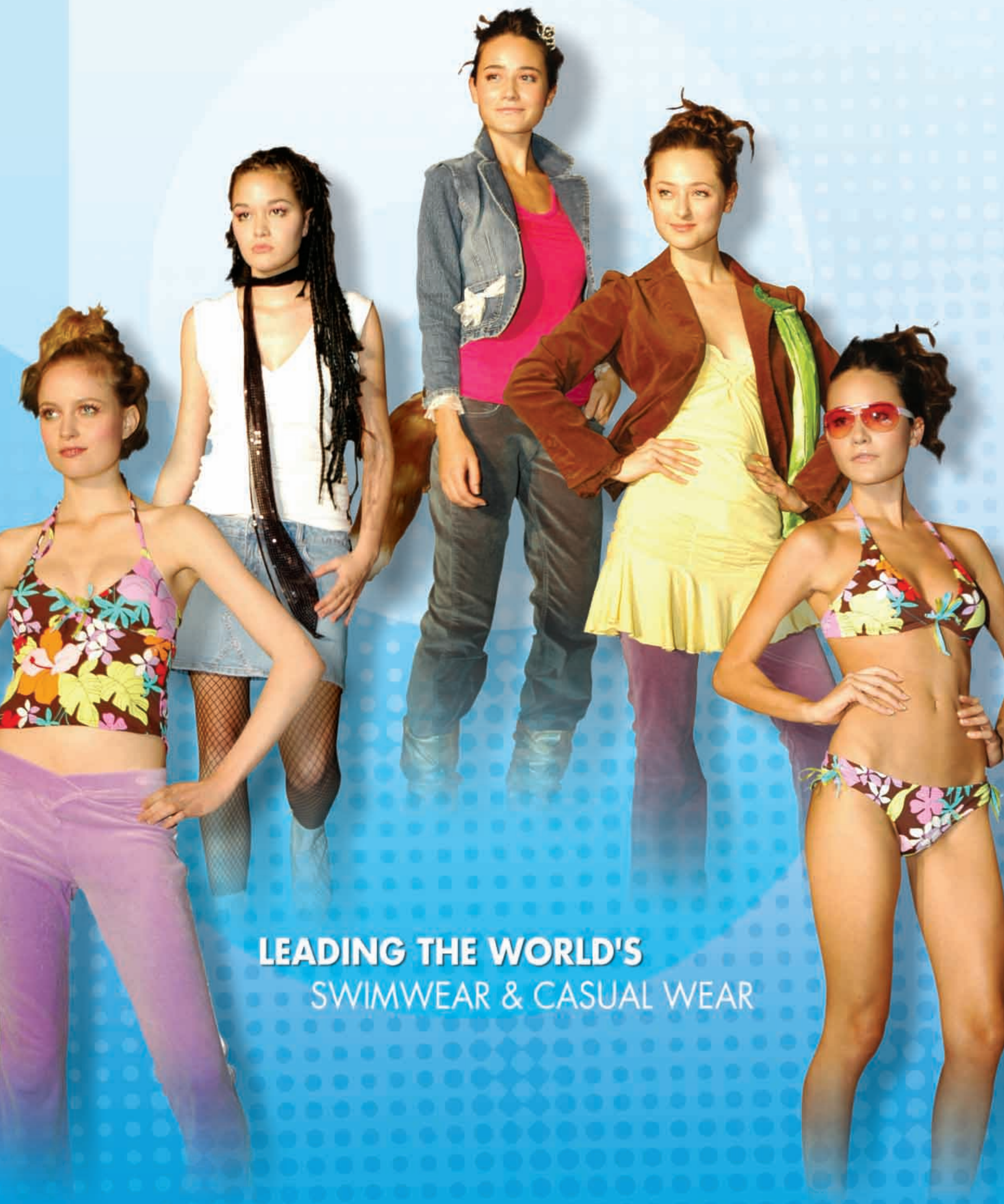
MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW AND PROSPECTS

Industry Overview

With sustainable improvement in the global economy, increasing consumer confidence and the immense opportunities brought forth by the textile quota elimination in January 2005, the global garment manufacturing industry has maintained encouraging growth, providing a promising business environment for robust development.

As the global outsourcing trend continues to prevail, China, known as "the World's Factory" offering low costs and abundant supply of work force that enabled scalable production, has become the target of shifting manufacturing base by international renowned brands. Hence, intense competition led to market consolidation, which favoured manufacturers with solid business foundation, sound financial position and extensive clientele, like Tack Fat.

Operations Review

For the year ended 31 March 2005, turnover amounted to HK$1,528,999,000 and net profit amounted to HK$154,719,000, representing year-on-year growth of 54.5% and 27.8% respectively. The impressive growth in turnover and net profit was mainly attributable to increasing sales orders from existing clients and new clients gained during the year, including Mudd, primarily as a result of market consolidation and global outsourcing trend.

In term of geographical distribution, North America remained as the Group's largest market, accounted for 77.8% of total turnover, followed by Europe and other markets which contributed to 16.4% and 5.8% of total turnover respectively. During the year, the Group's top five largest customers accounted for 53.4% of total turnover (FY2003/2004: 42.1%).

Casual wear and swimwear, being the core products of the Group's product portfolio, made up 73.0% and 24.7% of total turnover respectively, while sportswear contributed to the remaining 2.3%. With regard to business nature, ODM and OEM businesses represented 38.4% and 61.6% of the Group's total turnover. For the year under review, Mudd orders accounted for over 40% of the Group's OEM turnover and production for a major portion of such orders have been outsourced through subcontractors engaged by the Group.

Management Discussion and Analysis

Riding on the profitable market environment, Tack Fat attained remarkable sales performance during the year under review. Sales volume amounted to 3,001,000 dozens, of which core products, namely swimwear and casual wear, recorded sales volume reaching 1,050,000 dozens and 1,890,000 dozens respectively, showing respective year-on-year increases of 6.3% and 82.1%. Sales volume for sportswear totaled 61,000 dozens, an increase of 1.7% as compared to that for the previous year.

During the year, the Group endeavored to strengthen its production capacity through the implementation of stringent cost control measures and enhancement in overall operational efficiency. Currently, the Group has two production bases strategically located in Cambodia and China, with gross floor area of approximately 90,000m^2 and a professional workforce of over 15,000 skillful staff members. As at 31 March 2005, the Group's advanced production facilities are capable of an annual production capacity of 980,000 dozens of swimwear, 1,120,000 dozens of casual wear and 63,000 dozens of sportswear at a total utilization of over 98% (FY2003/2004: 97%).

Future Prospects

In view of growing market demand, Tack Fat will deploy a considerable amount of resources in enhancing its production facilities and strengthening production capacity. It is expected that the production capacity of swimwear and casual wear will increase prominently by coming year. Besides, the Group will continue to pursue for excellence in product quality, impeccable services and higher standard of operation efficiency by adopting stringent quality and cost controls.

Despite the uncertainty brought forth by the elimination of textile quota system in January 2005, there was no substantial impact on the Group's business. By leveraging on its diversified production facilities in Cambodia and the PRC as well as strategically optimized production mix, Tack Fat is well-poised to achieving even greater success in the coming future.

While consolidating its existing business foundation, Tack Fat proactively sought after potential acquisition opportunities, paving its way for business expansion and future growth. The Group completed the acquisition of 36% interest in Mudd, America's leading jeans wear brand for teenage girls and young ladies, in April 2005.

During the year under review, the direct manufacturing and sub-contracting business with Mudd already generated satisfactory contribution to the Group. As Mudd is strategically planning for developing retail business, targeting to open retail stores in key global cities in a number of formats, it is believed that the collaboration with Mudd will enable the Group to extend its business reach to the realm of retail business and explore new revenue sources.

Looking ahead, Tack Fat will capitalize on the immense potential generated from the textile quota elimination and will strive to increase its exports to existing client base, with the view of fortifying its leading market position, providing quality and fashionable swimwear and casual wear worldwide and, ultimately, creating fruitful returns to our supportive shareholders.

FINANCIAL REVIEW

Tack Fat recorded a promising double-digit growth in both turnover and net profit as a result of favourable industry development, sustainable economies of scale, improved operational efficiency and turnover derived from the exclusive manufacturing agreement with Mudd which commenced in the year. Turnover surged to HK$1,528,999,000 for the year 2004/2005 from HK$989,413,000 for the year 2003/2004, representing an increase of 54.5%. Gross profit increased by 12.4% to HK$363,980,000, as compared to HK$323,815,000 in the previous year. Profit attributable to shareholders increased by 27.8%, from HK$121,049,000 to HK$154,719,000.

Due to outsourcing of part of the Mudd orders amounting to 28% of turnover in the year, lower gross profit margin and net profit margin of 23.8% and 10.1% respectively were recorded. Basic earnings per share were HK10.65 cents (2003/2004: HK8.77 cents).

Management Discussion and Analysis

The Board of Directors has resolved to declare a final dividend of HK2 cents per share. Together with an interim dividend of HK1.2 cents per share, the total dividend for the year 2004/2005 was HK3.2 cents per share (2003/2004: HK2.9 cents).

Liquidity, Financial Resources and Capital Structure

The Group's financial position remained strong. As at 31 March 2005, the Group's total assets were HK$1,720,770,000 and total current assets HK$1,313,818,000. As at that date, the Group's non-current and current liabilities totalled HK$557,527,000 and HK$464,310,000 respectively. The Group's total bank borrowings amounted to HK$637,710,000. Most of the bank's borrowings were denominated in Hong Kong dollars and US dollars bearing floating interest rates. During the year, the Group issued convertible bonds of HK$234,000,000 to independent investors. The gearing ratio, calculated by dividing the Group's total liabilities by its total assets, was 59.4% (2003/2004: 55.4%).

Cash Flow

Net cash inflow in the amount of HK$121,640,000 was generated from operating activities, reflecting primarily growth in the Group's core business. The net decrease in cash and cash equivalents amounted to HK$84,196,000, resulting primarily from the payment of refundable acquisition deposit and other acquisition costs for Mudd.

Employees

As at 31 March 2005, the Group employed over 15,000 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 2005, none of the owned fixed assets of the Group were utilised 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.