

# Management Discussion and Analysis

## Results

We have changed our financial year-end date to 31 December to be coterminous with our subsidiaries in the PRC. This accounting period covers a period of 15 months. Turnover for the period amounted to HK\$2.2 billion, compared to HK\$2.3 billion for the 12 months ended 30 September 2001.

Net loss attributable to shareholders for the fifteen months ended 31 December 2002 was HK\$23 million, compared with a reported profit of HK\$102 million last year. After writing off Theme's goodwill of HK\$58 million, the adjusted profit of year 2001 was HK\$44 million. Basic loss per share was 7 HK cents. Net asset value per share was HK\$1.73.

## Review of Operations

	15 months	12 months	15 months	12 months	Change %	
	ended 31 December 2002	ended 30 September 2001	ended 31 December 2002	ended 30 September 2001	Turnover	Contribution
	Turnover		Contribution			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
By principal activity:						
Manufacturing and trading	1,886,797	2,110,344	82,864	179,991	(11)	(54)
Retailing	286,683	215,322	(63,382)	(21,177)	33	(199)
	2,173,480	2,325,666	19,482	158,814	(7)	(88)

The terrorist attack on 11 September 2001 adversely affected the Group's business. Turnover for the 15 months period was 7% less than that of the previous 12 months. The 15 months period was reviewed under 3 separate reporting periods. Segmental information on principal activities for the three periods is as follows:

	3 months ended 31 December 2002	6 months ended 30 September 2002	6 months ended 31 March 2002
	HK\$'000	HK\$'000	HK\$'000
<b>Manufacturing and trading</b>			
Turnover	472,761	631,741	782,295
Contribution	16,991	1,816	64,057
Contribution %	3.6%	0.3%	8.2%
<b>Retailing</b>			
Turnover	59,238	102,830	124,615
Contribution	(4,607)	(32,664)	(26,111)
Contribution %	(7.8%)	(31.8%)	(21.0%)



Under the manufacturing and trading segment, significant improvement on both turnover and contribution percentage was recorded in the last quarter on our core business. This was achieved as a result of intensified strategic marketing initiatives undertaken by the Group. It is expected that such improvement will prevail in the year 2003.

We have broadened the product base of August Silk Inc. to capture new business in the USA. We are optimistic about the prospects of August Silk Inc..

Under the retail segment, our loss in the last quarter was reduced after we had ceased the business of U-campus and Wahaha joint venture prior to September 2002. We have heightened our focus on the expansion of Theme's franchise operation in the PRC. A strong marketing team was developed in the PRC to grow Theme's franchise network. Early signs of our investments in this area are encouraging.

We cautiously reduced any loss making operations in other regions, by closing down non-performing shops when their leases expired.

#### **Liquidity and Financial Resources**

Taking advantage of lower interest cost, the Group has fully drawn its unsecured medium term bank loans of HK\$200 million to replace a large portion of existing trading loans. The Group's total outstanding bank borrowings at 31 December 2002 were approximately HK\$364 million. Cash and bank balances totalled HK\$149 million at the same date.

Gearing ratio of non-current liabilities to shareholders' funds was 19% at the balance sheet date. Current ratio was maintained at a healthy level of 1.4:1. The Group is in a strong financial position to meet its operating needs.

The Group's receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal.

The Group had no material contingent liabilities other than trade bills discounted in the ordinary course of business. Barring pledged time deposits of HK\$12 million, trade receivables of HK\$47 million and Chinese Value Added Tax receivable of HK\$85 million of certain subsidiaries as well as land and building with net book value of HK\$2.2 million, there were no other charges on the Group's assets.

The increase in deposits, prepayments and other receivables was mainly due to the increase of Value Added Tax refundable from the PRC government.

#### **Capital Expenditure**

The acquisition of High Fashion Kaidi was completed in April 2002. Capital expenditure of HK\$28 million was invested in land and building for a new weaving project in Xinchang, Zhejiang Province. Total cash outlays of HK\$101 million was recorded, with a corresponding increase in fixed assets. Apart from these transactions, there was no material capital expenditure during the period.

#### **General**

The total number of employees of the Group including jointly-controlled entities and associates was reduced from 13,000 to 10,500 at 31 December 2002, down 19%.



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