



德發集團
TACK FAT GROUP

interim report 2007/08 中期報告

Leading the world's
Swimwear &
Casual Wear



德發集團國際有限公司
Tack Fat Group International Limited

(股份代號: Stock Code: 0928)

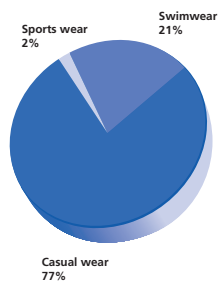
Financial Highlights

- The Group's turnover increased by 30% to approximately HK\$1,183.1 million as compared to approximately HK\$910.6 million for the corresponding period of last year.
- Gross profit increased by 46% to approximately HK\$326.9 million as compared to approximately HK\$223.8 million for the corresponding period of last year.
- Gross profit margin was 27.6% (2006: 24.6%) and net profit margin was 9.3% (2006: 9.9%).
- Profit attributable to equity holders of the Company approximately HK\$108.6 million, representing an increase of 19.9% over the corresponding period of last year. Basic earnings per share was HK5.14 cents (diluted earnings per share HK4.95 cents).
- The Board of Directors did not recommend the payment of interim dividend (2006: HK1.2 cents per share) for the period.

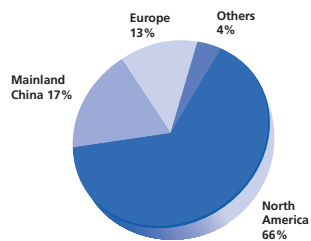
Sales Analysis

For the six months ended 30 September 2007

Turnover Breakdown by Products



Turnover Breakdown by Regions



Independent Interim Review Report

To the Board of Directors of

Tack Fat Group International Limited

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 3 to 15, which comprises the consolidated balance sheet of Tack Fat Group International Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 September 2007 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provision thereof and Hong Kong Accounting Standard 34 ("HKAS 34"), "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 ("HKSRE 2410"), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without modifying our review conclusion, we draw to your attention that the comparative consolidated income statement, the comparative consolidated statement of changes in equity and the comparative condensed consolidated cash flow statement for the six months ended 30 September 2006 disclosed in the interim financial information have not been reviewed in accordance with HKSRE 2410.

NCN CPA Limited

Certified Public Accountants

Hong Kong, 21 December 2007

Choi Man Chau, Michael

Practising Certificate Number P01188

Consolidated Income Statement

For the six months ended 30 September 2007
(Expressed in Hong Kong dollars)

| | Note | Unaudited Six months ended 30 September | |
|--|------|---|----------------|
| | | 2007 \$'000 | 2006 \$'000 |
| Turnover | 2 | 1,183,147 | 910,623 |
| Cost of sales | | (856,238) | (686,852) |
| Other revenue | | 326,909 | 223,771 |
| Selling expenses | | 10,681 | 3,816 |
| Administrative expenses | | (140,656) | (98,245) |
| Administrative expenses | | (46,513) | (18,064) |
| Profit from operations | | 150,421 | 111,278 |
| Finance costs | | (34,183) | (23,842) |
| Share of profits less losses of associates | 7 | – | 12,682 |
| Profit before taxation | 3 | 116,238 | 100,118 |
| Income tax | 4 | (6,084) | (9,531) |
| Profit after taxation | | 110,154 | 90,587 |
| Attributable to: | | | |
| Shareholders of the Company | | 108,574 | 90,587 |
| Minority interest | | 1,580 | – |
| Dividend attributable to the period | 5(a) | | |
| Interim dividend declared after the balance sheet date | | – | 21,117 |
| Earnings per share | 6 | | |
| Basic | | 5.14 cents | 5.23 cents |
| Diluted | | 4.95 cents | 4.83 cents |

The notes on pages 3 to 15 form part of this interim financial report.

Consolidated Balance Sheet

At 30 September 2007
(Expressed in Hong Kong dollars)

| | Note | Unaudited 30 September 2007 \$'000 | Audited 31 March 2007 \$'000 |
|---|------|---|---------------------------------------|
| Non-current assets | | | |
| Fixed assets | | 499,974 | 363,869 |
| Interest in leasehold land held for own use under operating leases | | 102,468 | 102,410 |
| Interest in associates | 7 | 546,497 | 546,497 |
| Other financial assets | 8 | 79,100 | 94,100 |
| Intangible assets | 14 | 243,245 | – |
| | | 1,471,284 | 1,106,876 |
| Current assets | | | |
| Inventories | | 512,345 | 313,670 |
| Trade and other receivables | 9 | 728,535 | 833,108 |
| Cash and cash equivalents | | 266,389 | 340,335 |
| | | 1,507,269 | 1,487,113 |
| Current liabilities | | | |
| Trade and other payables | 10 | 109,609 | 108,099 |
| Bank loans and overdrafts | | 394,838 | 287,188 |
| Obligations under finance leases | | 8,281 | 6,914 |
| Current taxation | | 32,004 | 34,227 |
| Dividend payable | | 43,452 | – |
| | | 588,184 | 436,428 |
| Net current assets | | 919,085 | 1,050,685 |
| Total assets less current liabilities | | 2,390,369 | 2,157,561 |
| Non-current liabilities | | | |
| Bank loans | | 440,384 | 384,000 |
| Convertible bonds | | 119,396 | 157,720 |
| Obligations under finance leases | | 35,357 | 37,932 |
| Provision for long service payments | | 1,800 | 1,800 |
| Deferred tax liabilities | | 260 | 237 |
| | | 597,197 | 581,689 |
| NET ASSETS | | 1,793,172 | 1,575,872 |
| CAPITAL AND RESERVES | | | |
| Share capital | 11 | 217,261 | 200,000 |
| Reserves | 11 | 1,542,726 | 1,375,872 |
| Total equity attributable to shareholders of the Company | | 1,759,987 | 1,575,872 |
| Minority interests | | 33,185 | – |
| TOTAL EQUITY | | 1,793,172 | 1,575,872 |

The notes on pages 3 to 15 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007
(Expressed in Hong Kong dollars)

| | Note | Unaudited Six months ended 30 September | |
|---|------|---|----------------|
| | | 2007 \$'000 | 2006 \$'000 |
| Total equity at 1 April | | 1,575,872 | 838,200 |
| Net income recognised directly in equity | | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | | (4,991) | – |
| Net profit for the period | | 108,574 | 90,587 |
| Total recognised income and expense for the period | | 103,583 | 90,587 |
| Dividends declared | 5(b) | (43,452) | (31,851) |
| Movements in shareholders' equity arising from capital transactions with equity holders of the Company | | | |
| – Issue of new shares | | 13,881 | 229,381 |
| – Shares issued on exercise of share options | | 66,660 | – |
| – Shares issued on conversion of convertible bonds | | 43,443 | 11,653 |
| | | 123,984 | 241,034 |
| Total equity attributable to shareholders of the Company | | 1,759,987 | 1,137,970 |
| Minority interests | | 33,185 | – |
| Total equity as at 30 September | | 1,793,172 | 1,137,970 |

The notes on pages 3 to 15 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007
(Expressed in Hong Kong dollars)

| | Unaudited | |
|--|----------------------------------|----------------|
| | Six months ended 30 September | |
| | 2007 \$'000 | 2006 \$'000 |
| Cash generated from operations | 183,747 | 126,343 |
| Tax paid | (8,307) | (13,773) |
| Net cash from operating activities | 175,440 | 112,570 |
| Net cash used in investing activities | (454,578) | (88,201) |
| Net cash generated from financing activities | 200,359 | 144,581 |
| Net (decrease)/increase in cash and cash equivalents | (78,779) | 168,950 |
| Cash and cash equivalents at 1 April | 335,940 | 175,869 |
| Cash and cash equivalents at 30 September | 257,161 | 344,819 |

The notes on pages 3 to 15 form part of this interim financial report.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 21 December 2007.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 March 2007. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations).

The interim financial report is unaudited and has been reviewed by the auditors and audit committee of the Company.

The financial information relating to the financial year ended 31 March 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2007 are available from the Company's registered office.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2007, except for those new accounting policies adopted in the current period as described below:

Goodwill

Goodwill represents the excess of purchase consideration over the fair values of the Group's share of net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment or where there are indications of possible impairment and is carried at net carrying amount less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Trademarks, brand names and retail network

Trademarks, brand names and retail network estimated to have indefinite useful lives are not subject to amortisation. Trademarks, brand names and retail network having indefinite useful lives are tested annually for impairment or where there are indications of possible impairment and are carried at net carrying amount less accumulated impairment losses.

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the HKICPA that are relevant to its operations and effective for annual reporting period beginning on 1 April 2007. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior periods.

1 Basis of preparation (Continued)

The following new and revised Standards and Interpretations have been issued by the HKICPA but are not effective for financial year ending 31 March 2008 and have not been early adopted:

| | |
|-------------------|---|
| HKAS 23 (Revised) | Borrowing Costs ⁽¹⁾ |
| HKFRS 8 | Operating Segments ⁽¹⁾ |
| HK(IFRIC)-Int 12 | Service Concession Arrangements ⁽²⁾ |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes ⁽³⁾ |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁽²⁾ |

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2009

⁽²⁾ Effective for annual periods beginning on or after 1 January 2008

⁽³⁾ Effective for annual periods beginning on or after 1 July 2008

2 Segmental information

During the period, the Group actively developed its retailing business in Mainland China. An analysis of the Group's turnover by business segment for the six months ended 30 September 2007, together with comparatives figure is set out below:

| | Unaudited Apparel Manufacturing Business | | Unaudited Retail Business | | Unaudited Consolidated | |
|--|---|----------------|------------------------------|----------------|---------------------------|----------------|
| | Six months ended 30 September | | | | | |
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | 990,598 | 891,378 | 192,549 | 19,245 | 1,183,147 | 910,623 |
| Segment results | 149,511 | 135,490 | 22,299 | 3,020 | 171,810 | 138,510 |
| Unallocated corporate expenses | | | | | (21,389) | (27,232) |
| Profit from operation | | | | | 150,421 | 111,278 |
| Finance costs | | | | | (34,183) | (23,842) |
| Share of profits less losses of associates | | | | | – | 12,682 |
| Profit before taxation | | | | | 116,238 | 100,118 |
| Income tax | | | | | (6,084) | (9,531) |
| Profit after taxation | | | | | 110,154 | 90,587 |

An analysis of the Group's turnover by geographical location of the customers is set out below:

| | Unaudited Group's turnover Six months ended 30 September | |
|----------------|---|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| North America | 781,527 | 698,551 |
| Mainland China | 192,549 | 19,245 |
| Europe | 158,044 | 137,564 |
| Other regions | 51,027 | 55,263 |
| | 1,183,147 | 910,623 |

3 Profit before taxation

Profit before taxation is arrived at after charging:

| | Unaudited Six months ended 30 September | |
|--|---|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| (a) <i>Finance costs:</i> | | |
| Interest on bank and other borrowings wholly repayable within five years | 27,994 | 20,654 |
| (b) <i>Other items:</i> | | |
| Cost of goods sold | 856,238 | 686,852 |
| Depreciation and amortisation of fixed assets | 24,822 | 24,257 |

4 Income tax

| | Unaudited Six months ended 30 September | |
|--|---|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Provision for Hong Kong Profits Tax for the period | 6,060 | 5,498 |
| Provision for overseas tax | 24 | 4,307 |
| Deferred tax benefit relating to the origination and reversal of temporary differences | - | (274) |
| | 6,084 | 9,531 |

Provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

Certain subsidiaries in the People's Republic of China ("PRC") are granted tax exemption to PRC tax.

The Group's subsidiaries in Cambodia are exempted from Cambodian income tax for the period.

5 Dividends

(a) *Dividends attributable to the period*

| | Unaudited Six months ended 30 September | |
|--|---|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Interim dividend was not recommended by the Board of Directors (2006: HK1.2 cents) | - | 21,117 |

5 Dividends (Continued)

(b) Dividends attributable to the previous year, approved and accrued during the period

| | Unaudited Six months ended 30 September | |
|---|---|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Final dividend of HK2 cents per share in respect of the previous year, approved and accrued during the period (2006: HK1.8 cents) | 43,452 | 31,851 |

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the period ended 30 September 2007 is based on the profit attributable to equity holders of the Company of \$108,574,000 (2006: \$90,587,000) and the weighted average number of ordinary shares of 2,111,792,000 shares (2006: 1,733,110,000 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 September 2007 is based on the adjusted profit attributable to equity holders of the Company of \$109,397,000 (2006: \$96,436,000) and the weighted average number of ordinary shares of 2,211,639,000 shares (2006: 1,996,288,000 shares) after adjusting for the effects of all dilutive potential ordinary shares.

7. Interest in associates

On 13 October 2007, the Group entered into a settlement agreement with Lung Investment Holding, LLC ("Lung Investment"), Sino Legend Limited and Mudd (USA) LLC pursuant to which all the preferred shares in the share capital of Sino Legend Limited held by the Group (the "Sino Legend Interests") shall be redeemed by Sino Legend Limited (the "Settlement Agreement"). The consideration for the redemption shall be satisfied by the payment of US\$16,000,000 (including full refund of US\$10 million in respect of the option to acquire an additional 20.8% equity interest in Sino Legend Limited) in cash and the transfer of the entire issued share capital of a new company, which shall hold 100% of the exclusive rights (including ownership, propriety, licensing or other rights) of the Mudd family of Marks ("Trade Marks") in Greater China and a 50% joint venture right to exploit the Trade Marks in Asia (other than Greater China) and the Middle East, to the Group (collectively, the "Consideration"). As at the date of this report, the agreement has not yet been completed. For further details, please refer to the Company's circular dated 10 December 2007.

Pursuant to the profit guarantee given by Lung Investment in the sale and purchase agreement dated 26 July 2004 (as supplemented by six supplemental agreements) and entered into between Newest Global Limited, a wholly-owned subsidiary of the Company and Lung Investment (the "2004 Agreement"), Lung Investment has guaranteed that the aggregate audited consolidated/combined net profits before tax, charges for goodwill, minority interest and any extraordinary or exceptional items of the Sino Legend Limited and its subsidiaries (the "Sino Legend Group") for the period commencing from 21 May 2004 up to and including 31 March 2007 (the "Audited Profits") will not be less than US\$108 million as guaranteed. Based on the financial information available to the Group, the Group estimated that Lung Investment would be required to pay to the Group approximately US\$26.6 million (or approximately HK\$207 million), which is calculated based on the Audited Profits excluding the gain on the sale of trademarks and customer relationships of about US\$23.5 million and the gain on the sale of marketable securities of about US\$8.9 million, as compensation (the "Compensation").

7. Interest in associates (Continued)

Pursuant to the terms of the Settlement Agreement, Lung Investment shall be released and discharged absolutely from all and any claims, demands, liabilities, obligations, covenants, undertakings, warranties, losses, damages, costs and expenses whatsoever or otherwise arising out of or in connection with its profit guarantee under the 2004 Agreement. Accordingly, save for the Consideration to be received for the redemption of the Sino Legend Interests, the Group will no longer be entitled to share (a) the results of the Sino Legend Group for the period from 1 April 2007 to 30 September 2007; and (b) the net assets of the Sino Legend Group as at 30 September 2007; or to receive a separate consideration with respect to the Compensation.

Taking into account the Settlement Agreement, the Group considers that it is best to determine the fair value of its Sino Legend Interests with reference to the value of the Trade Marks in Greater China.

Based on the independent valuation reports on the Trade Marks prepared by Grant Sherman Appraisal Limited and BMI Appraisals Limited dated 10 December 2007, there will be a negative goodwill of approximately \$151 million arising upon completion of the Settlement Agreement. Accordingly, the Directors consider it not necessary to provide for any impairment loss on the interest in associates.

Based on the management accounts of Sino Legend Limited and its subsidiaries, Sino Legend Limited and its subsidiaries had net assets of approximately US\$87,419,000 (equivalent to \$681,868,000) as at 30 September 2007 and had net profit of approximately US\$3,816,000 (equivalent to \$29,765,000) for the period from 1 April 2007 to 30 September 2007.

8. Other financial assets

| | Unaudited 30 September 2007 \$'000 | Audited 31 March 2007 \$'000 |
|--|---|---------------------------------------|
| Premium paid for option to acquire shares (Note) | 78,000 | 78,000 |
| Investment securities – unlisted equity shares | – | 15,000 |
| Club debentures | 1,100 | 1,100 |
| | 79,100 | 94,100 |

Note: In accordance with the Settlement Agreement dated 13 October 2007, the Group agreed not to exercise the option and a full refund of the premium paid, being US\$10 million, will be received by the Group upon completion. For further details, please refer to the Company's circular dated 10 December 2007.

9. Trade and other receivables

| | Unaudited 30 September 2007 \$'000 | Audited 31 March 2007 \$'000 |
|--|---|---------------------------------------|
| Trade receivables | 584,606 | 473,334 |
| Deposits with subcontractors for manufacturing of garments | 26,798 | 26,498 |
| Refundable acquisition deposit | – | 281,800 |
| Other prepayments and receivables | 117,131 | 51,476 |
| | 728,535 | 833,108 |

9 Trade and other receivables (Continued)

Credit terms granted by the Group to customers generally range from one to three months. Included in trade receivables are balances (stated after provisions for doubtful debts) with the following ageing analysis:

| | Unaudited 30 September 2007 \$'000 | Audited 31 March 2007 \$'000 |
|---|---|---------------------------------------|
| Within 3 months | 562,110 | 472,474 |
| More than 3 months but less than 6 months | 22,496 | 860 |
| | 584,606 | 473,334 |

All the trade and other receivables are expected to be recovered within one year.

10 Trade and other payables

| | Unaudited 30 September 2007 \$'000 | Audited 31 March 2007 \$'000 |
|-------------------------------------|---|---------------------------------------|
| Bills payable | 14,439 | 18,511 |
| Trade payables | 71,914 | 61,826 |
| Accrued expenses and other payables | 23,256 | 27,762 |
| | 109,609 | 108,099 |

The credit terms obtained by the Group generally range from 30 days to 180 days. Included in trade and bills payables are balances with the following ageing analysis:

| | Unaudited 30 September 2007 \$'000 | Audited 31 March 2007 \$'000 |
|--|---|---------------------------------------|
| Due within 1 month or on demand | 46,412 | 24,036 |
| Due after 1 month but within 3 months | 17,454 | 41,696 |
| Due after 3 months but within 6 months | 22,487 | 14,605 |
| | 86,353 | 80,337 |

All the trade and other payables are expected to be settled within one year.

11 Capital and reserves

| | Share capital | Share premium | Capital reserve | Exchange reserve | Contributed surplus | PRC statutory reserve | Retained earnings | Total |
|--|----------------|----------------|-----------------|------------------|---------------------|-----------------------|-------------------|------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 April 2006 | 151,666 | 81,165 | 62,601 | 2,522 | 6,400 | 74 | 533,772 | 838,200 |
| Shares issued | | | | | | | | |
| – placement of new shares | 39,277 | 363,961 | – | – | – | – | – | 403,238 |
| – exercise of share options | 3,600 | 23,040 | – | – | – | – | – | 26,640 |
| – conversion of convertible bonds | 5,457 | 49,113 | (13,650) | – | – | – | – | 40,920 |
| Dividend approved in respect of previous year | – | – | – | – | – | – | (31,851) | (31,851) |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | – | 5,389 | – | – | – | 5,389 |
| Profit for the year | – | – | – | – | – | – | 314,639 | 314,639 |
| Profit appropriation to reserve funds | – | – | – | – | – | 47 | (47) | – |
| Dividend declared in respect of the current year | – | – | – | – | – | – | (21,303) | (21,303) |
| At 31 March 2007 – audited | 200,000 | 517,279 | 48,951 | 7,911 | 6,400 | 121 | 795,210 | 1,575,872 |
| At 1 April 2007 | 200,000 | 517,279 | 48,951 | 7,911 | 6,400 | 121 | 795,210 | 1,575,872 |
| Shares issued | | | | | | | | |
| – placement of new shares | 1,274 | 12,607 | – | – | – | – | – | 13,881 |
| – exercise of share options | 10,200 | 56,460 | – | – | – | – | – | 66,660 |
| – conversion of convertible bonds | 5,787 | 52,086 | (14,430) | – | – | – | – | 43,443 |
| Dividend approved in respect of previous year | – | – | – | – | – | – | (43,452) | (43,452) |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | – | (4,991) | – | – | – | (4,991) |
| Profit for the year | – | – | – | – | – | – | 108,574 | 108,574 |
| At 30 September 2007 – unaudited | 217,261 | 638,432 | 34,521 | 2,920 | 6,400 | 121 | 860,332 | 1,759,987 |

13

11 Capital and reserves (Continued)

The following is a summary of movements in the authorised and issued share capital of the Company during the period:

| | Unaudited | |
|---|----------------------|------------------|
| | Number of shares | Amount \$'000 |
| <i>Authorised:</i> | | |
| Ordinary shares of \$0.1 each | | |
| At 1 April 2006 and 31 March 2007 | 2,000,000,000 | 200,000 |
| Additions | 2,000,000,000 | 200,000 |
| At 30 September 2007 | 4,000,000,000 | 400,000 |
| <i>Issued and fully paid:</i> | | |
| At 1 April 2006 | 1,516,664,000 | 151,666 |
| Placement of new shares in: | | |
| – April 2006 | 227,500,000 | 22,750 |
| – February 2007 | 165,266,000 | 16,527 |
| Conversion of convertible bonds | 54,570,000 | 5,457 |
| Shares issued under share option scheme | 36,000,000 | 3,600 |
| At 31 March 2007 | 2,000,000,000 | 200,000 |
| Placement of new shares in April 2007 | 12,734,000 | 1,274 |
| Conversion of convertible bonds | 57,872,800 | 5,787 |
| Shares issued under share option scheme | 102,000,000 | 10,200 |
| At 30 September 2007 | 2,172,606,800 | 217,261 |

(a) Pursuant to an ordinary resolution passed in an extraordinary general meeting held on 12 April 2007, the Company's authorised share capital was increased to \$400,000,000 by the creation of an additional 2,000,000,000 ordinary shares of \$0.1 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

(b) In April 2007, pursuant to the subscription agreement entered into in February 2007 and subsequent revised placing agreement, the Company issued the remaining of 12,734,000 new ordinary shares at a subscription price of \$1.09 per share.

(c) In May 2007, convertible bonds totalling US\$3,400,000 (approximately \$26,595,000) were converted at conversion price of \$1.00 per share into 26,595,000 ordinary shares of the Company.

In July 2007, convertible bonds totalling US\$4,000,000 (approximately \$31,278,000) were converted at conversion price of \$1.00 per share into 31,278,000 ordinary shares of the Company.

(d) In May 2007, 32,000,000 share options were exercised at an exercise price of \$0.74 per share to subscribe for 32,000,000 ordinary shares in the Company.

In June and July 2007, 70,000,000 share options were exercised at an exercise price of \$0.614 per share to subscribe for 70,000,000 ordinary shares in the Company.

12 Contingent liabilities

There have been no material adverse changes in contingent liabilities of the Group subsequent to 31 March 2007, details of which are disclosed in its annual financial statements for the year ended 31 March 2007.

13 Material related party transactions

| | Unaudited Six months ended 30 September | |
|-----------------------------------|--|---------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Sales to related parties | 315,527 | 244,282 |
| Expenses paid to related parties: | | |
| Warehouse rentals | 186 | 184 |
| Directors' quarters rentals | 816 | 816 |
| Guangzhou office rentals | 255 | 243 |

14. Acquisition of subsidiaries

Pursuant to the sale and purchase agreement dated 25 May 2007, the Group acquired a controlling equity interest of 90% in Best Favour Investments Limited ("Best Favour") from the Vendor at a cash consideration of \$330,000,000 in June 2007. Best Favour is an investment holding company incorporated in the British Virgin Islands. Best Favour Group is principally engaged in the retailing sale of causal wear and has network outlets throughout major cities in the Mainland China.

Further details of the acquisition are set out below:

| | Amount |
|---|----------------|
| | \$'000 |
| Net assets acquired | |
| Non-current assets | |
| Fixed Assets | 15,922 |
| Intangible assets | 148,666 |
| | 164,588 |
| Net current assets | 87,351 |
| Net assets acquired | 251,939 |
| Goodwill on acquisition – intangible assets | 78,061 |
| | 330,000 |
| Satisfied by: | |
| Cash paid to the vendor | 330,000 |

15. Pledge of assets

The banking facilities of the Group are secured by corporate guarantee issued by the Company and a share charge over a subsidiary of the Group.

16. Post balance sheet event

On 13 October 2007, the Group entered into the settlement Agreement in respect of the redemption of the preferred shares in the share capital of Sino Legend Limited held by the Group. For further details, please refer to the Company's circular dated 10 December 2007.

Management Discussion and Analysis

Business Review and Prospects

Results Summary

Turnover of Tack Fat (the "Group") was approximately HK\$1,183 million for the first six months ended 30 September 2007, representing a year-on-year growth of 29.9%. The encouraging performance was attributable to the Group's apparel manufacturing business and the development of the retail and brand management business in Mainland China.

During the period under review, gross profit grew by 46.0% from approximately HK\$224 million to HK\$327 million. Gross profit margin stood at healthy level of 27.6% as compared to 24.6% in same period last year.

Net profit for the year attributable to equity holders was approximately HK\$109 million, representing a year-on-year increase of 19.9%.

The Board did not recommend the payment of any interim dividend for the six months ended 30 September 2007 (2006: HK1.2 cents).

Apparel Manufacturing Business

The Group continued to achieve a healthy increase in revenue from apparel manufacturing business. The increase in turnover was principally attributable to the outsourcing strategy from US and Europe brand-owners as well as the Group's strong and scalable production facilities.

In addition, the US and Europe remained its major markets, accounting for approximately 66% and 13% of total turnover. ODM and OEM businesses are still the core business of the Group. The Group's two core products, casual wear and swimwear accounted for 77% and 21% of the turnover respectively, while sportswear contributed the remaining 2%.

As of 30 September 2007, Tack Fat maintained highly efficient production bases in Cambodia and Mainland China. To further meet the increasing demand for quality apparel from premium brand-owners and customers, the Group expanded and upgraded its production facilities. Overall utilization rate reached as high as over 97% during the period.

Retailing Business in Mainland China

The Group continued to focus on high quality fashion branded products Mudd and XXEZZ and expand their product categories and product range to cater various market segments. During the period under review, both Mudd and XXEZZ stores were in good operational efficiency which contributed a new source of revenue and gross profit to the Group.

During the period, the Group actively developed its network to capture the growing market, and opened new stores. As of 30 September 2007, the Group had over 300 retail outlets in the mainland cities nationwide which covered all key cities, including Beijing, Shanghai, Tianjin, Shenyang, Chengdu, Chongqing, Wuhan, Nanjing, Dalian and Harbin.

The Group has taken a series of marketing initiatives to proactively promote these two brands in Mainland China. Such initiatives include the in-house shopping experience and point-of-sales promotions that aim to extend their market reach and boost brand awareness.

Future Prospects

With potential impact brought by US subprime crisis and economic downturn, surging crude oil prices and appreciating Renminbi, the Group will take a prudent approach on apparel production in the second half of this year. The Group will continue its stringent cost control strategies and pursue product diversification to maintain its competitiveness in the industry. However, as market consolidation and global outsourcing trends further intensify, the management remains positive and optimistic with regard to the Group's business performance and future outlook.

Rising household incomes in Mainland China will further boost the domestic spending power and stronger demands for fashionably designed, high-quality products. As a result, the Group expects that market demand for young and fashion apparels in Mainland China will continue to experience high growth in coming years.

In order to accommodate China's dynamic apparel retailing market, the Group have reached strategic alliance with ITAT Group ("ITAT"), one of the largest networks of multi-brand apparel retail chain stores in Mainland China. ITAT principally engages in the retail of a wide range of high quality fashion items domestically through Fashion ITAT Stores, ITAT Super Clubs and ITAT Membership Stores. According to the agreement, the Group currently plans to open Mudd outlets and concession stores in all Fashion ITAT stores and XXEZZ outlets and concession stores in all of the ITAT Membership Stores and Super Clubs. As such, all Mudd and XXEZZ outlets and concession stores are expected to be opened by the first quarter of 2008.

With increasing recognition of Mudd and XXEZZ by young generation, the Group will plan to open more new stores and make use of the ITAT retail network to achieve sales growth. The Group is confident that the retail business in Mainland China will become the major growth driver of the Group in the years to come.

Liquidity, Financial Resources and Capital Structure

The Group's financial position was healthy. As at 30 September 2007, the Group's total assets and total current assets were HK\$2,978,553,000 and HK\$1,507,269,000 respectively. As at that date, the Group's non-current and current liabilities totalled HK\$597,197,000 and HK\$588,184,000 respectively.

The gearing ratio, calculated by dividing the Group's total liabilities by its total assets, was 39.8% (31 March 2007: 39.2%). The Group's total bank borrowings amounted to HK\$835,222,000. 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\$175,440,000 was generated from operating activities, reflecting primarily growth in the Group's core business. There was a net decrease in cash and cash equivalents of HK\$78,779,000, which was primarily attributable to the Group's investing activities for the period.

Employees

As at 30 September 2007, the Group employed about 19,900 full time employees in Hong Kong, Cambodia and the Mainland China. 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.

Contingent Liabilities

There have been no significant adverse changes in the Group's contingent liabilities since 31 March 2007.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Interim Dividend

The Board of Directors did not recommend the payment of any interim dividend for the six month ended 30 September 2007 (2006: HK1.2 cents).

Directors' and Chief Executives' Interest in Shares, Underlying Shares And Debentures

At 30 September 2007, 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:

| Beneficial interests | Position | Ordinary of HK\$0.1 each | | Percentage of total issued shares |
|----------------------|----------|--------------------------|------------------------------|-----------------------------------|
| | | Corporate interests | Total number of shares held | |
| Mr Kwok Wing | Long | 762,424,000 | 762,424,000 <i>(Note)</i> | 35.09 |

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.

In addition to the above, certain director has non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements of the Hong Kong Companies Ordinance. Certain directors also have beneficial interests in non-voting deferred shares practically carrying no rights to dividends or to receive notice of or to attend or vote at any general meeting or to participate in any distribution or winding up in a subsidiary.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 September 2007.

Directors' and Chief Executives' Benefits from Rights to Acquire Shares

At no time during the six months ended 30 September 2007 was the Company, its holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangement to enable the directors and chief executives or their spouses or children under 18 years of age of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share Option Scheme

Background of the Company's share option scheme is set out in its annual report for the financial year ended 31 March 2007.

On 8 November 2004, the Company granted 68,000,000 options at a nominal consideration under the share option scheme of the Company to certain employees of the Group to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share of the Company at HK\$0.74 (which is equal to the closing price of the shares on the date of grant) with exercisable period from 8 November 2004 to 7 November 2007. Additionally, on 24 October 2005, the Company granted 70,000,000 options at a nominal consideration under the share option scheme of the Company to certain employees of the Group to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share of the Company at HK\$0.614 (which is equal to the average closing price of the shares for the five business days immediately preceding the date of grant) with exercisable period from 24 October 2005 to 23 October 2008. During the period under review, no options had been granted.

In February and May 2007, 68,000,000 share options were exercised at an exercise price of \$0.74 per share to subscribe for 68,000,000 ordinary shares in the Company.

In June and July 2007, 70,000,000 share options were exercised at an exercise price of \$0.614 per share to subscribe for 70,000,000 ordinary shares in the Company.

As at 30 September 2007, the Company did not have any share option outstanding.

Substantial Shareholders' and Other Person's Interest in Shares and Underlying Shares

The Company has been notified of the following interests in the Company's issued shares as at 30 September 2007 amounting to 5% or more of the ordinary shares in issue:

| | Position | Ordinary shares held | % of total issued shares |
|--|----------|----------------------|--------------------------|
| Wan Lai Ngan (<i>Note 1</i>) | Long | 762,424,000 | 35.09% |
| Efulfilment Enterprises Limited (<i>Note 2</i>) | Long | 652,800,000 | 30.05% |
| Kwok Chiu (<i>Note 2</i>) | Long | 652,800,000 | 30.05% |
| Sharp Asset Holdings Limited (<i>Note 2</i>) | Long | 109,624,000 | 5.04% |
| Sansar Capital Management, LLC | Long | 364,621,700 | 16.78% |
| McCarthy Kent C. (<i>Note 3</i>) | Long | 343,008,000 | 15.79% |
| Jayhawk China Fund (Cayman), Ltd (<i>Note 3</i>) | Long | 328,648,000 | 15.13% |
| Sansar Capital Master Fund, LP | Long | 216,840,000 | 9.98% |
| Templeton Asset Management Limited | Long | 213,622,000 | 9.83% |
| SinoPac Capital Limited | Long | 144,958,000 | 6.67% |
| Sansar Capital Special Opportunity Master Fund, LP | Long | 123,380,400 | 5.68% |

Note 1: Ms Wan Lai Ngan is the spouse of Mr Kwok Wing and is therefore deemed to be interested in the shares held or deemed to be held by Mr Kwok Wing under the SFO.

Note 2: The issued share capital of Efulfilment Enterprises Limited is beneficially owned by Mr Kwok Wing and Mr Kwok Chiu in the proportion of 50:50. The entire issued share capital of Sharp Asset Holdings Limited is beneficially owned by Mr Kwok Wing.

Note 3: According to the form filed pursuant to Part XV of the SFO by McCarthy Kent C. and Jayhawk China Fund (Cayman) Ltd, the shares are held by Jayhawk China Fund (Cayman), Ltd as investment manager which is owned 100% by McCarthy Kent C.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 September 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Code on Corporate Governance Practices And the Model Code

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2007, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the independent non-executive directors of the Company are not appointed for specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's articles of association.

The Company, having made specific enquiry, confirms that all the directors complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, and the relevant employees who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code, throughout the six months ended 30 September 2007.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the directors. The unaudited interim financial report for the six months ended 30 September 2007 has been reviewed by the Audit Committee and the auditors of the Company.

By Order of the Board
Kwok Wing
Chairman

Hong Kong, 21 December 2007



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