



INTERIM REPORT 2002

Theme

THEME INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

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Chairman's Statement

We experienced a disappointing spring/summer season in 2002 and recorded a loss.

During the period, we completely changed and re-organized the core management team and relentlessly reduced our overheads.

Among the regions, Hong Kong market was the most difficult one because of high rental costs. Whilst the non-performing shops are closed down, we strategize to downsize our operation in Hong Kong and to focus the vast retail market in the PRC.

Theme's products well fit into the fast growing career ladies apparel market in the PRC that warrants tremendous business opportunities. Leveraging on Theme's brand recognition as well as our expanding network in the PRC, we are confident of the long term prospects of the PRC market.

We believe the Group can quickly contain the losses and a turnaround is forthcoming.

I would like to take this opportunity to express my thanks to the support from my fellow directors, the management, staff and business partners.

Lam Foo Wah

Executive Chairman

Hong Kong, 17th December, 2002

Management Discussion and Analysis

Results

We have changed our financial year-end date to 31st December to be coterminous with our holding company. The current accounting period will cover a period of 15 months. This becomes our second interim report on twelve months for this accounting period. For the twelve months ended 30th September, 2002, the Group's turnover was HK\$199 million, down 2% compared to corresponding period. The Group reported an unaudited loss attributable to shareholders of HK\$27 million for the twelve months period.

Review of Operations

The profit/(loss) contribution before corporate overhead from various regions is as follows:

	For the twelve months ended 30th September,				Change %	
	2002	2001	2002	2001	Turnover	Contribution
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000		
	Turnover		Contribution			
By geographical area:						
Hong Kong	43,777	49,718	(8,655)	271	(12)	(3,294)
Taiwan	82,389	75,629	5,526	4,496	9	23
People's Republic of China	64,427	77,025	(692)	11,267	(16)	(106)
Singapore	7,966	–	(2,964)	–	–	–
	198,559	202,372	(6,785)	16,034	(2)	(142)
Less: Corporate Overhead			(17,628)	(21,238)		
Operating Loss			(24,413)	(5,204)		

The apparel retail market in Hong Kong was very tough and expected to remain so. We continued to close non-performing shops during the period. We will downsize our Hong Kong operation and continue to close shops of no-profit or low-profit when their leases expire.

In Taiwan, our business has shown signs of improvement. We increased the number of our shops from last year's 36 to 42 at end of the period. Taiwan recorded an increase of 9% in turnover for the period. Profit contribution before overhead from the region also increased.

In Singapore, we took over the retail shops from our ex-partner in January 2002. Including the losses incurred during the transition period to unify the product image, Singapore recorded a loss contribution before overhead of HK\$2.9 million.

The Group continued to focus on expanding its marketing network in the PRC. At end November, 2002, there were 67 shops in the PRC. Franchised shops were increased to 48 at 30th September, 2002, from 30 at 30th September, 2001.

Management Discussion and Analysis

The pace of expansion of our franchise operation in the PRC was slower than planned due to changes in our management team. A strong marketing team was built up in the PRC to aggressively expand our franchise operation. The expansion is gaining momentum.

Liquidity and Financial Resources

At 30th September, 2002, the aggregate loan amount due to High Fashion International Limited ("High Fashion") was HK\$56 million. Under the facilities granted by High Fashion, Theme could further draw down up to HK\$4 million from High Fashion for working capital purpose. High Fashion has agreed to provide a further standby working capital line of HK\$40 million to support the financing need of the Group.

As of the balance sheet date, a total of about HK\$30 million banking facilities were granted to the Group, of which about HK\$12 million were utilized. Apart from the aforesaid and a property mortgage loan of HK\$1.6 million, there are no other material borrowings as of the balance sheet date.

As at 30th September, 2002, the current ratio was 1.22.

With the support of High Fashion, the Group should have sufficient liquidity to meet operational needs.

General

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 1,100.

Condensed Consolidated Financial Statements

The Board of Directors of Theme International Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the twelve months ended 30th September, 2002 together with the comparative figures are set out as follows:-

Condensed Consolidated Profit and Loss Account

		Twelve months ended 30th September,	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Notes			
		198,559	202,372
		(89,051)	(77,103)
		109,508	125,269
		817	2,627
		(91,111)	(90,593)
		(43,627)	(42,507)
		(24,413)	(5,204)
	3	(2,986)	(2,659)
		-	1,304
		(27,399)	(6,559)
	5	(57)	(118)
		(27,456)	(6,677)
		(1.09 cents)	(0.27 cent)
	6		

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Recognised Gains and Losses

	Twelve months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Exchange differences on translation of financial statements of foreign entities	241	(1,214)
Net gains/(losses) not recognised in the profit and loss account	241	(1,214)
Net loss for the period attributable to shareholders	(27,456)	(6,677)
Total recognised gains and losses	(27,215)	(7,891)
Goodwill eliminated directly against capital reserve	-	(2,007)
	(27,215)	(9,898)

Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet

	Notes	30th September, 2002 (Unaudited) HK\$'000	30th September, 2001 (Audited) HK\$'000
Non-current assets			
Fixed assets		13,387	14,372
Interests in associates		(608)	2,712
Long term investment		675	675
		13,454	17,759
Current assets			
Cash and bank balances		9,267	11,604
Time deposits		1,293	1,241
Trade receivables	8	9,643	13,403
Inventories		41,358	27,890
Deposits, prepayments and other receivables		15,561	10,413
Amounts due from fellow subsidiaries		1,872	349
		78,994	64,900
Current liabilities			
Bank loans and overdrafts		13,237	8,219
Bills payable		-	347
Trade payables and accrued purchases	9	21,027	26,043
Other payables and accruals		24,948	17,032
Tax payable		3,441	3,441
Amounts due to fellow subsidiaries		884	728
Amount due to holding company		1,277	-
		64,814	55,810
Net current assets		14,180	9,090
Total assets less current liabilities		27,634	26,849
Non-current liability			
Amount due to holding company		(56,000)	(28,000)
Minority interests			
		(2,197)	(2,197)
		(30,563)	(3,348)
CAPITAL AND RESERVES			
Issued capital		25,083	25,083
Reserves	10	(121,866)	(94,651)
		(96,783)	(69,568)
Convertible notes		66,220	66,220
		(30,563)	(3,348)

Condensed Consolidated Financial Statements

Condensed Consolidated Cash Flow Statement

	Twelve months ended 30th September,	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	(24,592)	3,450
Returns on investments and servicing of finance	(2,853)	(2,358)
Tax	(57)	(118)
Investing activities	(5,006)	(8,730)
	<hr/>	<hr/>
Net cash outflow before financing	(32,508)	(7,756)
Net cash inflow from financing	27,662	7,725
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(4,846)	(31)
Effect of foreign exchange rate changes, net	175	(925)
Cash and cash equivalents at beginning of period	8,397	9,353
	<hr/>	<hr/>
Cash and cash equivalents at end of period	3,726	8,397
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	9,267	11,604
Bank overdrafts	(1)	(7)
Trust receipt loans repayable within three months from the date of advance	(5,540)	(3,200)
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	3,726	8,397
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Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements

1. Accounting policies

a. *Basis of preparation of accounts*

The unaudited consolidated interim financial statements of the Group have been prepared in compliance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting", and on the same basis and accounting policies as those adopted in the annual financial statements for the eighteen months ended 30th September, 2001.

b. *Comparative figures*

Certain comparative figures for the twelve months ended 30th September, 2002 were reclassified as in the opinion of the directors, such reclassification would produce a more appropriate presentation of the Group's operating results.

2. Segmental information

The principal activity of the Group during the period was the manufacturing, retailing and trading of garments. Turnover and profit/(loss) from operations of the Group for the period by geographical location are as follows:

	Turnover		Profit/(loss) from operating activities	
	Twelve months ended 30th September,		Twelve months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Hong Kong	43,777	49,718	(12,705)	(3,860)
Taiwan	82,389	75,629	(1,208)	(3,997)
People's Republic of China	64,427	77,025	(6,812)	2,653
Singapore	7,966	—	(3,688)	—
	198,559	202,372	(24,413)	(5,204)

3. Loss from operating activities

Loss from operating activities for the period is arrived at after charging/(crediting):

	Twelve months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Depreciation	5,714	7,619
Provision for bad debt written back, net	—	(2,262)

Condensed Consolidated Financial Statements

4. Finance costs

	Twelve months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	2,656	2,378
Interest on finance leases	–	1
Bank charges	330	280
	2,986	2,659

5. Tax

	Twelve months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Elsewhere	57	118

No Hong Kong profits tax has been provided for the twelve months ended 30th September, 2002 and 30th September, 2001 as the Group had no assessable profits arising in Hong Kong during the period.

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.

6. Loss per share

The calculation of basic loss per share is based on the net loss for the period of HK\$27,456,000 (2001: HK\$6,677,000) and the number of 2,508,329,402 (2001: 2,508,329,402) ordinary shares in issue during the period.

The diluted loss per share for the period has not been calculated as the Company's convertible notes would have had an anti-dilutive effect.

7. Interim dividend

The directors resolved not to pay an interim dividend to shareholders (2001: Nil).

Condensed Consolidated Financial Statements

8. Trade receivables

	30th September, 2002 (Unaudited) HK\$'000	30th September, 2001 (Audited) HK\$'000
Current to 90 days	8,967	13,164
91 – 180 days	623	205
181 – 360 days	48	23
Over 360 days	5	11
Total	9,643	13,403

The Group allows an average credit period of 30 to 60 days to its trade debtors.

9. Trade payables and accrued purchases

	30th September, 2002 (Unaudited) HK\$'000	30th September, 2001 (Audited) HK\$'000
Current to 90 days	12,693	16,438
91 – 180 days	1,290	5,346
181 – 360 days	3,526	1,179
Over 360 days	3,518	3,080
Total	21,027	26,043

10. Movement of reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st October, 2001	798,599	34,503	(2,007)	(10,581)	(915,165)	(94,651)
Translation of net investments in foreign subsidiaries and associates	–	–	–	241	–	241
Loss for the period	–	–	–	–	(27,456)	(27,456)
At 30th September, 2002	798,599	34,503	(2,007)	(10,340)	(942,621)	(121,866)

Condensed Consolidated Financial Statements

11. Related party transactions

The Group had the following transactions with related parties during the period:

		Twelve months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	
	<i>Notes</i>		
Interest expense payable to the holding company	<i>(i)</i>	2,135	1,934
Commission income received from fellow subsidiaries	<i>(ii)</i>	–	675
Rental expense to a fellow subsidiary	<i>(iii)</i>	420	840
Subcontracting fee income received from fellow subsidiaries	<i>(iv)</i>	1,592	2,185
Management fee payable to a fellow subsidiary	<i>(v)</i>	5,732	–

Notes:

- (i) Interest expenses was payable to the holding company on the loan advance of HK\$56 million (2001: HK\$28 million) bearing interest at Hong Kong Prime rate.
- (ii) Commission income was charged to certain subsidiaries of the ultimate holding company for the provision of computer and other services, at an appropriate allocation of costs incurred by the Group.
- (iii) Rental charges were payable to a subsidiary of the ultimate holding company with reference to the prevailing market rate of the office premise.
- (iv) Subcontracting fee income receivable from subsidiaries of the ultimate holding company were charged in the normal course of business and at a consideration decided between parties with reference to the prevailing market price.
- (v) Management fee was payable to a subsidiary of the ultimate holding company for the provision of (a) computer systems and data processing services, (b) financial and management accounting services, (c) human resources support services, (d) office administration services and (e) company secretarial services.

12. Contingent liability

As at 30th September, 2002, there was no material contingent liability.

Other Information

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the twelve months ended 30th September, 2002, the Company has not redeemed any of the Company's listed securities, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the twelve months ended 30th September, 2002, in compliance with Appendix 14.

DIRECTORS' INTERESTS IN SHARES

As at 30th September, 2002, the interests of the Directors and their associates in the share capital of the Company, its subsidiaries and associated corporations as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

The Company

Name of Director	Nature of interest	Number of ordinary shares held
Lam Foo Wah	Corporate	1,881,247,050

Note:

Mr. Lam Foo Wah has the corporate interest in 1,881,247,050 ordinary shares pursuant to the Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as a result of his shareholding in High Fashion International Limited. 1,881,247,050 shares are registered in name of Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited (a company listed on The Stock Exchange of Hong Kong Limited).

Save as disclosed above, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, its subsidiaries or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance as at 30th September, 2002.

SHARE OPTION

Pursuant to the Company's Share Option Scheme, there were no outstanding option at the beginning and at the end of the twelve months period ended 30th September, 2002. No options were granted, exercised, cancelled or lapsed under the existing share option scheme during the period.

Apart from the Company's share option scheme, during the twelve months ended 30th September, 2002, no rights were granted to the Directors, chief executives of the Company, or any of their spouses or children under eighteen years of age to subscribe for equity or debt securities of the Company.

Other Information

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage
Navigation Limited	1,881,247,050*	About 75%
High Fashion International Limited	1,881,247,050*	About 75%
Lam Foo Wah	1,881,247,050*	About 75%

* *Mr. Lam Foo Wah has the corporate interest in 1,881,247,050 ordinary shares pursuant to the Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as a result of his shareholding in High Fashion International Limited. 1,881,247,050 shares are registered in name of Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited (a company listed on The Stock Exchange of Hong Kong Limited). Of these 1,881,247,050 ordinary shares represent the same interests, and are therefore duplicated amongst the three substantial shareholders.*

This interest has also been disclosed as an interest of Mr. Lam Foo Wah in the "Directors' interests in shares" above.

Save as disclosed above, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests in shares", had registered in interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.