

CHAIRMAN'S STATEMENT

Tack Fat will strive to provide quality and fashionable swimwear and casual wear worldwide to further solidify our industry position.



Mr. Kwok Wing, **CHAIRMAN**

Benefiting from global outsourcing trends and the favourable market environment created by a rebounding economy, Tack Fat Group International Limited ("Tack Fat" or "the Group") achieved another year of encouraging performance and entered a new stage of robust growth in 2005-2006.

The Group has successfully attained six years of consecutive growth in turnover, gross profit and profit from operations. During the year under review, the Group recorded a total turnover of HK\$1,655 million, representing a year-on-year growth of 8.3%. Profit from operations reached HK\$262 million, a significant increase of 35.1% as compared to HK\$194 million in 2005.

Tack Fat has always been dedicated to consolidating its unrivalled market position as an ideal apparel and swimwear manufacturing partner. By cultivating profitable relationships with internationally renowned brands and large department stores, the Group accumulated a pool of quality customers and secured both new and repeated orders from them. This represented a further expansion of its extensive clientele with stable contract sources, creating a solid platform for accelerating future growth.

Currently, the Group's reaches an overall utilization rate of over 97% and allocates a total of HK\$100 million in capital expenditures in FY2007 to expand the production capacity and meet the growing demand from its global customers.

Capitalizing on more than 12 years' experience in operating its Cambodian production base, the Group owns the largest scale of production facilities in Cambodia with strong cost competitiveness relative to Thailand, Vietnam and China. With utilization of competitive strength in both Chinese and Cambodian

manufacturing bases, Tack Fat can provide timely delivery of quality products and services to international customers at reasonable prices, giving it a competitive edge over its peers.

While offering superb product quality and developing more fashionable designs, the Group further strengthened its production capabilities, strategically optimized its product mix and maximized its production efficiency to cope with international demand. Meanwhile, the Group implemented stringent cost control measures and a series of continuous programs to improve productivity while effectively achieving economies of scale and establishing a relatively low cost structure.

Facing immense development potential in the retail sector, Tack Fat is well-poised to tap into the promising mainland market by cooperating with Mudd USA to establish Mudd retail stores in China. In mid-January, the Mudd retail operation opened its first Mudd flagship store in Beijing and is currently under plan to open more Mudd retail stores and establish an extensive network in first and second tier cities. We expect that encouraging results is to be achieved in the short run.

Although the Group maintained strong growth momentum in its core manufacturing business by achieving strong double-digit growth in profit from operations, the Group recorded a loss in its associate company, Mudd USA, as a result of a decline in retail selling price and profit margins brought forth by over supply upon the termination of worldwide quota restriction.

Net profit attributable to shareholders amounted to HK\$133 million, a slight decrease of 14.7% as compared to same period in 2005. However, considering the Group's strong financial position and positive business outlooks, the Board recommended a final dividend of HK1.81 cents per share. Together with an interim dividend of HK1.2 cents per share, the Group's total dividend for the year 2005/06 was HK3.01 cents. (2005: HK3.2 cents per share)

Tack Fat will continue to make consistent dedication to achieving the development strategy stated in its 2002 IPO listing prospectus, in which the Group pledged to explore the PRC market and further strengthen its leading position as a global swimwear and casual wear manufacturer.

On behalf of the Group, I would like to express my sincere gratitude to our management and staff members for their loyal support and invaluable contribution to our success over the years. We endeavour to excel in the international arena and generate healthy returns to our shareholders.

For and on behalf of the Board,

Kwok Wing

Hong Kong, 27 July 2006