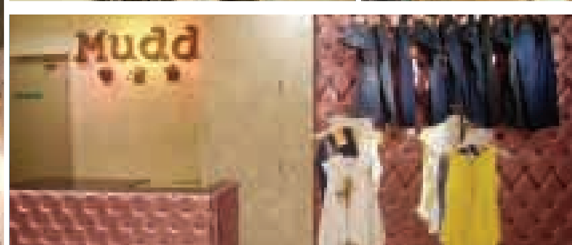
MANAGEMENT DISCUSSION AND ANALYSIS



LEADING THE WORLD'S SWIMWEAR & CASUAL WEAR

BUSINESS REVIEW AND PROSPECTS

INDUSTRY OVERVIEW

The worldwide garment manufacturing industry continued to be affected by the quota uncertainties arising from the trading disputes between China and the U.S., which led to a turbulent market condition.

Despite the unfavorable business environment, Tack Fat, a large-scale manufacturer with an international client base, specialized capabilities and best in class level of market competitiveness, capitalized on the prevailing trend of outsourcing to Asian countries, successfully maintained its leading position and recorded positive growth in both turnover and profit from operations.

OPERATIONS REVIEW

For the year ended 31 March 2006, the Group's turnover and profit from operations reached $1,655,166,000 and $262,346,000, representing year-on-year growth of 8.3% and 35.1% respectively. Increases in both turnover and profit from operations were mainly attributable to the growth in sales from owned OEM/ODM operations and the Group's successful production strategy of having dual production bases located in the PRC and Cambodia.

The increase in total sales of $126,167,000, or 8.3% was primarily due to the growth in sales from owned OEM/ODM operations. The Group's production base in Cambodia has been largely benefited from the trading disputes arose between the PRC and US/EU in 2005, which caused overseas customers to shift their production orders from the PRC to other unaffected countries, including Cambodia.

On the other hand, the sales derived from Mudd USA's sourcing operations decreased by 18%, mainly due to the fall in orders received from Mudd USA. Together with some non-operational factors, such as the changes in accounting policies resulting from adoption of new accounting standards and the increasing interest rate, the Group recorded a drop of 14.7% in net profit for the year under review.

As in the previous year, due to the Group's capacity constraint, the production of the majority of Mudd's orders was carried out by external subcontractors. The production carried out by the Group represented about 10% (2005: 15%) of total orders from Mudd. For those out-sourced orders, the Group paid the purchase price of the finished goods produced by the subcontractors and earned a trading margin of about 5%.

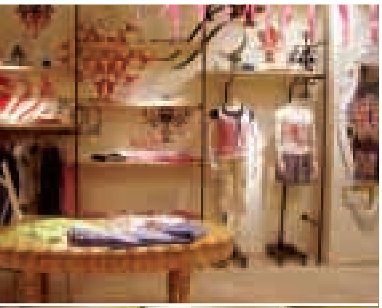
During the year, the Group continued to implement a number of cost control initiatives, enhance overall operational efficiency and fortify its cost leadership position. The Group's overall gross profit maintained a healthy margin at 26.5%, an increase of 2.6 percentage points when compared with the same period last year. Excluding the effect of low-margin subcontracting business, the profit margin of organic ODM/OEM business carried by own production stood at about 33.6% (2005: 30.7%).

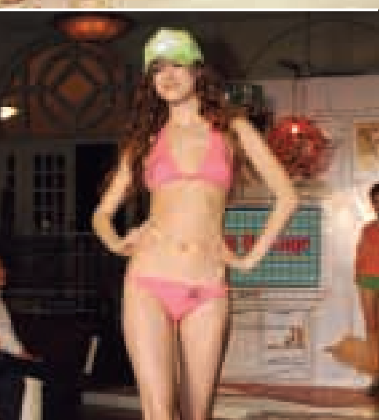
North America continued to be the Group's largest market, accounted for 82.4% of total turnover, followed by Europe and other markets, which contributed 13.0% and 4.6% of total turnover respectively. During the year under review, the Group's five largest customers accounted for 62.9% of total turnover (FY2004/2005: 53.2%).

Casual wear and swimwear, the Group's two core products, contributed 73.9% and 23.9% of total turnover respectively, while sportswear made up the remaining 2.2%. ODM and OEM businesses accounted for 40% and 35% of the Group's total turnover, while Mudd's subcontracting business accounted for 25% of total turnover.

Notwithstanding the challenging market environment, Tack Fat successfully captured new business opportunities and attained satisfactory sales performance. For the year ended 31 March 2006, sales volume amounted to 3,286,000 dozens, of which the sales volume of swimwear, casual wear and sportswear totaled 1,129,000 dozens, 2,102,000 dozens and 55,000 dozens, posting year-on-year increases of 8%, 11% and a drop of 10% respectively.

During the year under review, the Group continued to expand its production capacity with a view to meeting increased demand from the international market. At present, the Group has production bases in Cambodia and China with a gross floor area of over 90,000m^2 and a skilled workforce of more than 16,000 professionals. As of 31 March 2006, the Group's annual production capacity reached 1,048,000 dozens of swimwear, 1,250,000 dozens of casual wear and 63,000 dozens of sportswear at an overall utilization rate of over 97% (FY2004/2005: 98%).





Capitalizing on the Cambodian production base's extensive operational experience, stable and loyal workforce (with lower labor costs relative to China, Vietnam and Thailand), and low cost structure backed by economies of scale, the Group has developed a competitive edge in offering international customers timely delivery of quality products and services at reasonable prices.

In last year, the Group acquired an initial equity interest of 6.94% in Sino Legend Limited ("Sino Legend"), which holds 72% equity interest in Mudd (USA) LLC ("Mudd USA"). Mudd USA is a designer and wholesaler of girls and young women's jeans under Mudd brand in the U.S..

In April 2005, the Group acquired a further 43.06% equity interest in Sino Legend. As a result, Sino Legend and Mudd USA have become associates of the Group with effect from April 2005.

Following the worldwide termination of quota restrictions in early 2005, there was flooding of garment supply into the US market. The business of Mudd USA was affected by the magnified supply in the market and resulted in the fall of selling prices and profit margins. As a result, Mudd USA recorded a net loss of approximately $72 million for the year ended 31 March 2006.

SUBSEQUENT EVENTS

On 6 April 2006, Mudd USA, sold its assets relating to the business of marketing, licensing and managing the Mudd brand, trademarks, IP and related names worldwide (excluding Greater China) to the U.S. publicly listed company Iconix Brand Group, Inc ("ICONIX") (NASDAQ: ICON) at a consideration of US$88 million.

Mudd USA retains the exclusive right to use the Mudd trademark in connection with the design, manufacture, sale and distribution of garments in Greater China.

ICONIX's competencies are marketing, brand management and product development and it has extensive network with U.S. store chains. ICONIX is committed to increasing the brand value of Mudd in the U.S and the global market. It is believed that this transaction will directly and indirectly benefit Mudd USA and Tack Fat in various different aspects, including financially, operationally and strategically, and will also energize Mudd US wholesale and Mudd China retail businesses.

FUTURE PROSPECTS

The macro-landscape of the market remained uncertain. As market consolidation further intensifies, the global outsourcing trends prevail and trade disputes between China and the U.S. resolved, the management is prudently optimistic towards Tack Fat's performance in FY2007.

To fully capitalize on the quota and tariff exemptions granted to Cambodia by the U.S. and EU, Tack Fat will allocate a total of $100 million in capital expenditures in FY2007 to expand the production capacity in both Cambodia and the PRC. Expansion will take place in phases. The Group's major production facilities, accounted for 70% of total production, are located in Cambodia. Certain major hardware for facilities expansion was shipped to Cambodia ahead of time. According to the project timetable, the first phase of the production facility expansion plan will be completed in September 2006. Upon completion of all the phases of expansion, the Group's overall production capacity will be increased by approximately 15%, enabling the Group to meet the growing demand from its global customer base.

In addition to utilize an abundant supply of stable, productive low-cost labor, the Group will leverage the geographic advantages of its twin production bases and strategically optimize its product mix in order to alleviate the negative impact of quota uncertainties and enhance overall profitability.

In the PRC, the Group plans to cooperate with Mudd USA in opening Mudd retail stores to establish an extensive network and boost sales performance in PRC. Tack Fat will focus on extending its business reach to the PRC market and strengthening its leading position in the global swimwear and casual wear manufacturing industry. In face of robust economic conditions in the PRC, by the end of FY2007, the Mudd retail operation plans to open 80 stores, including 4 flagship stores and 76 shops-in-shop, in 20 key mainland cities, including Beijing, Shanghai, Tianjin, Shenyang, Wuhan and Nanjing.

The Mudd retail operation has appointed an experienced team of senior management to oversee overall operations. Through a series of new marketing and promotional activities, Tack Fat endeavors to bring affordable, young and trendy lifestyle fashions to a new generation of customers. Tack Fat is confident of its ability to develop the PRC market into a major contributor of new revenue and an important driver of future growth.

Looking to the future, Tack Fat will continue to capitalize on its unique competitive edge, strategically-located production bases and well-focused business model, with an aim to consolidate its leading market position and to provide its clients with fashionable high-quality swimwear, casual wear and sportswear while generating returns to shareholders.

FINANCIAL REVIEW

The Board of Directors has resolved to declare a final dividend of 1.81 cents per share. Together with an interim dividend of 1.2 cents per share, the total dividend for the year 2005/2006 was 3.01 cents per share (2004/2005: 3.2 cents).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's financial position remained strong. As at 31 March 2006, the Group's total assets were $1,901,912,000 and total current assets $995,614,000. As at that date, the Group's non-current and current liabilities totaled $705,452,000 and $358,260,000 respectively.

As at 31 March 2006, the Group's total bank borrowings amounted to $706,338,000. Most of the bank's borrowings and loans were denominated in Hong Kong dollars and US dollars bearing floating interest rates.

As at 31 March 2006, the Group had outstanding convertible bonds of $187,776,000. None of the convertible bonds were converted since their issue.

The gearing ratio, calculated by dividing the Group's total liabilities by its total assets, was 55.9% (2004/2005: 59.7%).

CASH FLOW

Net cash inflow in the amount of $36,097,000 was generated from operating activities, reflecting primarily contributions from the Group's core OEM/ODM business. The net decrease in cash and cash equivalents of $103,546,000 was primarily resulted from capital expenditure of $74,255,000 and increase in interest costs of $30,225,000.

FINANCING

In February 2006, the Group drawn down a new 3-year syndicated loan of $480 million arranged by Sumitomo Bank and Fubon Bank. Part of the loan proceeds amounting to $400 million was used to repay/refinance the old syndicated loan and the remaining $80 million is for capital expenditure and working capital. The new syndicated loan bears interest at HIBOR + 0.65% and is repayable by three semi-annual installments in ratio of 20%, 30% and 50% starting in February 2008. The interest rate of the new loan is lower than the old one of HIBOR + 1.35%.

On 10 April 2006, the Group arranged and issued through placement agent, BNP Paribas, 227,500,000 new shares at an issue price of $1.03 per share. The net proceeds, which amounted to $229 million are intended to be applied as follows: (1) $100 million for the expansion of the Group's production capacity in Cambodia; (2) $50 million for investment in Mudd retail operations in the PRC; and (3) $79 million for repayment of debts.

Interest expenses for export loans, trust receipt loans and overdraft increased significantly by 120%, 124% and 166% during the year. Such increases reflected mainly an average increase in borrowing rate of about 2% and increase in purchases of about 8%.

The term loan interest increased to $22,533,000 from $9,673,000 last year. This reflected mainly the increase in HIBOR from 2.84% in the last year to 4.53% in this reporting year.

Convertible bonds interest also increased significantly from $1,102,000 last year to $12,826,000, reflecting mainly the effect on the adoption of new accounting standard on convertible bond. The interest expense is now recorded at the estimated fair market rate of approximately 7% instead of the coupon rate of 1% interest.

EMPLOYEES

As at 31 March 2006, the Group employed about 16,000 full time employees in Hong Kong, Cambodia and the PRC. The Group remunerates its employees based on performance and experience.

CHARGES ON GROUP ASSETS

As at 31 March 2006, none of the owned fixed assets of the Group were utilized as security for the Group's borrowings.

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 risks.