

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, despite the chaotic market conditions in the U.S. and EU resulting from the trading disputes between China and these regions, Tack Fat fully capitalized on the regional advantages of its production bases located in Cambodia to provide flexible and adjustable product mix, so as to alleviate the impact brought forth by the trading disputes. In addition, the Group endeavored to enhance its production efficiency during the period in order to achieve a stable growth in turnover and profitability.

Operation Review

During the period under review, the general growth in sales orders from existing clients as well as sales orders obtained from a number of new clients helped to promote the growth in the Group's turnover. For the six months ended 30 September 2005, the total sales volume of the Group amounted to 1,410,000 dozens, of which sales of swimwear, casual wear and sportswear accounted for 25%, 72% and 3% respectively.

In terms of geographical distribution, North America remained as the Group's largest market, accounted for 76% of total turnover (FY2004/05: 77%), followed by Europe and other markets, which contributed to 17% and 7% of total turnover respectively (FY2004/05: 16% and 7%). During the period under review, the Group's top five largest customers accounted for 51% of total turnover.

Tack Fat's two large-scale production bases locate in Cambodia and China respectively, with gross floor area over 90,000 m² and a skilful and professional workforce of over 15,000 staff members. As at 30 September 2005, the Group's annual production capacity approximated 980,000 dozens of swimwear, 1,120,000 dozens of casual wear and 63,000 dozens of sportswear at a total utilization rate of about 97%.

Future Prospects

Looking forward to the second half of the year, as China has entered into quota agreements with EU and the U.S., the market performance and conditions in such regions have improved and become more steady. Tack Fat will further capture the development opportunities brought forth by market consolidation and increasing trend of brand outsourcing. The Group will also deploy resources to proactively enhance its production facilities and expand its production capacity. Tack Fat is committed to consolidating its leading market position in swimwear and causal wear manufacturing industry, providing quality and trendy swimwear and causal wear products to clients in the global market and bringing fruitful returns to shareholders