

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

While the global economy seemed to be recovering from the previous year, the first half of 2003 was inevitably affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS"), a new epidemic that swept through Asia and eventually to other countries. While it severely affected tourism, retail and entertainment industries in Asia, the garment industry was minimally affected. On the contrary, riding on continuous market consolidation and growing popularity of outsourcing by global brand names, Tack Fat, as the world's leading swimwear and casual wear manufacturer, achieved impressive organic growth by recording an increase in sales orders, a growing customer base as well as expanding manufacturing facilities and production line.

Operation Reviews

Tack Fat has established a reliable brandname effect with the timely delivery of its quality designs and unrivaled product standards. During the period under review, the Group placed much emphasis into enlarging its annual production capacity and abiding by its stringent quality and cost control measures. Combining the two production bases in Cambodia and the PRC that totaled to 90,000 m² in GFA, a workforce of over 15,000 skilled employees and a utilization rate of 94%, the Group's current production capacities have been increased to 310,000 dozens of swimwear, 470,000 dozens of casual wear and 36,000 dozens of sportswear, as compared to 260,000 dozens, 410,000 dozens and 35,000 dozens respectively in the corresponding period last year.

As the ODM/OEM partner of over 30 esteemed brands and department stores and the renowned manufacturer of quality swimwear and casual wear, Tack Fat continued to generate increasing sales orders from its global customers spanning across the US, Europe and the PRC. During the period under review, the sales volume of the Group's swimwear, casual wear and sports wear amounted to a total of 373,000 dozens, 471,000 dozens and 33,000 dozens respectively. Sales from casual wear contributed to 62% of the Group's total turnover, followed by swimwear with 34% and sportswear with 4%. North America remained as the largest customer and contributed to 66% of the total turnover, with Europe and other markets contributed remaining 25% and 9% respectively.

Future Prospects

The garment industry in Asia is expected to demonstrate a strong momentum in the coming future to propel the business of Tack Fat to greater heights. Outsourcing has, and will continue to be, a favoured policy by esteemed global brandnames, and Tack Fat, with its unrivaled reputation as the leading swimwear and casual wear manufacturer in Cambodia and the PRC, is undeniably the ideal partner.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Future Prospects (continued)

Throughout the period, Tack Fat has placed much emphasis into improving its production capacity. In addition to automating part of its production process and setting up a vertically integrated process, the Group has committed to increasing its capacity in order to meet the growing demand.

It is expected that quota policy will be eliminated in Cambodia by 2005 due to Cambodia's accession into WTO. Tack Fat will capture even greater business opportunities. Highly regarded for its expertise in swimwear designs and scalable production capacity, Tack Fat is aggressively maintaining its leading position in swimwear and casual wear manufacturing, with loyal customers and steady order sizes. Most importantly, the Group will perform to the best of its capabilities, with the aim of generating fruitful returns to its supportive shareholders.

FINANCIAL REVIEW

For the six months ended 30 September 2003, Tack Fat has recorded promising double-digit growth in both turnover and net profit as a result of the favorable industry development, sustainable economies of scale, improved operation efficiency and cost control measures. Turnover surged from HK\$395,239,000 for the first half of last year to HK\$442,682,000, representing an increase of 12.0%. Gross profit increased by 10.7% to HK\$143,545,000, as compared to HK\$129,615,000 in the corresponding period of the previous year. Despite the impact of the SARS outbreak, profit attributable to shareholders increased by 17.5%, from HK\$36,710,000 last period to HK\$43,121,000 this period.

Gross profit margin was 32.4% and net profit margin reached 9.7% as compared to 9.3% in the previous period. Reasons for the impressive performance under the challenging operating environment were mainly attributable to the large quantity of swimwear and casual wear orders from various global brandnames and business opportunities from new ODM/OEM clients.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2003, the Group's financial position remained strong. The Group had total assets of HK\$730,823,000 (31 March 2003: HK\$717,356,000) which were financed by current liabilities of HK\$206,837,000, long-term liabilities of HK\$56,915,000 and shareholders' equity of HK\$467,071,000. During the period US\$3,400,000 (approximately HK\$26,520,000) of the convertible bonds was converted into 44,840,000 ordinary shares of the Company and a total of HK\$780,000 convertible bonds remained outstanding as at 30 September 2003. On 3 October 2003, the Group issued additional convertible bonds of US\$4,000,000 (approximately HK\$31,200,000) to CSFB, of which US\$300,000 (approximately HK\$2,340,000) of the convertible bonds was converted into 3,680,000 ordinary shares of the Company on 11 December 2003.