MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Industry Overview

The large-scale manufacturer, Tack Fat with its international client base, coupled with specialized production capacities and a competitive edge among its peers, continues to leverage on the trend of outsourcing to neighboring Asian countries, recording positive growth in both turnover and operational profit while maintaining its leading status.

Operations Review

For the six months ended 30 September 2006, the Group's turnover and profit from operations amounted to HK$910,623,000 and HK$111,278,000, representing growth rates of 17.7% and 37.1% respectively from the same period of previous year. Increases in both turnover and profit from operations were attributed to continued growth in sales from the Group's OEM/ODM operations and the Group's strong production capacity resulting from its successful strategy of dual production bases located in Cambodia and the PRC.

The Group continued to implement a number of cost control measures in the period under review, strengthening its overall operational efficiency and its cost leadership status. The Group maintained a healthy margin of overall gross profit at 24.6%, representing an increase of 1.0 percentage points compared with the same period of previous year.

The North American continent continued to be the Group's largest market, accounting for 77% of total turnover, followed by Europe and other regional markets, representing 15% and 8% respectively. The Group's five largest customers comprising branded manufacturers and chained department stores contributed to 53% of total turnover.

The Group continued to expand its production capacity during the period under review in order to meet increasing demands from the international market. Currently, the Group operates production bases in Cambodia and the PRC with a gross floor area of over 120,000 m^2 and a skilled workforce of over 18,000 employees. As of 30 September 2006, Tack Fat's annual production capacity amounted to 1,125,000 dozens of swimwear, 1,365,000 dozens of casual wear and 63,000 dozens of sportswear at an overall utilization rate of 95%.

The solid operational experience, loyal and stable wokforce, and low cost structure of its Cambodian production base have contributed to the Group's competitive edge in the market, offering its international clientele timely delivery of quality products and services at affordable prices.

Business Review and Prospects (Continued)

Future Prospects

On a macro perspective, the future outlook of the global garment manufacturing market remains positive. The market consolidation and the prevalence of global outsourcing trends as well as the resolving of trade disputes between China and the US/EU are all positive indicators for the coming financial year. In view of these factors, the management is optimistic about Tack Fat's performance in FY2007.

In the second half of the year, Tack Fat will continue to expand its production base in Cambodia in order to leverage on the quota and tariff exemptions granted to Cambodia by the US and the EU. To adapt to the PRC quota arrangements and enhance overall profitability, the Group will capitalize on the geographical advantages of its twin production bases in Cambodia and the PRC to strategically optimize its product mix.

In the Greater China region, the Group will cooperate with Mudd USA to open an extensive network of Mudd retail outlets to boost sales in the PRC. With spending power on the rise and the emergence of a burgeoning middle class in China, Tack Fat will focus on extending its reach in the China market and strengthening its prominent position in the global casual wear and swimwear manufacturing industry. By the end of FY2007, the Group plans to open about 80 Mudd retail outlets in key mainland cities, including Beijing, Shanghai, Tianjin, Shenyang and Nanjing.

Since the opening of its first flagship Mudd retail outlet in Beijing in January 2006, the Group has opened over 50 Mudd retail outlets in various key cities in the PRC. The Mudd retail operation comprises an experienced management team backed by the New York-based Mudd design and sales teams to oversee overall operations. Tack Fat strives to bring young and trendy lifestyle fashions at affordable prices to a new generation of consumers in Greater China. The Group believes that the PRC market will be a new and compelling growth driver for the coming years.

Looking ahead to the future, Tack Fat will continue to leverage on its competitive edge and well-positioned business model as well as its strategically located production bases, aiming to consolidate its leading position and to provide the highest quality casual wear and swimwear fashions for its clients while generating shareholder returns.

FINANCIAL REVIEW

For the six months ended 30 September 2006, Tack Fat recorded a growth in both turnover and net profit primarily as a result of the growth in its core OEM/ODM business. Turnover increased from HK$773,451,000 for the first half of the previous year to HK$910,623,000, representing an increase of 17.7%. Gross profit increased by 22.7% to HK$223,771,000 as compared to HK$182,356,000 in the corresponding period of the previous year. Profit attributable to equity holders of the Company increased by 27.7% from HK$70,935,000 to HK$90,587,000.

Gross profit margin slightly improved to 24.6%, as compared to 23.6% in the corresponding period of the previous year, primarily due to savings from better cost controls over production expenditures and overheads.

The Board of Directors has resolved to declare an interim dividend of HK1.2 cents per share (1H 2005/06: HK1.2 cents) for the period.

Liquidity, Financial Resources and Capital Structure

The Group's financial position was healthy. As at 30 September 2006, the Group's total assets and total current assets were HK$2,109,076,000 and HK$1,113,410,000 respectively. As at that date, the Group's non-current and current liabilities totalled HK$694,669,000 and HK$276,437,000 respectively.

The gearing ratio, calculated by dividing the Group's total liabilities by its total assets, was 46.0% (31 March 2006: 55.9%). The Group's total bank borrowings amounted to HK$621,473,000. Most of the bank borrowings are denominated in Hong Kong dollars and US dollars with floating interest rate.

Cash Flow

Net cash inflow in the amount of HK$112,570,000 was generated from operating activities, reflecting primarily growth in the Group's core business. There was a net increase in cash and cash equivalents of HK$168,950,000, which was primarily attributable to the cash inflow from operating activities and proceeds from the Company's issue of new shares in April 2006.

Employees

As at 30 September 2006, the Group employed about 18,000 full time employees in Hong Kong, Cambodia and the PRC. The Group remunerates its employees based on performance and experience.

Exposures 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 period. The Group is not exposed to material exchange risks.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Contingent Liabilities

There have been no significant adverse changes in the Group's contingent liabilities since 31 March 2006.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Interim Results and Dividend

The Board of Directors has declared an interim dividend of HK1.2 cents per share to shareholders whose names appear on the register of members of the Company at the close of business on 15 January 2007. The dividend will be paid on or about 28 February 2007.

Closure of the Transfer Books and Register of Members

The Transfer Books and Register of Members of the Company will be closed on 15 January 2007 on which day no transfer of shares of the Company will be registered.

In order to qualify for the entitlement of the proposed interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 12 January 2007.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 2006, the interests of the directors and the chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

			Ordinary of HK$0.1 each	
Beneficial interests	**Position**	**Corporate interests**	**Total number of shares held**	**Percentage of total issued shares**
Mr Kwok Wing	Long	762,424,000	762,424,000 *(note)*	43.33

Note: These shares are held as to 652,800,000 shares by Efulfilment Enterprises Limited and as to 109,624,000 shares by Sharp Asset Holdings Limited. Mr Kwok Wing beneficially owns 50% of the issued share capital of Efulfilment Enterprises Limited and 100% of Sharp Asset Holdings Limited. Ms Wan Lai Ngan, being the spouse of Mr Kwok Wing, is deemed to be interested in the shares beneficially owned by Mr Kwok Wing pursuant to the SFO.