TACK FAT GROUP INTERNATIONAL LIMITED

德發集團國際有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 928)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2006

The Board of Directors (the "Board") of Tack Fat Group International Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006 with comparative figures for the previous corresponding year, prepared in accordance with the basis of preparation as set out in note 1, as follows:

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	Note	**2006** *$'000*	2005 (restated) *$'000*
Turnover	*3*	**1,655,166**	1,528,999
Cost of sales		**(1,216,749)**	(1,164,199)
		438,417	364,800
Other revenue		**7,728**	9,178
Other net (loss)/income		**(704)**	378
Distribution costs		**(137,855)**	(137,910)
Administrative expenses		**(45,240)**	(42,252)
Profit from operations		**262,346**	194,194
Finance costs	*4*	**(63,189)**	(26,583)
Share of profits less losses of associates		**(35,752)**	–
Profit before taxation	*4*	**163,405**	167,611
Income tax	*5*	**(30,779)**	(12,072)
Profit attributable to equity shareholders of the Company		**132,626**	155,539
Dividends payable to equity shareholders of the Company attributable to the year	*6*		
Interim dividend declared and paid during the year		**18,200**	18,134
Final dividend proposed after the balance sheet date		**31,569**	30,333
		49,769	48,467
Earnings per share			
Basic	*7(a)*	**8.74 cents**	10.71 cents
Diluted	*7(b)*	**8.21 cents**	9.81 cents

CONSOLIDATED BALANCE SHEET
as at 31 March 2006
(Expressed in Hong Kong dollars)

	Note	**2006**	2005 (restated)
		$'000	*$'000*
Non-current assets			
Fixed assets			
– Other property, plant and equipment		**293,346**	260,013
– Interest in leasehold land held for own use under operating leases		**86,439**	88,339
		379,785	348,352
Interest in associates		**432,413**	–
Other financial assets		**94,100**	42,100
Deferred tax assets		**–**	1,743
		906,298	392,195
Current assets			
Inventories		**248,069**	214,401
Trade and other receivables	*8*	**570,859**	814,566
Cash and cash equivalents		**176,686**	284,851
		995,614	1,313,818
Current liabilities			
Trade and other payables	*9*	**82,473**	72,551
Bank loans and overdrafts		**230,954**	369,710
Obligations under finance leases		**10,989**	17,701
Current taxation		**33,844**	4,348
		358,260	464,310
Net current assets		**637,354**	849,508
Total assets less current liabilities		**1,543,652**	1,241,703
Non-current liabilities			
Bank loans		**475,384**	268,000
Convertible bonds		**187,776**	234,000
Obligations under finance leases		**37,736**	40,895
Provision for long service payments		**1,800**	1,800
Deferred tax liabilities		**2,756**	9,333
		705,452	554,028
NET ASSETS		**838,200**	687,675
Capital and reserves			
Share capital		**151,666**	151,666
Reserves		**686,534**	536,009
TOTAL EQUITY		**838,200**	687,675

Notes:
(Expressed in Hong Kong dollars)

1 Basis of preparation of the financial statements

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK").

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in the financial statements is provided in note 2.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(a) Employee share option scheme (HKFRS 2 "Share-based payment")

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7 November 2002; and

(ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The adjustments for each financial statements line item affected for the year ended 31 March 2006 are set out as follows:

Effect on net profit for the year:

	2006
	$'000
Increase in staff costs	**5,670**
Net decrease in net profit	**5,670**

Effect on equity as at 31 March:

	2006
	$'000
Increase in capital reserve	**5,670**
Decrease in retained earnings	**(5,670)**
Net effect on equity	**–**

No comparative information is presented as the Group has taken advantage of the transitional provisions set out in HKFRS 2.

(b) Leasehold land and buildings held for own use (HKAS 17 "Leases")

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 April 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 April 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

In addition, any land held under operating leases and buildings thereon continue to be presented together as part of property and plant and equipment, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease. However, as from 1 April 2005, such leasehold land and buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the above changes.

The above new policy has been adopted retrospectively with comparative amounts restated.

The adjustments for each financial statement line item affected for 31 March 2005 and 2006 are set out below. It is not practicable to estimate the effect of the change on the Group's net results for the year ended 31 March 2006.

Effect on net profit for the year:

	2006	2005
	$'000	*$'000*
Decrease in depreciation and amortisation	**N/A**	820
Net increase in net profit	**N/A**	820

Effect on net assets as at 31 March:

	2006	2005
	$'000	*$'000*
Decrease in property, plant and equipment	**(101,196)**	(103,096)
Increase in interests in leasehold land held for own use under operating leases	**86,439**	88,339
Decrease in deferred tax liabilities	**3,499**	3,499
Net decrease in net assets	**(11,258)**	(11,258)

Effect on equity as at 31 March:

	2006	2005
	$'000	*$'000*
Decrease in land and building revaluation reserve	**(13,350)**	(13,350)
Increase in retained earnings in respect of:		
– current year	**–**	820
– prior years	**2,092**	1,272
Net decrease in equity	**(11,258)**	(11,258)

(c) Financial instruments (HKAS 32 "Financial instruments: Disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement")

Changes in accounting policies relating to financial instruments are as follows:

(i) Convertible bonds

In prior years, the accounting policy for convertible bonds was as follows:

– convertible bonds issued were stated at amortised cost (including transaction costs).

With effect from 1 April 2005, and in accordance with HKAS 32 and HKAS 39, a new accounting policy has been adopted for the convertible bonds as follows:

– Convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings).

The change was adopted by way of adjustments to the opening balances of the retained earnings (decreased by $5,157,000), share premium (increased by $6,466,000) and capital reserve (increased by $56,931,000) as at 1 April 2005. As a result, the opening balance of total equity as at 1 April 2005 increased by $58,240,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statements line item affected for the years ended 31 March 2005 and 2006 are set out as follows:

Effect on net profit for the year:

	2006	2005
	$'000	*$'000*
Increase in finance costs	**11,438**	–
Net decrease in net profit	**11,438**	–

Effect on net assets as at 31 March:

	2006	2005
	$'000	*$'000*
Decrease in trade and other payables	**578**	–
Decrease in convertible bonds	**46,224**	–
Net increase in net assets	**46,802**	–

Effect on equity as at 31 March:

	2006	2005
	$'000	*$'000*
Increase in share premium	**6,466**	–
Increase in capital reserve	**56,931**	–
Decrease in retained earnings in respect of:		
– current year	**(11,438)**	–
– prior years	**(5,157)**	–
Net increase in equity	**46,802**	–

(ii) Bills discounted with recourse

In prior years, the accounting policy for bills discounted with recourse was as follows:

– bills discounted with recourse were derecognised from the balance sheet and discounting liabilities were disclosed as contingent liabilities.

With effect from 1 April 2005, and in accordance with HKAS 32 and HKAS 39, a new accounting policy has been adopted for bills discounted with recourse as follows:

– bills discounted with recourse are stated in the balance sheet under trade and other receivables until the bill is settled. The liability from discounting the bill is stated in the balance sheet under bank loans and overdrafts until the bill is settled.

The change was adopted by way of an adjustment to the opening balances of the trade and other receivables (increased by $28,375,000) and bank loans and overdrafts (increased by $28,375,000) as at 1 April 2005. As at 31 March 2006 as a result of adopting the new policy, the trade and other receivables and bank loans and overdrafts increased by the same amount of $11,270,000 and contingent liabilities decreased by $11,270,000. There has been no impact on the income statement for the year ended 31 March 2006. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(d) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3 Turnover

The principal activities of the Group are the manufacturing and sale of garments.

Turnover represents the aggregate of the invoiced value of goods sold and is stated after deducting goods returned, trade discounts and sales tax.

Throughout the year, the Group has been operating in one single business segment, i.e. the manufacturing and sale of garments. An analysis of the Group's turnover by geographical location of the customers is set out below:

	2006	2005
	$'000	*$'000*
North America	**1,363,627**	1,189,687
Europe	**215,765**	250,341
Other regions	**75,774**	88,971
	1,655,166	1,528,999

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2006	2005
	$'000	*$'000*
Finance costs:		
Interest on bank and other borrowings wholly repayable within five years	**55,143**	19,589
Finance charges on obligations under finance leases	**1,240**	867
Bank charges	**5,526**	6,127
Other borrowing costs	**1,280**	–
	63,189	26,583

	2006	2005
		(restated)
	$'000	*$'000*
Other items:		
Cost of inventories sold	**1,216,749**	1,164,199
Depreciation		
– owned assets	**36,369**	29,581
– assets held under finance leases	**6,053**	9,021
Amortisation of land lease premium	**2,010**	2,006

5 Income tax

	2006	2005
	$'000	*$'000*
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**12,879**	8,314
Under/(over) provision in respect of prior years	**14,605**	(304)
	27,484	8,010
Current tax – Overseas		
Tax for the year	**8,067**	3,469
	35,551	11,479
Deferred tax		
Origination and reversal of temporary differences	**(4,772)**	593
	30,779	12,072

The provision for Hong Kong Profits Tax for the year is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year.

The Group's subsidiaries in the PRC are subject to PRC income tax at the rate of 33%.

The Group's subsidiaries in Cambodia are subject to Cambodia income tax at a rate of 9%. Pursuant to the tax exemption certificate dated 8 July 2004 issued by the relevant tax authorities, Supertex Limited is exempted from Cambodia income tax for the period from 8 July 2004 to 7 July 2008. Cambodia Sportswear Mfg. Ltd. and Tack Fat Garment (Cambodia) Ltd. are subject to Cambodia income tax at 9%.

6 Dividends

	Notes	2006	2005
		$'000	*$'000*
Interim dividend declared and paid of 1.2 cents (2005: 1.2 cents) per share		**18,200**	18,134
Final dividend proposed after the balance sheet date of 1.81 cents (2005: 2 cents) per share	*(a)*	**31,569**	30,333
		49,769	48,467

(a) Pursuant to a resolution passed at the directors' meeting on 27 July 2006, a final dividend of 1.81 cents per share totalling approximately $31,569,000 was recommended to be paid to shareholders, subject to shareholders' approval at the forthcoming Annual General Meeting. This final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

	2006	2005
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 2 cents (2005: 2 cents) per share	**30,333**	28,545

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $132,626,000 (2005 (restated): $155,539,000) and the weighted average of 1,516,664,000 (2005: 1,452,846,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to ordinary equity shareholders of the Company of $145,043,000 (2005 (restated): $156,651,000) and the weighted average of 1,767,605,000 (2005: 1,597,277,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2006	2005 (restated)
	$'000	*$'000*
Profit attributable to ordinary equity shareholders	**132,626**	155,539
Increase in earnings arising from savings in interest cost, net of tax (assuming the convertible bonds had been converted into shares in the Company at the date of issue)	**12,417**	1,112
Adjusted profit attributable to shareholders (diluted)	**145,043**	156,651

	2006 Number of shares	2005 Number of shares
	'000	*'000*
Weighted average number of ordinary shares at 31 March	**1,516,664**	1,452,846
Effect of conversion of convertible bonds	**234,000**	127,902
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**16,941**	16,529
Weighted average number of ordinary shares (diluted) at 31 March	**1,767,605**	1,597,277

8 Trade and other receivable

Included in trade and other receivables are trade and bills receivables with the following ageing analysis as of the balance sheet date:

	2006	2005
	$'000	*$'000*
Within 3 months	**264,673**	228,374
More than 3 months but less than 6 months	**227,184**	–
	491,857	228,374

Credit terms granted by the Group to customers generally range from one to six months.

9 Trade and other payables

Included in trade and other payables are trade payables and bills payables with the following ageing analysis as of the balance sheet date.

	2006	2005
	$'000	*$'000*
Due within 1 month or on demand	**25,150**	33,162
Due after 1 month but within 3 months	**37,207**	16,453
Due after 3 months but within 6 months	**8,276**	7,411
Due after 6 months but within 1 year	**572**	–
	71,205	57,026

The credit terms obtained by the Group generally range from 30 days to 180 days.

DIVIDEND

The Board resolved that a final dividend of 1.81 cents per share be payable on or before 5 October 2006. The shareholders' register will be closed on 11 August 2006. In order to qualify for final dividend, transfers must be lodged at the Company's branch register, Tengis Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong, not later than 4:00 p.m. on 10 August 2006.

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 change in accounting policy 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.

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.

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.

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 over 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Throughout the year ended 31 March 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain high standards of corporate governance. During the year, the Company has compiled with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of Rules Governing the Listing of Securities on SEHK with the following exception:

Mr Kwok Wing is the chairman of the board of directors and also assumes the role of managing director. The Board considers that the current management structure ensures consistent leadership and optimal efficiency for the operations of the Group.

Detailed information on the Group's corporate governance practices is set out in the corporate governance report included in the Company's 2005/2006 annual report to be despatched to the shareholders in due course.

AUDIT COMMITTEE

The Board of Directors maintains an audit committee comprising three independent non-executive directors. The audit committee has been convened for the purpose of reviewing the Company's financial reporting and internal control systems.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the SEHK in due course.

For and on behalf of the Board
Tack Fat Group International Limited
Kwok Wing
Chairman

Hong Kong, 27 July 2006

As at the date of this announcement, the Board comprised Mr. Kwok Wing, Mr. Lee Yuk Man, Mr. Ho Yik Kin, Norman, Mr. Kwok Kam Chuen as executive directors, and Mr. Leung Yiu Wing, Eric, Mr. Ching Kwok Ho, Samuel and Mr. Heng Kwoo Seng as independent non-executive directors.

Please also refer to the published version of this announcement in China Daily.