



MANAGEMENT DISCUSSION AND ANALYSIS



RESULTS

Turnover was HK\$172 million for the year ended 31 December 2003, compared to HK\$251 million for the fifteen months ended 31 December 2002. Loss attributable to shareholders was HK\$20 million, compared to HK\$28 million for the fifteen months period.

REVIEW OF OPERATIONS

The segmental operating profit and loss is as follows:

| | Year ended 31 December 2003 | Period from 1 October 2001 to 31 December 2002 | Year ended 31 December 2003 | Period from 1 October 2001 to 31 December 2002 |
|----------------------------|-----------------------------------|--|-----------------------------------|--|
| | Turnover HK\$'000 | HK\$'000 | Contribution HK\$'000 | HK\$'000 |
| By geographical area: | | | | |
| Hong Kong & Macau | 22,781 | 54,814 | (5,806) | (4,529) |
| Taiwan | 84,267 | 105,266 | 6,835 | 8,098 |
| People's Republic of China | 55,797 | 80,040 | 4,148 | 3,911 |
| Singapore | 9,220 | 10,613 | (405) | (3,007) |
| | <u>172,065</u> | <u>250,733</u> | <u>4,772</u> | 4,473 |
| Less : Corporate Overhead | | | <u>(20,378)</u> | <u>(28,385)</u> |
| Operating Loss | | | <u>(15,606)</u> | <u>(23,912)</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the number of retail shops in Hong Kong and Macau was cut from 9 to 5, by closing the under-performing shops. Due to the adverse impact of the SARS and tough retail market, the remaining shops failed to report a profit. Measures were taken to turn around the situation and improvement was evident.

The business in Taiwan was also adversely affected by the SARS. Business gradually picked up toward the end of the year and the improvement is expected to prevail 2004. The retail network in Taiwan consisted of 43 shops in December 2003.

The PRC retail market also suffered from the impact of the SARS, but it recovered fairly quickly. Towards the end of the year, many shops reported positive profit contributions and recorded growth in turnover, some of them by as much as 30%. Taking advantage of the improvements, the Group will expand the self-managed shop network in PRC cautiously in 2004.

At 31 December 2003, there were 87 shops in the PRC region, out of which 69 shops were franchised shops.

In Singapore, the number of retail shops remained at 6. Both turnover and result showed signs of improvement in 2003.

LIQUIDITY AND FINANCIAL RESOURCES

On the balance sheet date, the Group had HK\$26 million in cash and banks (HK\$14 million on 31 December 2002). Apart from this, Theme could further draw down HK\$15 million from High Fashion International Limited ("High Fashion"), out of the existing HK\$100 million facilities, for working capital purpose.

As of the balance sheet date, the aggregate loan amount due to High Fashion was HK\$85 million. A total of about HK\$17 million banking facilities were granted to the Group, of which about HK\$4.2 million were utilized. Apart from the aforesaid and a property mortgage loan of HK\$1.1 million, there were no other material borrowings as of the balance sheet date. Except the aforesaid mortgage loan, there were no other charges on the Group's assets. The Group had no borrowings at fixed interest rates.

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

As at 31 December 2003, the current ratio was 1.49. 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.

HUMAN RESOURCE

As of 31 December 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. The Group has granted no options during the year.

GENERAL

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