

Management
Discussion
and Analysis



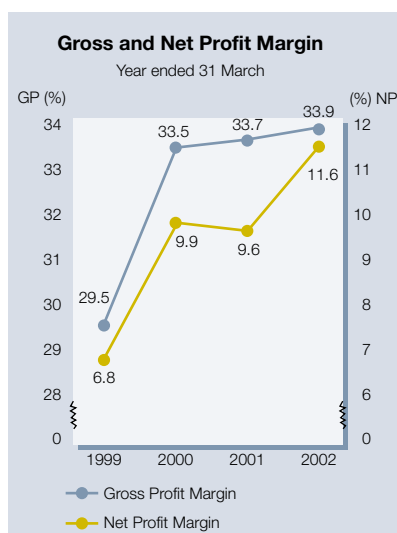


Management Discussion and Analysis



Business Review and Prospects

Year 2001 was challenging and difficult for the global economy, and so far year 2002 did not seem to be any easier. Yet, the swimwear and casual wear industry is witnessing a rising global demand. With immense business opportunities arising from the PRC's accession into WTO, coupled with its consumer population of 1.3 billion and the continuously improving economy and living standards, all of the abovementioned factors helped fuel the demand for quality and fashionable apparels. Needless to say, the Group, as the world's leading swimwear and casual wear manufacturers, undoubtedly benefited from such favorable conditions in the garment industry.



During the period under review, the Group has achieved strong growth in both sales volume and profitability due to the increase in shipments. Turnover surged from HK\$641,109,000 last year to HK\$710,489,000 this year, representing an increase of 10.8%. Gross profit increased by 11.4% to HK\$240,879,000 this year, as compared to HK\$216,325,000 last year. Profit attributable to shareholders also jumped from HK\$61,845,000 last year to HK\$82,279,000 this year, demonstrating an increase of 33.0%.

With the implementation of aggressive and effective cost control measures, the Group managed to raise its profit margin. Gross profit margin amounted to 33.9% this year as compared to 33.7% last year, while net profit margin also reached 11.6% this year as compared to 9.6% last year.

Operations Review

As a recognised quality ODM/OEM manufacturer of swimwear and casual wear, the Group has established a customer base of over 30 renowned international brands and department stores. With its large-scale production facilities in Cambodia and the PRC which in total occupy about 90,000 m² in gross floor area and about 11,000 skilled employees, the Group possesses unrivaled production capacities. As at 31 March 2002, its annual production capacities amounted to 550,000 dozens of swimwear, 750,000 dozens of casual wear and 60,000 dozens of sports wear. Its production utilisation rate was about 94%.

With the experience of its professional creative design team, the Group is able to deliver quality designs and products on a timely basis and is classified as the world's leading swimwear and casual wear





manufacturer. For the year ended 31 March 2002, the annual sales volume of the Group's swimwear, casual wear and sports wear amounted to a total of 636,000 dozens, 715,000 dozens and 58,000 dozens respectively. Sales from casual wear contributed to 63% of the turnover pie, followed by swimwear with 32% and sportswear with 5%. North America remained as the largest customer market of the Group and contributed to 70% of its overall turnover, with Europe as the second largest at 25% and other markets contributed to 5%.

Development of "Blue Cat" Business

The Group has obtained an exclusive manufacturing agreement with the popular "Blue Cat" to design, produce and supply "Blue Cat" apparels to Blue Cat specialty stores which currently have already established about 1,200 stores throughout various major cities in the PRC. This cooperation allows the Group to penetrate into the PRC market and to establish a strong presence. At the same time, Blue Cat Development Company Limited, a company of which the Group holds 5% shareholding, has also obtained an exclusive license to open Blue Cat specialty stores in first-tier cities in the PRC to capture the increasing popularity of Blue Cat and demand of quality apparels.



Strategies for Further Growth

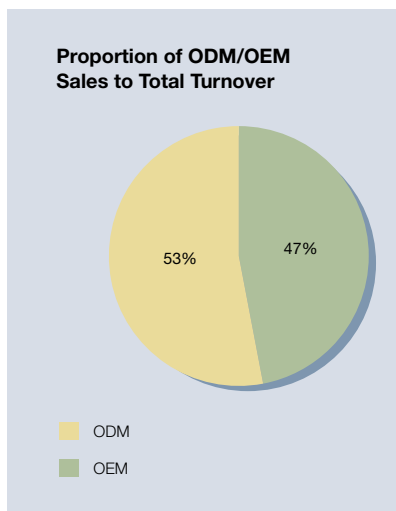
The Group will focus on strengthening its leading position in swimwear and casual wear by maintaining amicable long term relationships with existing clients and seeking after new clients to promote growth, profitability and recognition.



Simultaneously, Tack Fat intends to enlarge its production scale in anticipation to the increasing number of overseas orders after the PRC's accession into WTO. To enhance efficiency and effectiveness, Tack Fat aims to automate part of the production processes, such as cutting and packing, in order to shorten the production time and improve product quality. It is also considering the feasibility of setting up its own production facilities because a vertically integrated process can only be beneficial, not only in reducing the overall production costs, but also its reliance on suppliers and subcontractors.

Tack Fat is extremely optimistic of its future prospects, given its synergistic cooperation with Blue Cat Development Limited. With the ensuring liberalization of the PRC market, the Group will capture all arising opportunities to develop its Blue Cat specialty stores in the PRC and to grow alongside with the robust PRC economy. For Tack Fat, the path to prosperity and growth is endless.

Management Discussion and Analysis



Financial Review

Turnover

Turnover amounted to HK\$710,489,000 in 2002, representing an increase of 10.8% from last year. This increase was due to strong growth in both ODM and OEM orders and increase in production capacity. Thanks to continued efforts of the Group in raising the ODM business, the proportion of ODM sales to total turnover has increased to 53% this year. Meanwhile, OEM sales remained another major turnover contributor of the Group.

Due to the fact that US is the largest garment importer of the world, North America region remained to be the largest market of the Group in 2002. The Group's sales to North America market have not been adversely affected by 911 incidence significantly, with an increase of 7% compared to last years. Owing to the quality design and products of the Group, its turnover from Europe and other regions grew 24% and 8% respectively compared to last year.

Sales of casual wear which accounted for 63% of total turnover were the major source of the Group's revenue. Sales of swimwear accounted for about 32% of total turnover while sales of sports wear accounted for the remaining turnover. These ratios were more or less similar to last year.

Gross and Net Profit Margin

The profitability of the Group continued to grow during the year under review. The growth in the gross and net profit were attributable to the increase in orders of high margin products i.e. ODM and swimwear products and the continued efforts for stringent cost control.

Operating Efficiency

Despite the business growth, the inventory turnover days remained steady at 113 days for both years. This achievement reflected the efforts taken by the Group in optimising its inventory level. The receivable turnover days of the Group were 48 days this year as compared to 37 days last year. The increase in receivable turnover days was mainly due to the fact that there were relatively more shipments during the peak season from January to March this year.



Liquidity, Financial Resources and Capital Structure

The Group's financial position remains strong. As at 31 March 2002, the Group's total assets were HK\$673,863,000 and its total current assets were HK\$403,174,000. As at that date, the non-current and current liabilities of the Group totalled HK\$122,500,000 and HK\$314,763,000 respectively. The Group's bank borrowings amounted to HK\$271,930,000. Most of these bank borrowings were denominated in Hong Kong dollars and US dollars and bearing floating interest rate. As at 31 March 2002, the gearing ratio of the Group was 64.9% (2001: 74.0%), calculated on the basis of total liabilities over total assets at that date.

Cash Flow

Net cash inflow in the amount of HK\$72,109,000 was generated from operating activities in 2002, reflecting growth in core business of the Group. The net increase in cash and cash equivalents amounted to HK\$13,759,000.

Employees

As at 31 March 2002, the Group employed approximately 11,000 full time staff in Hong Kong, Cambodia and the PRC. The Group remunerates its employees based on their performance and experience.

Charges on Assets

As at 31 March 2002, certain fixed assets of the Group with a total net book value of HK\$85,004,000 were pledged to banks to secure banking facilities granted to the Group.

Exposure to Fluctuations in Exchange Rates

Most of the Group's assets and liabilities are denominated into Hong Kong dollars, US dollars and Renminbi which were relatively stable during the year. The Group is not exposed to any other significant exchange risk.

Contingent Liabilities

As at 31 March 2002, the Group had contingent liabilities of HK\$47,849,000 in respect of the bills discounted with recourse.