



MANAGEMENT DISCUSSION AND ANALYSIS

Although year 2002 remained a gloomy year for the global economy, swimwear and casual wear industry was able to sustain growth. After the 911 incidence, many orders from the US and Europe have been transferred from Middle East countries to Far Eastern countries. Together with a favorable PRC economic environment after its accession into WTO, Tack Fat, as the world's leading swimwear and casual wear manufacturer, was able to sustain growth amid such a challenging market environment.

Operating Review

Regarding its ODM/OEM business of swimwear and casual wear, Tack Fat was able to receive increased orders from its well-established customer base of over 30 renowned international brands and department stores due to its enlarged production capacity, stringent quality control and fashionable design. After the upgrade of its production facilities in Cambodia and the PRC that totaled to 90,000m² in gross floor area and about 11,000 skilled labour, production capacities increased to 260,000 dozens of swimwear, 440,000 dozens of casual wear and 35,000 dozens of sports wear at an utilization rate of over 95%.

With the experience of its professional creative design team and quality control team, the Group is recognized for delivering quality designs and products that reinforces its esteemed position as the world's leading swimwear and casual wear manufacturer. During the period under review, the sales volume of swimwear, casual wear and sports wear amounted to 296,000 dozen, 403,000 dozen and 29,000 dozen respectively.

In March 2002, the Group obtained an exclusive agreement with the popular "Blue Cat" to design, produce and supply "Blue Cat" apparel for over 2,100 Blue Cat retail stores in the PRC. During the period under review, the sales volume of "Blue Cat" apparel amounted to 30,000 dozen. This is the first step as the Group establishes its presence in the PRC market. At the same time, Tack Fat, through its 5% investment in Blue Cat Development Company Limited ("BCDCL"), was also given exclusive rights to open Blue Cat retail stores in first-tier PRC cities. As at the results announcement date, BCDCL has opened over 70 stores in Shanghai, Beijing and etc. including 7 model stores and over 60 franchise stores.

Future Prospects

The business environment of Tack Fat will continue to be promising. Leading brand names are placing more orders to Far Eastern countries where political stability is better guaranteed. Starting from January 2003, no quotas or taxes will be levied for the import of garments from Cambodia to Canada by using raw materials from the PRC and a few other countries.

MANAGEMENT DISCUSSION AND ANALYSIS (*continued*)

Future Prospects (*continued*)

Tack Fat will strive to capture the ample business opportunities by expanding its production scale. By automating part of the production process and setting up a vertically integrated process, it is expected that the Group's production capacity will increase continuously.

It is expected that the sales of "Blue Cat" apparel will continue to grow in light of the continued economic growth and development in the PRC and the increasing number of "Blue Cat" franchise stores throughout the nation. BCDCL will expand its "Blue Cat" outlet business to match the growing popularity of Blue Cat and the demand of quality apparel. The success of "Blue Cat" business will pave the way for the Group to introduce other brands into the PRC market.

Tack Fat is optimistic of its future prospects, given the encouraging business environment and its proactive strategies to develop the PRC market. Based on its leading industry position in swimwear and casual wear manufacturing and its long-term business relationships with existing clients, Tack Fat will dedicate to provide quality and fashionable swimwear and casual wear worldwide and to generate fruitful returns to shareholders.

Financial Review

Turnover

In the first half of financial year 02-03, turnover amounted to HK\$395,239,000 and represented an increase of 15.7% from the corresponding period of last financial year due to strong growth in both OEM/ODM orders and the increase in production capacity. With our concerted efforts to increase our ODM orders, the percentage of ODM orders did increase to 55%. During the period under review, OEM orders remained another major turnover contributor of the Group.

US, as the largest garment importer of the world, remained to be the Group's largest market in 2002. Due to the transfer of orders from Middle East countries to Far Eastern countries, sales to the US increased 7.4% in comparison to the corresponding period of the last financial year. Thanks to our quality designs and products, turnover from Europe and other regions also grew 15.5% and 128.5% respectively as compared to the same period of the last financial year.

Accounting for 65% of turnover, sales of casual wear was the Group's major source of revenue. Sales of swimwear contributed to approximately 30% in turnover, while sports wear accounted for the remaining 5% of turnover during the first half of financial year 02-03. The turnover ratio is more or less same as the same period of last financial year.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Gross and Net Margin

Profitability of the Group improved during the period under review. The increase in gross profit and net profit were attributable to the increase in sales of high margin products, such as ODM and swimwear products, as well as the Group's continuous efforts in stringent cost control.

Operating Efficiency

The inventory turnover days remained steady at 103 days for the period under review. This was contributable to the implementation of an optimal inventory policy by management during the period under review. The receivable turnover days of the Group were 45 days this period as compared to 48 days last financial year.

Liquidity, Financial Resources and Capital Structure

The Group's financial position remained strong. The Group's total assets and total current assets were HK\$677,339,000 and HK\$391,268,000 respectively as at 30 September 2002. The Group's total long-term and short-term liabilities were HK\$61,045,000 and HK\$253,004,000 respectively as at 30 September 2002. The Group's bank borrowings amounted to HK\$207,565,000. Most of these bank borrowings were denominated in Hong Kong dollars and United States dollars and bearing floating interest rate. As at 30 September 2002, the gearing ratio was 46.4% (31 March 2002: 64.9%), calculated on the basis of total liabilities over total assets at that date.

Cash Flow

Net cash inflow in the amount of HK\$45,063,000 was generated from operating activities in the first half of financial year 02-03 due to the strong growth in the Group's core business. Net cash inflow amounted to HK\$45,827,000.

Employees

As at 30 September 2002, the Group employed approximately 11,000 full time staff in Hong Kong, Cambodia and the PRC. The Group remunerates its employees according to their performance and experience.

Charges on Assets

As at 30 September 2002, certain fixed assets of the Group with a total net book value of HK\$13,989,000 were pledged to banks to secure banking facilities granted to the Group.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Exposure to Fluctuations in Exchange Rates

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

Contingent Liabilities

As at 30 September 2002, the Group had contingent liabilities of HK\$40,524,000 in respect of the bills discounted with recourse.