

Management Discussion and Analysis

RESULTS

Turnover for the year ended 31 December 2004 amounted to HK\$1.96 billion. Net profit attributable to shareholders for the year ended 31 December 2004 was HK\$72.4 million, compared with a reported profit of HK\$33 million of last year. Basic earnings per share was 22 HK cents. Net asset value per share was HK\$1.98.

REVIEW OF OPERATIONS

The segmental information is as follows:–

	2004	2003	2004	2003
	Turnover		Contribution	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacturing and trading	1,769,025	1,737,332	81,495	81,961
Retail	194,993	180,579	(7,065)	(21,813)
	1,964,018	1,917,911	74,430	60,148

The turnover and profit contribution of our core manufacturing and trading business remain stable. The retail business, under Theme, improved substantially in profit margin. The loss on retail was substantially reduced from HK\$22 million to HK\$7 million, after a special provision of HK\$8 million for Theme's uniform business. But for this special provision, Theme would have recorded a net operating profit of HK\$1 million.

AUGUST SILK



LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were approximately HK\$453 million as at 31 December 2004 compared to HK\$367 million in 2003. Our gearing ratio of non-current liabilities to shareholders' funds was 17% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.4.

The Group's total cash and bank balances were HK\$305 million at the balance sheet date compared to HK\$183 million in 2003. Based on the comfortable cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet the 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 borrowings at fixed interest rates during the period.

The Group has no material contingent liabilities other than trade bills discounted in the ordinary course of business. Barring the pledge of trade receivables of certain subsidiaries of HK\$57 million and bank deposits of HK\$5.6 million, there were no other charges on the Group's assets.

The decrease in deposit, prepayments and other receivables at the balance sheet date was mainly due to the reduction in Chinese Value Added Tax receivables from HK\$125 million to HK\$17 million at the balance sheet date.

HUMAN RESOURCE

The total number of employees of the Group including jointly-controlled entities as at the balance sheet date was about 13,300. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group invested HK\$22 million in knitting and printing and dyeing machineries in Hangzhou, PRC and HK\$42 million in plant and machineries in Xinchang, PRC. Save this, there was no material capital expenditure during the year.

THE ME

