

TEXWINCA HOLDINGS LIMITED

德永佳集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 321)

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

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2004

FIN.

RESULTS

The Board of Directors of Texwinca Holdings Limited (the "Company") has pleasure in presenting the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2004 with comparative figures of last year as follows:

		For the year ended 31 March		
	Notes	2004 HK\$'000	2003 HK\$'000	
TURNOVER Cost of sales	2	6,216,465 (4,399,736)	5,198,585 (3,514,174)	
Gross profit		1,816,729	1,684,411	
Other revenue and gains Selling and distribution costs Administrative expenses Other operating expenses, net		53,215 (995,079) (367,862) (8,737)	29,004 (777,238) (339,300) 21,857	
PROFIT FROM OPERATING ACTIVITIES Share of profit of an associate Finance costs	2, 3	498,266 33,344 (4,086)	618,734 46,630 (2,787)	
PROFIT BEFORE TAX Tax	4	527,524 (57,888)	662,577 (37,926)	
PROFIT BEFORE MINORITY INTERESTS Minority interests		469,636 (47,666)	624,651 (34,089)	
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	:	421,970	590,562	
DIVIDENDS Interim Proposed final		105,996 159,047	145,642 185,437	
	:	265,043	331,079	
Interim dividend paid per share (HK cents) Final dividend per share proposed (HK cents)		8.0 12.0	11.0 14.0	
	:	20.0	25.0	
Earnings per share (HK cents) Basic	5	31.9	44.6	
Diluted	:	31.7	44.6	
AT .				

Notes:

Principal accounting policies

The principal accounting policies and methods of computation adopted in the preparation of the audited financial statements of this year are consistent with those followed in the last published audited financial statements, except for the adoption of the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" by the Group this year.

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The adoption of SSAP 12 (Revised) has had no significant impact on the results of this year and prior accounting periods. Accordingly, no prior year adjustment is required.

2. Segment Information

(a) Business segments

	Production, sale of knii and y 2004	tted fabric yarn 2003	Casual ap accessory re distrib	etailing and oution 2003	Oth 2004	2003	Elimin:	2003	Consoli 2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue: Sales to external customers Intersegment sales Other revenue	3,626,629 — 29,900	3,005,047 — 10,801	2,548,155 ———————————————————————————————————	2,145,487 — 11,159	41,681 1,892 1,076	48,051 1,625 1,023	(1,892) (1,170)	(1,625) (1,178)	6,216,465 — 48,968	5,198,585 — 21,805
Total	3,656,529	3,015,848	2,567,317	2,156,646	44,649	50,699	(3,062)	(2,803)	6,265,433	5,220,390
Segment results	360,100	513,123	126,353	84,719	8,433	14,928	(867)	(1,235)	494,019	611,535
Interest income									4,247	7,199
Profit from operating activities Share of profit of an									498,266	618,734
associate Finance costs									33,344 (4,086)	46,630 (2,787)
Profit before tax Tax									527,524 (57,888)	662,577 (37,926)
Profit before minority interests Minority interests									469,636 (47,666)	624,651 (34,089)
Net profit from ordinary activities attributable to shareholders									421,970	590,562
(b) Geogr	aphical segm	ents								
	USA	Mainland C	hina .	Japan	Hong Kon	g (Others	Elimination	s Cons	solidated

2004 2003 2004 2

Sales to exeminate customers 2,350,043 1,859,864 1,786,442 1,641,918 388,771 336,969 812,980 681,445 878,229 678,389 3. Profit from operating activities

Profit from operating activities is arrived at after charging:

	2004 HK\$*000	2003 HK\$'000
Depreciation	177,309	159,781
Amortisation of trademarks	2,923	2,913

4. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004. 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.

		For the year ended 31 March 2004 2003		
	HK\$'000	HK\$'000		
Group:				
Current — Hong Kong and the PRC taxes: Current year provision Underprovision in prior years	54,554	61,825 30		
Deferred tax charge/(credit)	1,000	(26,191)		
Share of tax attributable to an associate	55,554 2,334	35,664 2,262		
Tax charge for the year	57,888	37,926		
Farnings per chara				

Earnings per share

The basic and diluted earnings per share for the year ended 31 March 2004 have been calculated as follows:

(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 year of HK\$421,970,000 (2003: HK\$590,562,000) and the weighted average number of 1,324,573,514 (2003: 1,323,760,433) shares in

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$421,970,000 (2003: HK\$590,562,000) and the weighted average number of 1,329,141,903 (2003: 1,325,574,912) shares in issue, as adjusted to reflect the effects of all potential dilutive shares during the year. A reconciliation of the weighted average number of shares used in the calculation of basic earnings per share and diluted earnings per share is as follows:

Number 2004	of shares
1,324,573,514	1,323,760,433
4,568,389	1,814,479
1,329,141,903	1,325,574,912
	2004 1,324,573,514 4,568,389

The Directors recommend the payment of a final dividend of HK12.0 cents (2003: HK14.0 cents) per ordinary share which, together with the interim dividend of HK8.0 cents (2003: HK11.0 cents) per ordinary share paid in February 2004 will make a total dividend of HK20.0 cents (2003: HK25.0 cents) per ordinary share. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the proposed final dividend will be payable on Monday, 4 October 2004 to the shareholders registered on the Register of Members on Thursday, 26 August 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, 19 August 2004 to Thursday, 26 August 2004 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's Registrar in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 18 August 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's total turnover for this fiscal year amounted to HK\$6,216 million (2003: HK\$5,199 million), a 20% increase compared to last year. Net profit from ordinary activities attributable to shareholders was HK\$422 million (2003: HK\$591 million), a drop of 29% from the prior year. The Board has recommended a final dividend of HK12.0cents (2003: HK14.0 cents) per ordinary share. Including interim dividend, total dividend per share amounts to HK 20.0 cents, a decrease of 20% over last year's HK25.0 cents.

Turnover of the fabric business grew by 21% to HK\$3,627 million (2003: HK\$3,005 million). This represented 58% of the Group's total turnover. Cotton prices started to soar unexpectedly from February 2003. They rose more than 100% from April 2003 to their peak in October 2003. At the same time, the global economy remained sluggish. The market conditions were unfavourable that the Group was unable to immediately pass on the increase in raw material costs to its customers. It was until the second half of the year that the Group had stronger pricing power when the business environment was improving. During the year, the Group handled less rush orders which had more handsome margins in view of the volatility of cotton prices. Though faced with difficult environment, the Group was still able to capture an uninterrupted order flow. As planned, fabric manufacturing capacity grew by about 20% in the year. Since early 2004, cotton prices have softened and operating environment has stabilized. Sales of the retail business was HK\$2,548 million (2003: HK\$2,145 million), a rise of 19% and represented 41% of the Group's total turnover. The retail business performance was severely hit by the outbreak of Severe Acute Respiratory Syndrome in the first half of the year. As the retail market recovered in the second half period, the Group speeded up its store expansion to compensate the loss. During the second half of the year, both revenue and operating profit grew significantly. Mainland China remained the focus of business expansion.

Net profit contributed by our associated garment manufacturing business was HK\$31 million (2003: HK\$44 million), a decline of 30%. During the year, about 75% of the fabric used was supplied by the fabric division. Sales to the retail division was about 29% of its revenue. During the year, this business was also badly affected by the surge of the raw material prices.

FINANCIAL CONDITION

Liquidity and financial resources

Liquidity of the Group remained strong. The current ratio, cash and cash equivalents and the unutilized banking facilities as at the year end were 1.8, HK\$634 million and HK\$1,179 million respectively. The capital expenditure of the Group was mainly financed by its internal resources and bank loans. New long term bank loans utilized during the year amounted to HK\$322 million with maturity profile ranging from two to three years. At the year end, shareholders' equities increased by HK\$133 million from last year to HK\$2,448 million and the gearing ratio and interest coverage ratio were 0.8 and 130 times respectively. The gearing ratio refers to the ratio of total liabilities and minority interests to shareholders' equities.

Contingent liabilities

At the year end, the contingent liabilities, not reflected in the financial statements, were HK\$272 million. These mainly represented the discounted export bills of HK\$256 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 year was HK\$621 million. Capital expenditure of HK\$469 million was incurred by the textile business for:

- the expansion of production capacity;
- the development of the coal-fired power generating plant; and
- the establishment of a spinning factory annexed to the existing textile factories.

Capital expenditure of HK\$150 million was incurred by the retail business for the outlet addition, the acquisition of retail properties in the PRC and the establishment of a commercial mall in Taiwan.

Pledge of assets

No significant assets were pledged at the year end.

$For eign\ exchange\ and\ interest\ rate\ risks$

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

All the interest bearing borrowings of the Group are mainly HIBOR based. During the year, the interest rate was staying at a low level. The Group will continue to monitor closely the interest rate movements and arrange necessary financial instruments to reduce the risk.

HUMAN RESOURCES

As at 31 March 2004, the Group had about 18,100 (2003: 14,500) employees in the PRC, Singapore and Malaysia. The remuneration of the employees was largely based on industry practice and the performance of individual employee.

OUTLOOK

Since early 2004, cotton prices have stabilized with steady downward movements. Such correction in cotton prices has provided a more stable operating environment for the Group. Management looks cotton prices will continue to trend down this year. At the same time, the global economy has shown signs of recovery. Looking into 2005, Management anticipates to have a more favourable business environment and will adopt the following positive measures:

- . Fabric manufacturing capacity will continue to expand by about 20% to capture further market share. Capacity expansion will still be centralized in Dongguan, China to maximize operating efficiency. The location has ample land space, and is equipped with a full in-house coal burning power generation plant and environmentally friendly water treatment facilities.
- 2. The Group is setting up an in-house yarn spinning factory at the same Dongguan site. This upward vertically integrated facility is expected to commence production in October 2004. The factory will be equipped with most advanced machinery to improve the Group's ability to produce more high value-added products and handle more rush orders.
- 3. The Group will continue its rapid retail expansion in Mainland China by opening about 350 new stores in the coming year. About 50 outlets will open in Hong Kong, Taiwan and Singapore. Management plans to achieve a 20% revenue growth. Management will also focus on margin expansion, mainly by cost savings and operation efficiency enhancement.
- 4. Garment manufacturing capacity is expected to grow by about 15%. In case the market conditions are more favourable after the quota elimination, Management will take a more aggressive expansion in this sector.

Management is optimistic towards future business outlook and expects improved results in the coming year.

ARRANGEMENTS TO PURCHASE, REDEEM AND SELL SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the

AUDIT COMMITTEE

Pursuant to the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of the The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company established an Audit Committee (the "Committee") on 15 March 1999. The members of the Committee comprise the three independent non-executive directors of the Group, Messrs Au Son Yiu, Cheng Shu Wing and Wong Tze Kin, David.

The terms of reference and duties have been laid down as a 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. During the year, the Committee held two meetings to review the internal controls and financial reporting matters and provide recommendations to the board of directors. For the year under review, the Audit Committee has reviewed and discussed with the management the audited financial statements of the Group.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

CODE OF BEST PRACTICE

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

By order of the Board
Poon Bun Chak