

## 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.

## **FINANCIAL REVIEW (continued)**

### **Liquidity, Financial Resources and Capital Structure (continued)**

The Group's bank borrowings amounted to HK\$144,548,000. Most of these bank borrowings were denominated in Hong Kong dollars and US dollars and bearing floating interest rates. The gearing ratio improved to 36.1% (31 March 2003: 41.6%), calculated on the basis of total liabilities over total assets at that date.

### **Cash Flow**

Net cash inflow in the amount of HK\$56,141,000 was generated from operating activities for the six months end 30 September 2003, reflecting strong growth in the Group's core business.

### **Employees**

As at 30 September 2003, the Group employed approximately 15,000 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 2003, certain fixed assets of the Group with a total net book value of HK\$13,673,000 and bank deposits of HK\$72,280,000 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 in Hong Kong dollars, US dollars and Renminbi which were relatively stable during the year. The Group is not exposed to material exchange risk.

### **Contingent Liabilities**

As at 30 September 2003, the Group had contingent liabilities of HK\$15,928,000 in respect of the bills discounted with recourse.