



## Management Discussion and Analysis

### RESULTS

The Group changed its accounting year-end date from 31 March to 30 September, in line with its parent company, High Fashion International Limited. This report covers the period from 1 April 2000 to 30 September 2001 (the "Period"). For the 18 months period ended 30 September 2001, the Group's turnover was HK\$309 million. The loss for the Period was HK\$12.7 million, compared to a net loss of HK\$41.3 million for the year ended 31 March 2000.

### REVIEW OF OPERATIONS

We made wide and deep changes to improve our business, particularly in the areas of business strategies, supply chain management and back office management. We slashed our administration costs. Lease tenure permitting, we closed non-performing shops and opened cost-effective new shops.

Our retail market environment became fiercely competitive and challenging. The effects of certain improvements were seen, whilst others would take a longer time to realize. We strive to operate in a well-contained overhead, with clear focus on design and merchandising. We continue to focus our expansion on the fast growing, but competitive, China market.

### PRC

We planned to gear self-managed shops to franchise shops in the ratio of 3 to 7 for our first 100 shops in China. As of the date of this report, we operate 60 shops in the major cities of China, including Beijing, Shanghai and Guangzhou, as shown in the table below:

	Number of shops		% of Total	
	31/3/2000	14/1/2002	31/3/2000	14/1/2002
Self-managed shops	42	23	66%	38%
Franchise shops	22	37	34%	62%
Total shops	<u>64</u>	<u>60</u>	<u>100%</u>	<u>100%</u>

In December 2001 we opened a permanent showroom in Guangzhou to promote our franchise shops in China.

### Taiwan

Poor export sales, rising unemployment, declining stock prices and property prices shattered consumer confidence in Taiwan. The devaluation of the New Taiwan Dollar and numerous typhoons that hit Taiwan further suppressed the apparel retail business.

We closed a number of high rental and non-performing shops to give way to new counters at department stores to reduce the burden of rental on us. The following table shows the movements of our retail outlets in Taiwan:

	Number of shops
31/3/2000	40
Shops closed	(17)
Shops opened	<u>16</u>
14/1/2002	<u>39</u>





### Hong Kong

The retail environment in Hong Kong was poor due to recession and rising unemployment. Rental costs remained high. We will continue to adjust our retail shop network by closing non-performing shops and opening new shops in better locations at cost justifiable rentals.

### South East Asia

In December 2001, we sold our entire 49% equity in a private associated company in Singapore. In return, we obtained the on going business of 5 leased Theme shops in Singapore, and their assets. The deal inherited the business of 4 franchise shops in Indonesia.

### Liquidity and Financial Resources

At 30 September 2001, the aggregate loan amount due to High Fashion International Limited ("High Fashion") was HK\$28 million. The loan facility granted by High Fashion of HK\$30 million will not be due until August 2003. High Fashion group has agreed and make available to Theme a further standby loan facilities of HK\$30 million. Banking facilities were secured from two banks to provide working capital for the Group. Apart from a property mortgage loan of about HK\$2 million and the aforesaid, there are no other material borrowings as of the balance sheet date.

As at 30 September 2001, the current ratio was 1.16.

### General

In October 2000, we acquired the entire minority interest of our operating subsidiary in Taiwan for HK\$2 million, making it our wholly owned subsidiary.

The Group had no material contingent liabilities as of the balance sheet date.

The total number of employees of the Group including factory workers was about 1,200.

