

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The first half of fiscal year 2004/05 proved to have sustained growth for the garment industry resulting from the continuation of a promising economic environment. The garment industry continued its journey for growth. Tack Fat leveraging on its solid business foundation and experience in the past, established itself as a renowned and leading swimwear and casual wear manufacturer offering quality products. Riding on China's robust economic growth, the Group recorded satisfactory growth in turnover and net profit, also attributable to continuous increases in sales contracts and new ODM/OEM clients resulting from market consolidation, a global outsourcing trend, growing customer base, as well as expanding manufacturing facilities and production lines.

Operating Review

Tack Fat established a reliable name for itself by offering timely delivery of quality designs with exceptional product standards. During the period under review, the Group placed great emphasis on enlarging its annual production capacity by applying stringent quality and cost control measures. The Group's two production bases in Cambodia and the PRC have a gross floor area of over 90,000 m², a skilled workforce of over 15,000 employees and a utilization rate of over 97%. Its current production capacity in first half of this year increased to 380,000 dozen swimwear, 551,000 dozen casual wear and 37,000 dozen sportswear, as compared to 310,000 dozens, 470,000 dozens and 36,000 dozens respectively in the corresponding period last year.

As an ODM/OEM partner of over 30 esteemed brands and department stores and a renowned manufacturer of quality swimwear and casual wear, Tack Fat continued to generate increasing sales orders from its global customers spanning across the US, Europe and the PRC. During the period under review, the Group's sales volume of swimwear, casual wear and sports wear amounted to a total of 450,000 dozens, 874,000 dozens and 34,000 dozens respectively. Sales from casual wear contributed to 73% of the Group's total turnover, followed by swimwear with 24% and sportswear with 3%. North America remained as the largest customer and contributed to 77% of the total turnover, with Europe and other markets contributed remaining 16% and 7% respectively.

Future Prospects

China's manufacturing industry has demonstrated strong momentum for growth in the coming years together with the planned quota elimination at the beginning of 2005 will take Tack Fat to even newer heights. Tack Fat aims to expand through organic growth and acquisition growth applications.

Outsourcing has always been popular amongst global brands and Tack Fat has proved to be a favoured partner with its unrivaled standing as a leading swimwear and casual wear manufacturer in Cambodia and the PRC. Tack Fat has always placed great importance in improving its production capacity. The Group aims to further enhance production capacity in Cambodia and in the PRC by improving operational efficiency and implying stringent cost controls and by ultimately achieving economies of scale.

In order to maintain growth in future, the Group will expand the production capacity as well as acquisition of Mudd (USA) LLC ("Mudd"), principally engaged in design, manufacturing, sales and distribution and brand management. The acquisition of a well known brand will complement the Group's existing ODM/OEM business and offer multiple sources for enhancing long term profitability. The Group has commenced an exclusive manufacturing agreement with Mudd, through the Group's own production or by sub-contracting for five years commencing 21st May, 2004. Mudd also has future growth prospects in the US, Europe and Asia.

The expected quota elimination in early 2005 is expected to allow Tack Fat to increase its exports to the existing client base worldwide. Tack Fat will capture greater business opportunities, maximizing its tax and quota advantages. The second half of the fiscal year 2004/05 is considered as the peak season for the Group and its sales activities are expected to be higher than that in the first half of the year. It foresees the performance in the second half to be even better than in the beginning of the year. Highly regarded for its expertise in swimwear designs and scalable production capacity, Tack Fat is aggressively consolidating its leading position in swimwear and casual wear manufacturing, with loyal customers and steady orders. Tack Fat foresees the year 2004/05 to be a prosperous, productive and a profitable one for the Group. Most importantly, the Group performs to the best of its abilities for attaining future growth, with an aim to generate fruitful returns for its supportive shareholders at the end of the year.