



Management Discussion and Analysis

Results

We have changed our financial year-end date to 31 December to be coterminous with our holding company. This accounting period covers a fifteen months period ended 31 December 2002. Turnover was HK\$251 million, compared to HK\$308 million for the eighteen months ended 30 September 2001. Loss attributable to shareholders was HK\$28 million for the fifteen months period.

Review of Operations

The period under review consists of three reporting periods. The operating profit and loss for the three reporting periods are as follows:

	3 months ended 31 December 2002 HK\$'000	6 months ended 30 September 2002 HK\$'000	6 months ended 31 March 2002 HK\$'000
Turnover	52,174	87,516	111,043
Cost of sales	(20,092)	(39,247)	(49,804)
Gross profit	32,082	48,269	61,239
Other income	1,636	563	254
Selling and distribution costs	(24,343)	(44,250)	(46,861)
Administrative expenses	(8,874)	(18,838)	(24,789)
Profit/(Loss) from operation	<u>501</u>	<u>(14,256)</u>	<u>(10,157)</u>





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The above table shows profitable results for the last quarter of 2002 due to higher margin and lower administrative expenses.

The fashion retail market in Hong Kong remained very tough. We have downsized our retail shops to six to reduce our exposure to the depressing Hong Kong market.

In Taiwan, our business has shown signs of improvement. We continued to strengthen our retail and marketing management while cautiously maintaining our shop network at around 40 shops.

In Singapore, we took over the retail shops from our joint venture company in January 2002. Losses were incurred during the transition period. The market was difficult because of the weak local economy.

The growing affluence of the Chinese population sustained by rapid economic growth creates huge demand for quality branded labels, thus providing ample business opportunities for our franchise operation in the PRC.

We have heightened our emphasis on the expansion of franchise business in the PRC and undertaken a strategic initiative to develop and energize a marketing team to expand our franchise shop network in the PRC. Our wide sales and marketing network has laid a solid foundation for the future of Theme. Our progress in this area is satisfactory.

At the end of December 2002, there were 76 shops in the PRC. The number of franchise shops had increased to 56 shops compared to 30 as at 30 September 2001.

Liquidity and Financial Resources

At 31 December 2002, the aggregate loan amount due to High Fashion International Limited (“High Fashion”) was HK\$64 million. Under the facilities granted by High Fashion, Theme could further draw down up to HK\$36 million from High Fashion for working capital purpose.

As of the balance sheet date, a total of about HK\$30 million banking facilities were granted to the Group, of which about HK\$10 million were utilized. Apart from the aforesaid and a property mortgage loan of HK\$1.5 million, there are no other material borrowings as of the balance sheet date.

As at 31 December 2002, the current ratio was 1.35.

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