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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2023

RESULTS

The board of directors (the “Board”) of Texwinca Holdings Limited (the “Company”) has pleasure in presenting the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2023 with the comparative figures of last year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year ended 31 March	
		2023 HK\$'000	2022 HK\$'000
REVENUE		6,058,755	8,043,172
Cost of sales		(4,486,790)	(5,714,222)
Gross profit		1,571,965	2,328,950
Other income and gains		201,967	154,085
Selling and distribution expenses		(971,391)	(1,254,294)
Administrative expenses		(753,747)	(808,651)
Other operating expenses, net		(45,425)	(53,744)
Finance costs		(34,329)	(34,345)
Share of profit of an associate		—	28,795
PROFIT/(LOSS) BEFORE TAX, COMPENSATION FOR THE LOSS OF INVENTORIES AND LOSS OF INVENTORIES DUE TO A FIRE ACCIDENT		(30,960)	360,796
Compensation for the loss of inventories due to a fire accident	4	107,128	—
Loss of inventories due to a fire accident	4	—	(162,278)
PROFIT BEFORE TAX	4	76,168	198,518
Income tax expense	5	(13,067)	(11,809)
PROFIT FOR THE YEAR		63,101	186,709

* For identification purposes only

		Year ended 31 March	
	<i>Note</i>	2023	2022
		HK\$'000	HK\$'000
Attributable to:			
Ordinary equity holders of the Company		75,149	191,064
Non-controlling interests		(12,048)	(4,355)
		63,101	186,709
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (<i>HK cents</i>)	7	5.4	13.8

Details of the dividends for the year are disclosed in note 6 to the announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March	
	2023	2022
	HK\$'000	HK\$'000
PROFIT FOR THE YEAR	63,101	186,709
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(206,717)</u>	95,096
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>(206,717)</u>	95,096
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>(143,616)</u>	281,805
Attributable to:		
Ordinary equity holders of the Company	(135,223)	286,076
Non-controlling interests	<u>(8,393)</u>	<u>(4,271)</u>
	<u>(143,616)</u>	281,805

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 March	
	<i>Notes</i>	2023	2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,204,066	1,139,878
Right-of-use assets		404,793	524,651
Investment properties		543,405	532,077
Construction in progress		5,218	128,657
Trademarks		33,293	33,293
Prepayments		1,799	14,530
Long term rental deposits		66,540	69,518
Financial assets at fair value through profit or loss		23,986	50,786
Long term debt instruments at amortised cost		14,860	30,102
Deferred tax assets		47,954	73,293
		<hr/>	<hr/>
Total non-current assets		2,345,914	2,596,785
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		1,519,889	2,484,148
Trade receivables	8	562,372	906,551
Bills receivable		239,822	219,877
Prepayments, deposits and other receivables		252,326	316,793
Financial assets at fair value through profit or loss		17,364	2,346
Debt instruments at amortised cost		25,357	79,009
Derivative financial assets		7,513	8,251
Tax recoverable		48,629	—
Cash and cash equivalents		1,927,436	2,363,988
		<hr/>	<hr/>
Total current assets		4,600,708	6,380,963
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	9	435,979	908,449
Bills payable		—	10,108
Other payables and accrued liabilities		531,762	580,686
Lease liabilities		117,871	176,824
Derivative financial liabilities		5,829	5,395
Interest-bearing bank borrowings		431,688	1,308,278
Tax payable		3,964	42,875
		<hr/>	<hr/>
Total current liabilities		1,527,093	3,032,615
		<hr/>	<hr/>
NET CURRENT ASSETS		3,073,615	3,348,348
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,419,529	5,945,133
		<hr/>	<hr/>

	31 March	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Other payables and accrued liabilities	9,999	9,160
Lease liabilities	298,152	400,412
Deferred tax liabilities	95,815	100,042
	<hr/>	<hr/>
Total non-current liabilities	403,966	509,614
	<hr/>	<hr/>
Net assets	5,015,563	5,435,519
	<hr/>	<hr/>
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Issued capital	69,085	69,085
Reserves	4,818,556	5,230,119
Proposed final dividend	138,170	138,170
	<hr/>	<hr/>
	5,025,811	5,437,374
Non-controlling interests	(10,248)	(1,855)
	<hr/>	<hr/>
Total equity	5,015,563	5,435,519
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Notes:

1. Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements have been prepared under the historical cost convention, except for investment properties, certain buildings included in property, plant and equipment, financial assets at fair value through profit or loss and derivative financial assets and liabilities which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. Changes in accounting policies and disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements:

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 April 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 April 2022. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 April 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that applicable to the Group are as follows:
 - HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 April 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

3. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the production, dyeing and sale of knitted fabric, yarn and garments segment;
- (b) the retailing and distribution of casual apparel and accessories segment; and
- (c) the “others” segment comprises, principally, the provision of franchise services and property investment.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit before tax except interest income, compensation for the loss of inventories due to a fire accident, loss of inventories due to a fire accident, non-lease related finance costs and share of profit of an associate, are excluded from such measurement.

Segment assets exclude time deposits, tax recoverable and deferred tax assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

- (a) The following tables present revenue, profit and certain assets, liabilities and expenditures information of the Group for the years ended 31 March 2023 and 31 March 2022:

	Production, dyeing and sale of knitted fabric, yarn and garments		Retailing and distribution of casual apparel and accessories		Others		Eliminations		Consolidated	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Segment revenue:										
Sales to external customers	4,296,693	5,543,575	1,760,944	2,495,864	1,118	3,733	—	—	6,058,755	8,043,172
Intersegment sales	85,406	154,532	13,857	9,561	6,987	8,334	(106,250)	(172,427)	—	—
Other revenue	51,137	46,277	80,938	35,461	33,085	46,234	(4,727)	(2,726)	160,433	125,246
	4,433,236	5,744,384	1,855,739	2,540,886	41,190	58,301	(110,977)	(175,153)	6,219,188	8,168,418
Segment results	171,027	563,944	(267,349)	(288,795)	39,230	22,383	(1,971)	12,887	(59,063)	310,419
<i>Reconciliation:</i>										
Interest income									41,534	28,839
Compensation for the loss of inventories due to a fire accident									107,128	—
Loss of inventories due to a fire accident									—	(162,278)
Finance costs (excluding interest on lease liabilities)									(13,431)	(7,257)
Share of profit of an associate									—	28,795
Profit before tax									76,168	198,518
Income tax expense									(13,067)	(11,809)
Profit for the year									63,101	186,709

- (a) The following tables present revenue, profit and certain assets, liabilities and expenditures information of the Group for the years ended 31 March 2023 and 31 March 2022 (*continued*):

	Production, dyeing and sale of knitted fabric, yarn and garments		Retailing and distribution of casual apparel and accessories		Others		Eliminations		Consolidated	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	4,652,287	5,727,516	2,122,077	2,541,870	595,261	574,296	(1,894,721)	(1,671,433)	5,474,904	7,172,249
<i>Reconciliation :</i>										
Unallocated assets									1,471,718	1,805,499
Total assets									6,946,622	8,977,748
Segment liabilities	906,272	1,159,284	2,002,339	2,226,301	48,348	39,529	(1,557,367)	(1,334,080)	1,399,592	2,091,034
<i>Reconciliation :</i>										
Unallocated liabilities									531,467	1,451,195
Total liabilities									1,931,059	3,542,229
Other segment information:										
Depreciation of property, plant and equipment and right-of-use assets	191,840	194,978	189,600	269,934	—	—	—	—	381,440	464,912
Capital expenditure *	246,350	251,417	17,554	48,699	—	—	—	—	263,904	300,116
Write-down/(reversal of write-down) of inventories	(94,908)	107,128	6,755	(32,064)	—	—	—	—	(88,153)	75,064
Reversal of impairment of trade receivables	—	(4,397)	(2,639)	(17,729)	—	—	—	—	(2,639)	(22,126)
Impairment of right-of-use assets	—	—	6,013	40,769	—	—	—	—	6,013	40,769
Impairment of items of property, plant and equipment	198	—	339	—	—	—	—	—	537	—
Reversal of impairment of debt instruments at amortised cost	—	—	(517)	(2,820)	—	—	—	—	(517)	(2,820)
Net fair value gains on investment properties	—	—	—	—	(11,328)	(14,082)	—	—	(11,328)	(14,082)

* Capital expenditure consists of additions to property, plant and equipment, construction in progress and the land portion classified under right-of-use assets.

(b) Geographical information

The following table presents geographical revenue and non-current assets information of the Group for the years ended 31 March 2023 and 31 March 2022:

	USA		Mainland China		Japan		Hong Kong		Others		Eliminations		Consolidated	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	1,733,597	2,694,177	2,525,380	3,829,672	894,443	692,169	669,921	717,612	235,414	109,542	—	—	6,058,755	8,043,172
Non-current assets	—	—	1,477,385	1,660,509	—	—	830,682	843,768	20,071	12,892	(135,564)	(144,083)	2,192,574	2,373,086

The Group's geographical revenue and non-current assets information, excluding long term rental deposits, financial assets at fair value through profit or loss, long term debt instruments at amortised cost and deferred tax assets, are based on the locations of the markets and assets, respectively.

(c) Information about major customers

Revenue from customers individually contributing over 10% to the total revenue of the Group during the year is as follows:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	872,462	*

* This customer individually contributed less than 10% of the total revenue from the Group during the year ended 31 March 2022.

In the prior year, no sales to a single external customer contributed to more than 10% to the Group's revenue.

4. Profit before tax

The Group's profit before tax is arrived at after crediting/(charging):

	Year ended 31 March	
	2023	2022
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	222,829	225,798
Depreciation of right-of-use assets	158,611	239,114
Net (gain)/loss on disposal of items of property, plant and equipment	(3,702)	6,121
Compensation for the loss of inventories due to a fire accident*	(107,128)	—
Loss of inventories due to a fire accident*	—	162,278

* During the year ended 31 March 2022, certain inventories located in Mainland China were damaged in a fire accident which occurred at a third party warehouse. The carrying amount of the damaged inventories and related customs and value-added tax ("VAT") amounting to HK\$162,278,000 was written off. During the year ended 31 March 2023, partial compensation has been paid by the insurance company. The input VAT paid on the affected inventories is allowed to offset the output VAT, i.e. the input VAT is recoverable. The total amount of approximately HKD107,128,000 was credited to the consolidated statement of profit or loss.

5. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2022: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

Pursuant to the PRC Income Tax Law and the respective regulations, companies of the Group which operate in Mainland China were subject to Corporate Income Tax ("CIT") at the rate of 25% (2022: 25%) on the taxable profit for the years ended 31 March 2023 and 2022.

Certain companies of the Group which operate in Mainland China were subject to CIT at the rate of 15% (2022: 15%) as a qualified high and new technology enterprise and entitled to deduct qualifying research and development expense from taxable profit during the years ended 31 March 2023 and 2022.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Year ended 31 March	
	2023	2022
	HK\$'000	HK\$'000
Current - Hong Kong and Mainland China:		
Charge for the year	19,239	76,711
Overprovision in prior years	(20,081)	(24,826)
Deferred	13,909	(40,076)
Total tax charge for the year	13,067	11,809

6. Dividends

	Year ended 31 March	
	2023	2022
	HK\$'000	HK\$'000
Interim dividend – HK10.0 cents (2022: HK8.0 cents) per ordinary share	138,170	110,536
Proposed final dividend – HK10.0 cents (2022: 10.0 cents) per ordinary share	138,170	138,170
	<u>276,340</u>	<u>248,706</u>

7. Earnings per share attributable to ordinary equity holders of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,381,696,104 (2022: 1,381,696,104) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2023 and 31 March 2022.

8. Trade receivables

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance of HK\$26,707,000 (2022: HK\$29,346,000), is as follows:

	31 March	
	2023	2022
	HK\$'000	HK\$'000
Within 90 days	417,019	831,462
Over 90 days	145,353	75,089
	<u>562,372</u>	<u>906,551</u>

Payment terms for the Group's customers mainly range from "cash before delivery" to "90 days from the date of invoice". A significant portion of the customers trades with the Group under documentary credit terms. The Group seeks to maintain strict credit control on its outstanding receivables and has a policy to manage its credit risk. Since the Group's trade receivables relate to a large number of customers, there is no significant concentration of credit risk. The Group does not hold any collateral over its trade receivable balances, certain trade receivable balances are covered by trade insurance policy arranged by the Group for minimising the credit risk. Trade receivables are non-interest-bearing.

9. Trade payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	31 March	
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 90 days	425,380	860,984
Over 90 days	10,599	47,465
	<hr/>	<hr/>
	435,979	908,449

At the end of the reporting period, the trade payables are non-interest-bearing and are normally settled on 90-day terms.

10. Contingent liabilities

- (a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	31 March	
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Bank guarantees given in lieu of property rental deposits	5,966	5,130

- (b) In prior years, the Hong Kong Inland Revenue Department (the “IRD”) initiated a review on the tax affairs of certain subsidiaries of the Group for the years of assessment from 2005/2006 to 2018/2019 (the “Tax Affairs”). The Group purchased tax reserve certificates totaling HK\$619,497,000 for the protective tax assessments issued by the IRD for the years of assessment from 2005/2006 to 2016/2017.

During the year ended 31 March 2022, the Group submitted a settlement proposal (the “Settlement Proposal”) to the IRD for compromising the Tax Affairs. With the Settlement Proposal accepted by the IRD, the Tax Affairs were fully and finally resolved. Based on the Settlement Proposal, the total net additional tax and interest payable in regard of the Tax Affairs was HK\$351,021,000. The Group had already made sufficient tax provisions for the Tax Affairs in the consolidated financial statement of previous years. After utilization of HK\$285,201,000 tax reserve certificates and HK\$65,820,000 provisional tax kept by the IRD for the additional tax charged, the IRD refunded the overpaid provisional tax and the unutilized amount of tax reserve certificates to the Group, totaling HK\$368,860,000.

FINAL DIVIDEND

The Board recommends the payment of final dividend of HK10.0 cents (2022: HK10.0 cents) per ordinary share which, together with the interim dividend of HK10.0 cents (2022: HK8.0 cents) per ordinary share paid in January 2023, will make a total dividend of HK20.0 cents (2022: HK18.0 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 Wednesday, 4 October 2023 to the shareholders registered on the Register of Members of the Company on Wednesday, 6 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 21 August 2023 to Thursday, 24 August 2023 (both days inclusive) for the purpose of determining the entitlement to attend and vote at the Annual General Meeting. During such period no transfer of shares of the Company will be registered and no shares will be allotted and issued. In order to be eligible to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 August 2023.

The Register of Members of the Company will be closed from Monday, 4 September 2023 to Wednesday, 6 September 2023 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend for the year ended 31 March 2023. During such period no transfer of shares of the Company will be registered and no shares will be allotted and issued. In order to qualify for entitlement to the proposed final dividend for the year ended 31 March 2023, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 1 September 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF BUSINESS AND FUTURE DEVELOPMENT

For this fiscal year ended 31 March 2023, the Group's total revenue decreased by 24.7% to HK\$6,059 million (2022: HK\$8,043 million). Profit for the year attributable to the ordinary equity holders of the Company amounted to HK\$75 million (2022: HK\$191 million), a drop of 60.7%. The Group's gross profit margin was 25.9% (2022: 29.0%), a decrease of 3.1 percentage points from last year.

The Board has recommended a final dividend of HK10.0 cents (2022: HK10.0 cents). Including the interim dividend of HK10.0 cents (2022: HK8.0 cents), total dividend per ordinary share for the year would be HK20.0 cents (2022: HK18.0 cents), an increase of 11.1% from last year.

Textile business

Turnover of the textile business decreased by 22.5% to HK\$4,297 million (2022: HK\$5,544 million). The amount represented 70.9% (2022: 68.9%) of the Group's total revenue. Though the impact of COVID-19 pandemic tended to end, raising interest rates combating high inflation had a negative impact on the sputtering economy, resulting in stunting market demand of the retailers and curbing consumer spending. With sluggish market demand and weak customer sentiment, the sale and gross profit margin of the textile business decreased. The Group continued focusing on cost reduction to enhance operating profitability. In the year, revenue decreased by 22.5% and gross profit margin decreased by 3.2 percentage points. The performance and the key financial ratios of the business were as follows:

(Amounts expressed in HK\$'million, unless specified)

	2023	2022	2021	2020	2019
Net sales	4,297	5,544	4,644	4,919	4,759
Gross profit margin (%)	18.1	21.3	23.8	23.2	18.3
Operating profit (note 1)	171	564	567	540	354
EBITDA (note 1)	408	790	771	770	526
Return on total assets (%) (note 2)	3.0	7.5	6.1	6.9	4.2
Return on sales (%) (note 2)	4.3	10.1	9.2	8.9	5.9
Return on equity (%) (note 2)	3.9	11.4	9.1	10.8	6.8
Capital expenditure	246	251	126	76	160

Notes: (1) Exclude interest income, rental income, finance cost, compensation for the loss of inventories due to a fire accident and loss of inventories due to a fire accident.

(2) Exclude rental income.

Retail and distribution business

Sales of the business amounted to HK\$1,761 million (2022: HK\$2,496 million). The amount was 29.1% (2022: 31.0%) of the Group's total turnover. The gross profit margin of retail and distribution business was 44.9%, a slight decrease from last year's 45.3%. For the mainland China market, the Group continued to reduce its retail network to control the operating cost. During the year, the Group net reduced 267 self-opened shops in the mainland China, representing 26.9% of the self-opened shops in this market. Meanwhile, the Group shifted to expand its online sales, consignment sales and franchising business. For the Hong Kong market, as the social distancing measures were ceased and cross-border travels resumed at the end of the year, the Group's retail operations in Hong Kong has improved significantly. The turnover and gross profit margin of retail operation in Hong Kong increased by 14.0% and 4.7%, respectively, during the year compared with that of last year. The performance and the key financial ratios of the business were as follows:

(a) the business performance and the key financial ratios were as follows:

<i>(Amounts expressed in HK\$'million, unless specified)</i>	2023	2022	2021	2020	2019
Net sales	1,761	2,496	2,705	2,709	3,448
Gross profit margin (%)	44.9	45.3	44.1	47.5	50.1
Sales growth of comparable shops (%) <i>(note 1)</i>	(17.7)	(4.8)	(8.4)	(17.1)	(12.8)
Operating profit/(loss) <i>(note 2)</i>	(267)	(289)	(199)	(316)	(110)
EBITDA <i>(note 2)</i>	(126)	(26)	108	3	(24)
Return on total assets (%) <i>(note 3)</i>	(12.8)	(10.4)	(6.9)	(11.1)	(4.3)
Return on sales (%) <i>(note 3)</i>	(15.4)	(10.9)	(6.8)	(10.6)	(2.9)
Return on equity (%) <i>(note 3)</i>	(226.0)	(73.4)	(29.6)	(53.4)	(8.8)
Capital expenditure	18	49	57	146	76

- Notes: (1) Comparable shops include shops with full year operation during the year and the preceding year.
(2) Exclude interest income, rental income and finance cost.
(3) Exclude rental income.

(b) the analysis of turnover by major brand was as follows:

<i>(HK\$'million)</i>	2023	2022	2021	2020	2019
Baleno	1,711	2,380	2,525	2,484	3,073
Others	50	116	180	225	375
Total	1,761	2,496	2,705	2,709	3,448

(c) the development in different markets was as follows:

Mainland China

	2023	2022	2021	2020	2019
Net sales (<i>HK\$'million</i>)	1,105	1,936	2,184	2,085	2,767
Increase/(decrease) in net sales (%)	(43)	(11)	5	(25)	(19)
Retail floor area (<i>sq. ft.</i>)*#	1,611,886	1,554,031	1,867,355	1,690,117	1,626,047
Number of sales associates*#	2,895	3,319	3,919	3,446	4,182
Number of outlets* [△]	1,687	1,666	2,026	1,838	2,183

Hong Kong

	2023	2022	2021	2020	2019
Net sales (<i>HK\$'million</i>)	629	552	521	624	681
Increase/(decrease) in net sales (%)	14	6	(17)	(8)	18
Retail floor area (<i>sq. ft.</i>)*#	93,274	91,597	96,516	90,281	87,752
Number of sales associates *#	504	407	377	288	571
Number of outlets *#	85	85	88	83	78

Indonesia

	2023	2022	2021	2020	2019
Net sales (<i>HK\$'million</i>)	27	8	—	—	—
Increase in net sales (%)	238	N/A	—	—	—
Retail floor area (<i>sq. ft.</i>)*#	23,636	11,679	—	—	—
Number of sales associates *#	110	62	—	—	—
Number of outlets *#	8	4	—	—	—

* *As at the end of the reporting period*

For self-managed stores

△ *Including self-managed stores, consignment stores and franchise stores*

Income tax expense

Income tax expenses increased by HK\$1 million to HK\$13 million (2022: HK\$12 million).

Share of profit of an associate

Share of profit of an associate accounted for using equity method was HK\$28.8 million for the year ended 31 March 2022, which was mainly contributed by the gain on disposal of property, plant and equipment. There was no share of profit of an associate for the year ended 31 March 2023.

FINANCIAL CONDITION

Liquidity and financial resources

The Group continued to maintain a sound financial position. The current ratio, the total bank borrowings and the gearing ratio as at the year end were 3.0, HK\$432 million and -0.3 (2022: 2.1, HK\$1,308 million and -0.2) respectively. Bank borrowings decreased during the period as the Group repaid its borrowings with cash generated from operating activities to alleviate the surge in interest cost due to interest rate hike. The gearing ratio refers to the ratio of the total interest-bearing debts, net of cash and cash equivalents, to the total equity.

During the year, the interest cover, the trade and bills receivables to turnover and the inventories to turnover were 3 times, 48 days and 92 days (2022: 7 times, 51 days and 113 days) respectively. The Group mainly satisfied its funding requirements with cash inflow from its operating activities and bank borrowings. At the year end, the cash and cash equivalents, the equity attributable to ordinary equity holders of the Company and the unutilized banking facilities were HK\$1,927 million, HK\$5,026 million and HK\$6,036 million (2022: HK\$2,364 million, HK\$5,437 million and HK\$5,530 million), respectively.

Capital expenditure

The capital expenditure incurred by the Group during the year was HK\$264 million (2022: HK\$300 million). The capital expenditure incurred by the textile and garment business for the year was HK\$246 million (2022: HK\$251 million), of which HK\$143 million (2022: HK\$115 million) was for the addition of plant and machinery for the dyeing, knitting and garment factories and HK\$103 million (2022: HK\$136 million) was for “Coal to Gas” conversion project. For the retail and distribution business, our capital expenditure incurred for the year amounted to HK\$18 million (2022: HK\$49 million) was mainly for the addition of leasehold improvements of the retail outlets.

Pledge of assets

No significant assets were pledged as at 31 March 2023 and 31 March 2022.

Contingent liabilities

Details of the contingent liabilities as at 31 March 2023 and 31 March 2022 have been set out in note 10 to the announcement.

Foreign exchange and interest rate risks

The Group continued to adopt a strict and prudent policy in managing its interest rate and currency exchange risks. The major interest bearing bank borrowings of the Group were HKD, USD and RMB fixed or floating rate borrowings with maturity due within one year (2022: within one year). At the year end, the cash and cash equivalents, debt instruments at amortised cost and financial assets at fair value through profit or loss were mainly denominated in HKD, RMB and USD. The cash and cash equivalents were placed as fixed deposits with well established financial institutions at fixed interest rate with maturity due within one year (2022: within one year). And, the debt instruments at amortised cost and financial assets at fair value through profit or loss were mainly fixed interest rate investments with maturity due within two years or at perpetuity (2022: within four years or at perpetuity). Federal Reserve of the United States sharply tightened its monetary policy to combat inflation during the year, the USD and HKD interest rates rose drastically. To reduce the borrowing cost, the Group repaid its borrowings substantially during the year. The Group will continue to monitor the interest rate risk and arrange appropriate financial instruments to reduce its risk whenever appropriate.

During the year, the major assets, liabilities, revenue, expenses and procurements of the Group were denominated in HKD, USD, RMB and YEN (2022: HKD, USD, RMB and YEN) and the Group had arranged foreign exchange forward contracts to reduce its currency exchange risk.

HUMAN RESOURCES

At the year end, the Group had about 9,654 (2022: 12,427) employees in the Greater China and Indonesia. The remuneration of the employees was largely based on industry practice and the performance of individual employee.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, the Group has been active in participating in charitable donation, caring for the needy people and supporting and sponsoring educational and environmental protection activities. In addition, we also encourage our employees, customers and business partners to partake in the aforesaid activities with a view to developing a better future for our community.

During the year, some of the activities/organisations the Group participated in / donated or sponsored to were:

- (1) Educational Fund in Dongguan City of Guangdong Province ;
- (2) Sponsorship for Dongguan Dragon Boat Competition;
- (3) Sponsorship for university students in poverty;
- (4) The Community Chest of Hong Kong “Love Teeth Day”;
- (5) The Community Chest of Hong Kong “Green Low Carbon Day”;
- (6) Evangelical Lutheran Church Social Service – Hong Kong;
- (7) St. James’ Settlement;
- (8) The Hong Kong Council of Social Service “Caring Company”;
- (9) Hong Kong Red Cross “Red Twinkle Star Campaign 2022” ; and
- (10) WWF-Hong Kong.

The Group believes that the development of a better future for our community relies on the participation of people, corporations and the government. Therefore, we will continue to invest resources in all major social, educational and environmental protection activities to strive for a better future for our community.

OUTLOOK

Looking forward to 2023, the global business environment remains uncertain. In view of high inflation and interest rate level, global economic recovery is expected to be slow. On the positive front, with the relaxation of Covid-19 related pandemic restrictions in many countries, worldwide consumer confidence is resuming. The reopening of borders in China is also expected to drive international economic growth.

The Group has decided to set up another production base in Southeast Asia. The new production facilities will enhance the Group’s business flexibility against geopolitical risks and promote operating efficiency. The Group is actively investigating such expansion opportunity in Vietnam and hope the new investment can be fulfilled within the next financial year.

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 listed securities of the Company during the year.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) in compliance with Rule 3.21 of the Listing Rules. The members of the Audit Committee comprise the three independent non-executive directors of the Company, namely Mr. Law Brian Chung Nin, Mr. Cheng Shu Wing and Mr. Ho Lai Hong. The Audit Committee is chaired by Mr. Law Brian Chung Nin, a qualified accounting professional.

The terms of reference and duties have been laid down as guidelines for the Audit Committee. The principal duties of the Audit Committee include the review and supervision of the financial reporting processes and internal controls of the Group. During the year, the Audit Committee held six meetings to review the internal controls and financial reporting matters and provide recommendations to the Board. For this fiscal year, the Audit Committee has reviewed and discussed with the management the consolidated financial statements of the Group.

The Committee has also met with the external auditors of the Company and reviewed the accounting principles and practices adopted by the Group and the annual results of the Group for the year.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company complied with all the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules throughout the financial year, except for the following deviation:

Under code provision F.2.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company.

The chairman of the Board has delegated the duty of attending the annual general meeting to one of the executive directors of the Company. The chairman considers the executive director a suitable person for taking up such duty as the executive director has good knowledge in each operating segment of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)

The Company has adopted the Model Code of the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, they have all complied with the required standard set out in the Model Code throughout the year.

SCOPE OF WORK OF THE COMPANY’S AUDITOR

The figures in respect of the Group’s consolidated statement of financial position as at 31 March 2023, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 March 2023 as set out in this preliminary announcement have been agreed by the Company’s auditor, Ernst & Young, to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE’S WEBSITE

The Company’s annual report for 2022/2023 will be despatched to the shareholders of the Company and available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk under “Latest Listed Company Information” and on the website of the Company at www.texwinca.com under “Investor Relations” in due course.

On behalf of the Board
Poon Bun Chak
Executive Chairman

Hong Kong, 16 June 2023

As at the date of this announcement, the executive directors of the Company are Mr. Poon Bun Chak, Mr. Ting Kit Chung and Mr. Poon Ho Tak; the independent non-executive directors of the Company are Mr. Cheng Shu Wing, Mr. Law Brian Chung Nin and Mr. Ho Lai Hong.