

A woman with long, wavy brown hair is wearing a white, double-breasted business suit with a matching knee-length skirt. She is posing with her hands on her hips, looking towards the camera. The background is a gradient of light pink and white, with a large, stylized circular graphic element in the upper right corner.

Interim Report 2003

Theme

THEME INTERNATIONAL
HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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Chairman's Statement

For the six months ended 30 June 2003, the Group suffered a decrease in turnover at HK\$91.4 million. Net loss was HK\$13.6 million.

During the period under review, the Group's business in all the major operating regions including Hong Kong, the PRC, Taiwan and Singapore, had been seriously affected by the SARS outbreak. The epidemic went worse in a rapid pace, dampened consumer sentiment and caused a sharp drop in our retail sales in all regions.

All the stores in the Group's network recorded significant drop in turnover. Our inventory went up. To mitigate the situation, the Group trimmed its production where possible and launched aggressive sales promotions to reduce its inventory level.

The SARS outbreak has helped expediting our operation restructuring aimed at providing prompt response to market needs. The initial results of our reforms on product design and supply management have been satisfactory. It is believed that the market will respond positively to our new product strategies.

The Group's franchise development program in the PRC has also been frustrated by the SARS outbreak. Not only that all scheduled openings of franchise shops were cancelled because of the SARS outbreak, other expansion plans under negotiation were also suspended. Nevertheless, the Group has restarted and accelerated its development projects since SARS subsided.

We have heightened our focus on franchise business in the PRC. We continued to make our Taiwan operation more cost effective whilst our Hong Kong operations would be further consolidated. The Group emerged stronger after the SARS.

We have been unsuccessful in turning around Theme, but we strongly believe that the PRC market continues to offer tremendous retail potential, and that the growth opportunities warrant the hard work we have put in. Despite the tremendous difficulties we have encountered to reform every aspect of our operation, we are absolutely committed to make Theme profitable in the near future.

On behalf of the board, I would like to express my appreciation to our management and staff for their dedications and hard work throughout the difficult times of the SARS outbreak. I want to thank our shareholders, bankers, business partners and suppliers for their support.

Lam Foo Wah

Chairman

Hong Kong, 17 September 2003

Management Discussion and Analysis

Results

Turnover for the first half year of 2003 was HK\$91 million, compared to HK\$111 million for the six months ended 31 March 2002. Loss attributable to shareholders was HK\$13.6 million for the six-month period.

Review of Operations

The segmental operating profit and loss is as follows:

	Six months ended		Six months ended	
	30 June 2003	31 March 2002	30 June 2003	31 March 2002
	Turnover		Contribution	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
By geographical area:				
Hong Kong	13,327	25,513	(4,013)	(1,748)
Taiwan	44,758	42,340	3,576	4,600
People's Republic of China	28,166	40,833	(1,272)	2,328
Singapore	5,187	2,357	(253)	(889)
	91,438	111,043	(1,962)	4,291
Less: Corporate Overhead			(9,784)	(14,448)
Operating Loss			(11,746)	(10,157)

Due to the adverse impact of the SARS, the results of Hong Kong and PRC region were deteriorated.

The tough market in Hong Kong was further dampened by the SARS effect. We have downsized our retail shops from 13 in March 02 to 6 in June 03.

In Taiwan, our business has shown signs of improvement. We continued to strengthen our retail shop network and marketing management to enhance our competing ability.

In Singapore, a small loss was incurred during the period due to sluggish market and weak economy.

In the PRC, the substantial drop in turnover was due to the SARS effect and some shops were changed to wholesale franchised shops.

At end June 03, there were 88 shops in the PRC, including 71 franchised shops, compared to 56 franchised shops as at 31 December 2002.

Management Discussion and Analysis

Liquidity and Financial Resources

At 30 June 2003, the aggregate loan amount due to High Fashion International Limited ("High Fashion") was HK\$67 million. Under the facilities granted by High Fashion, Theme could further draw down up to HK\$33 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\$6 million were utilized. Apart from the aforesaid and a property mortgage loan of HK\$1.3 million, there are no other material borrowings as of the balance sheet date. Except the aforesaid mortgage loan, there are no other charges on the Group's assets. The Group also has no borrowings at fixed interest rates.

The Group's receivables were mainly denominated in Hong Kong dollars, Renminbi and New Taiwan dollars. The entire bank borrowing and other borrowing were either denominated in Hong Kong dollars or United States Dollars. The Group considers that its foreign exchange risk is not significant.

The substantial decrease in inventories at the balance sheet date compared to 31 December 2002 was mainly due to the seasonal factor.

As at 30 June 2003, the current ratio was 1.27. With the support of High Fashion, the Group should have sufficient liquidity to meet its operational needs.

Human Resource

As of 30 June 2003, the total number of employees of the Group including factory workers was about 1,000. 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 period.

General

The Group had no material contingent liabilities as of the balance sheet date. There was no material capital expenditure during the period.

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 six months ended 30 June 2003 together with the comparative figures for the six months ended 31 March 2002 as follows:–

Condensed Consolidated Profit and Loss Account

	Notes	Six months ended	
		30 June 2003 (Unaudited) HK\$'000	31 March 2002 (Unaudited) HK\$'000
Turnover	2	91,438	111,043
Cost of sales		(41,726)	(49,804)
Gross profit		49,712	61,239
Other revenue		288	254
Selling and distribution costs		(42,338)	(46,861)
Administrative expenses		(19,408)	(24,789)
Loss from operating activities	2, 3	(11,746)	(10,157)
Finance costs	4	(1,874)	(1,240)
Loss before tax		(13,620)	(11,397)
Tax	5	-	-
Net loss from ordinary activities attributable to shareholders		(13,620)	(11,397)
Loss per share – basic	6	(0.54 cent)	(0.45 cent)

Consolidated Financial Statements

Condensed Consolidated Balance Sheet

		30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Fixed assets		10,875	12,907
Interests in associates		(608)	(608)
Long term investment		675	675
		10,942	12,974
Current assets			
Inventories		26,796	42,160
Trade receivables	8	9,323	12,829
Deposits, prepayments and other receivables		9,938	11,612
Amounts due from fellow subsidiaries		3,298	1,134
Pledged time deposits		–	1,293
Cash and bank balances		12,979	13,791
		62,334	82,819
Current liabilities			
Trade payables and accrued purchases	9	15,547	20,574
Tax payable		3,441	3,441
Other payables and accruals		16,010	19,835
Bills payable		–	1,460
Bank loans and overdrafts		7,166	11,147
Amount due to holding company		2,094	649
Amounts due to fellow subsidiaries		4,992	4,032
		49,250	61,138
Net current assets		13,084	21,681
Total assets less current liabilities		24,026	34,655
Non-current liability			
Amount due to holding company		67,000	64,000
Minority interests		2,197	2,197
		(45,171)	(31,542)
Capital and reserves			
Issued capital		25,083	25,083
Reserves		(136,474)	(122,845)
		(111,391)	(97,762)
Convertible notes		66,220	66,220
		(45,171)	(31,542)

Condensed
Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	25,083	798,599	34,503	(2,007)	(10,843)	(943,097)	(97,762)
Exchange realignment	-	-	-	-	(9)	-	(9)
Loss for the period	-	-	-	-	-	(13,620)	(13,620)
At 30 June 2003	25,083	798,599	34,503	(2,007)	(10,852)	(956,717)	(111,391)
At 1 October 2001	25,083	798,599	34,503	(2,007)	(10,581)	(915,165)	(69,568)
Exchange realignment	-	-	-	-	335	-	335
Loss for the period	-	-	-	-	-	(11,397)	(11,397)
At 31 March 2002	25,083	798,599	34,503	(2,007)	(10,246)	(926,562)	(80,630)

Consolidated Financial Statements

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 June 2003 (Unaudited) HK\$'000	31 March 2002 (Unaudited and restated) HK\$'000
Net cash inflow/(outflow) from operating activities	497	(18,208)
Net cash inflow/(outflow) from investing activities	(317)	1,746
Net cash inflow/(outflow) from financing activities	(667)	16,185
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(487)	(277)
Cash and cash equivalents at beginning of period	12,788	11,597
Effect of foreign exchange rate changes, net	(11)	427
	<hr/>	<hr/>
Cash and cash equivalent at end of period	12,290	11,747
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	12,979	11,757
Bank overdrafts, unsecured	(689)	(10)
	<hr/>	<hr/>
	12,290	11,747
	<hr/>	<hr/>

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 fifteen months ended 31 December 2002 except for the adoption of SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants which for the Group became effective as of 1 January 2003.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallize in the foreseeable future. A deferred tax asset is not recognized until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The SSAP has had no significant impact on these financial statements.

b. Comparative figures

Certain comparative figures for the six months ended 31 March 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 loss from operating activities of the Group for the period by geographical location are as follows:

	Turnover		Loss from operating activities	
	Six months ended		Six months ended	
	30 June 2003	31 March 2002	30 June 2003	31 March 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong	13,327	25,513	(5,458)	(5,246)
Taiwan	44,758	42,340	(1,025)	(564)
People's Republic of China	28,166	40,833	(4,513)	(3,065)
Singapore	5,187	2,357	(750)	(1,282)
	91,438	111,043	(11,746)	(10,157)

Consolidated Financial Statements

3. Loss from operating activities

Loss from operating activities for the period is arrived at after charging:

	Six months ended	
	30 June	31 March
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	3,301	2,974

4. Finance costs

	Six months ended	
	30 June	31 March
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	1,795	1,098
Bank charges	79	142
	1,874	1,240

5. Tax

No Hong Kong and overseas profits tax have been provided for the six months ended 30 June 2003 and 31 March 2002 as the Group had no assessable profit arising in Hong Kong and elsewhere during the period.

6. Loss per share

The calculation of basic loss per share is based on the net loss for the period of HK\$13,620,000 (Six months ended 31 March 2002: HK\$11,397,000) and the number of 2,508,329,402 (Six months ended 31 March 2002: 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 (Six months ended 31 March 2002: Nil).

8. Trade receivables

	30 June	31 December
	2003	2002
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Current to 90 days	9,174	12,213
91 to 180 days	140	544
181 to 360 days	9	72
Total	9,323	12,829

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

Condensed Consolidated Financial Statements

9. Trade payables and accrued purchases

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Current to 90 days	5,284	10,581
91 to 180 days	1,622	3,402
181 to 360 days	3,538	1,546
Over 360 days	5,103	5,045
	<hr/>	<hr/>
Total	15,547	20,574

10. Related party transactions

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

		Six months ended 30 June 2003 (Unaudited) HK\$'000	31 March 2002 (Unaudited) HK\$'000
	<i>Notes</i>	HK\$'000	HK\$'000
Interest expense payable to the holding company	<i>(i)</i>	1,597	859
Rental expense to a fellow subsidiary	<i>(ii)</i>	210	210
Subcontracting fee income received from fellow subsidiaries	<i>(iii)</i>	2,713	–
Management fee payable to a fellow subsidiary	<i>(iv)</i>	2,463	3,220

Notes:

- (i) Interest expenses was payable to the holding company on the loan advance of HK\$67 million (31 March 2002: HK\$40 million) bearing interest at Hong Kong Prime rate.
- (ii) Rental charges were payable to a subsidiary of the ultimate holding company with reference to the prevailing market rate of the office premise.
- (iii) 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.
- (iv) 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.

11. Contingent liability

As at 30 June 2003, there were no material contingent liabilities.

Other Information

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended 30 June 2003.

Purchase, Sale or Redemption of Company's Listed Securities

The Company has not redeemed any of the Company's listed securities during the six months ended 30 June 2003. During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

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 six months ended 30 June 2003, in compliance with Appendix 14.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules"), were as follows:

(i) The Company Shares and Underlying Shares

Name of Director	Nature of interest	Number of ordinary shares held	Underlying shares	Total
Lam Foo Wah	Corporate	1,881,247,050 (Note 1)	752,498,000 (Note 2)	2,633,745,050

Notes:

1. Mr. Lam Foo Wah has the corporate interest in 1,881,247,050 ordinary shares of the Company pursuant to the SFO as a result of his shareholding in High Fashion. 1,881,247,050 shares of the Company are registered in name of Navigation Limited, a wholly-owned subsidiary of High Fashion (a company listed on The Stock Exchange of Hong Kong Limited).
2. Mr. Lam Foo Wah has the corporate interest in 752,498,000 underlying shares of the Company pursuant to the SFO as a result of his shareholding in High Fashion. Navigation Limited owned HK\$66 million convertible notes that can be converted into 752,498,000 new shares of the Company.

Other Information

(ii) The Company's Debentures

Mr. Lam Foo Wah had, as at 30 June 2003, corporate interests in a nominal amount of HK\$66,219,824 interest free convertible notes due in August 2005.

(iii) Associated Corporations

(a) *High Fashion International Ltd. – Ultimate Holding Company of the Company*

Name of Director	Notes	Number of ordinary shares held and nature of interests			Underlying share (Note 3)	Total
		Personal	Family	Other		
Lam Foo Wah	1, 2	–	–	121,407,986	3,800,000	125,207,986
Hui Yip Wing		–	2,652,007	–	–	2,652,007
Wong Shing Loong, Raymond		2,600,000	–	–	1,000,000	3,600,000

(b) *High Fashion Knitters Limited – Fellow Subsidiary of the Company*

Name of Director	Note	Nature of interest	Number of ordinary shares held
Lam Foo Wah	4	Corporate	5,339,431

Notes:

- Mr. Lam Foo Wah is deemed to have an interest in 89,236,419 ordinary shares of High Fashion which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
- Mr. Lam Foo Wah is deemed to have an interest in 32,171,567 ordinary shares of High Fashion which is beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
- The underlying shares were High Fashion's options granted to them by High Fashion.
- These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

None of the above directors has any interest of short position in the shares, underlying shares and debentures of the Company.

Save as disclosed above, as at 30 June 2003, none of the directors and chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the above mentioned Model Code of the Listing Rules. Furthermore, save as disclosed in the "Share Option" section below, at no time during the six months ended 30 June, 2003 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Other Information

Share Option

Pursuant to the Company's Share Option Scheme, there were no outstanding options at the beginning and at the end of the six months period ended 30 June 2003. 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 six months ended 30 June 2003 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.

Substantial Shareholders

As at 30 June 2003, the interests of the following substantial shareholders, other than directors and chief executive of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of SFO.

The Company Shares and Underlying Shares

Name	Capacity	Number of ordinary shares held	Underlying shares	Total	Percentage
High Fashion International Limited	Controlled Corporation	1,881,247,050	752,498,000	*2,633,745,050	75

* *Details please refer to the section "Directors' Interests and Short Positions In Shares, Underlying Shares and Debentures" section as mentioned above.*

None of the above substantial shareholders has any interest of short positions in the shares or underlying shares of the Company.