835
In the second to fifth year, inclusive	**358,118**	442,832
After five years	**134,208**	148,953
	752,536	920,620
In respect of plant and machinery:		
Within one year	**9,430**	9,423
In the second to fifth year, inclusive	**33,003**	33,924
After five years	**26,403**	30,155
	68,836	73,502

13. Comparative figures

As a result of the adoption of certain new or revised accounting policies, certain comparative figures have been reclassified to conform with the current period presentation.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK8.0 cents per share (2000: HK6.0 cents) for the six months ended 30th September, 2001. The interim dividend will be payable on 8th February, 2002 (Friday) to shareholders registered on the Register of Members at the close of business on 23rd January, 2002 (Wednesday).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 17th January, 2002 (Thursday) to 23rd January, 2002 (Wednesday) (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 at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on 16th January, 2002 (Wednesday).

BUSINESS REVIEW

For this interim period, the Group's total turnover and net profit from ordinary activities attributable to shareholders were HK$2,484 million and HK$271 million respectively, an increase of 19% and 17% over the same period of last year. The Board has recommended an interim dividend of HK8 cents per share. Compared to HK6 cents per share of the same period of last year, the increase was 33%.

Turnover for the knitted fabric business was HK$1,527 million, a rise of 13%, and represented 61% of total turnover. During the period, a steady growth in sales was achieved despite a slowdown in the US economy and the September 11 terrorist attack on New York. Whilst there was downward pressure on prices, the costs of raw materials also came down, as a result profit margin was not much affected. The management has continued with its plan to expand productivity with an aim to increase market share and improve cost effectiveness.

Turnover for the retail and distribution business was HK$946 million, a rise of 31%, and represented 38% of total turnover. The development in the Mainland China, Hong Kong, Taiwan and Singapore at the end of the period was as follows:

	Sales Six months ended 30th September 2001 HK$'000	2000 HK$'000	Growth rate %	Retail Outlets* 30th September 2001	31st March 2001	30th September 2000
Mainland China	**657,542**	535,102	23	**747**	637	545
Hong Kong	**143,690**	128,014	12	**37**	39	28
Taiwan	**127,705**	57,177	123	**117**	96	62
Singapore	**17,027**	—	N/A	**13**	—	—
	945,964	720,293		**914**	772	635

* *Include self-owned and franchised outlets*

In view of the robust Chinese economy, we have revised upwards our target for new outlets from 100 to 150 for this year. Our strategy for the China market is predominantly to increase market share, currently we have outlets in 30 provinces and 210 cities. The Taiwan market has been growing quickly. However, due to bad weather conditions, sales during the period were not up to our expectations. As for the Hong Kong market, a more conservative policy has been adopted under current economic conditions, and efforts have been made to reduce rental costs. Sales in the newly developed Singapore market have reached our target. As to other parts of the world, the Group also has franchised shops in South Korea, Malaysia, Iran, Jordan, Kuwait, Saudi Arabia and Macau.

For the current interim period, profit before tax contributed by the associated garment manufacturing business was HK$35 million, an increase of 35% over the same period of last year. Growth in productivity and sales was satisfactory, with Asia remaining our major market during the half year. As Vietnam had been granted the Normal Trade status by the US, the management decided to increase our productivity in Vietnam in order to further develop the US market.

FINANCIAL CONDITION

The financial condition of the Group remained sound. At 30th September, 2001, cash and cash equivalents amounted to HK$367 million. Total bank borrowings were HK$68 million. At the end of the period, unutilized banking facilities were HK$1,156 million. Total debt to equity ratio was 0.6. 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$73 million, which were mainly related to discounted export bills.

HUMAN RESOURCES

As at 30th September, 2001, the Group had a total of 10,694 employees, an increase of 585 people over the end of last year. The Group offers very competitive remuneration packages for its employees, these as well as the remuneration policy are reviewed on a regular basis. We are fully committed to the training of our staff, moreover, the personal development of our employees is also a concern of the Group.

OUTLOOK

The effect of a rapidly decelerating US economy is not clear at the moment, so contingency plans have been made by the management to provide for the worst. Nevertheless, the management believes that the September 11 terrorist attack has actually quickened the economic cycle of the US. With the war with Afghanistan nearing an end, and interest rates at a very low level, we believe that the US economy will recover soon. Consequently the management is still optimistic about our business with the US. The entrance of China into the WTO and Vietnam being granted the Normal Trade status also provide business opportunities for the Group. The management is working aggressively to profit from these recent developments.

Although the Group had been able to make progress in developing new markets, cost control and productivity enhancement, it was not an easy half year for our business developments. For the next half year, the management will continue with our developments as planned. The manufacturing business remains competitive in the market, so efforts will be made to increase productivity in order to cope with market demand. The focus of the retail business will continue to be the Mainland China, where the expansion of our market share is expected to continue. The retail business in Taiwan has matured, and is expected to produce better results. With a sound financial condition, the management does not foresee any obstacles in our business development, and is very confident about the results of the coming half year.

ARRANGEMENTS TO PURCHASE, REDEEM AND SELL SHARES

During the six months ended 30th September, 2001, the Company repurchased a total of 5,176,000 of its listed shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Price per share Highest HK$	Lowest HK$	Aggregate consideration HK$'000
April 2001	534,000	2.000	1.930	1,046
May 2001	100,000	2.375	2.375	237
September 2001	4,542,000	2.625	2.150	10,860
	5,176,000			12,143
Add: Brokerage & commission charges				46
Total cash paid				12,189

The above repurchased shares have been duly cancelled and the issued share capital of the Company has been reduced according to the par value of the cancelled shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed, or sold any of the Company's securities during the six months ended 30th September, 2001.

AUDIT COMMITTEE

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

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

CODE OF BEST PRACTICE

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

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

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

By order of the Board
Poon Bun Chak
Chairman

Hong Kong, 18th December, 2001