



德發集團
TACK FAT GROUP



中期報告

INTERIM REPORT 2006/07



德發集團國際有限公司
TACK FAT GROUP INTERNATIONAL LIMITED

(股份代號 Stock Code: 0928)

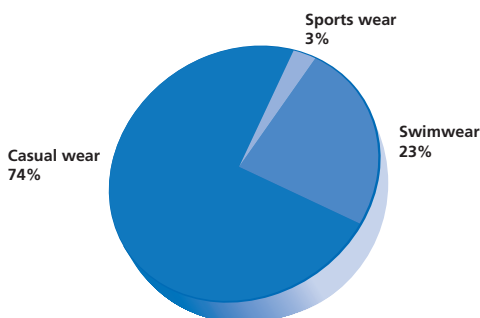
FINANCIAL HIGHLIGHTS

- The Group's turnover amounted to approximately HK\$910.6 million as compared to approximately HK\$773.5 million for the corresponding period of last year.
- Gross profit amounted to approximately HK\$223.8 million as compared to approximately HK\$182.4 million for the corresponding period of last year.
- Gross profit margin was 24.6% and net profit margin was 9.9%.
- Profit attributable to equity holders of the Company approximately HK\$90.6 million, representing an increase of 27.7% over the corresponding period of last year. Basic earnings per share was HK5.23 cents.
- The Board of Directors recommended an interim dividend of HK1.2 cents per share.

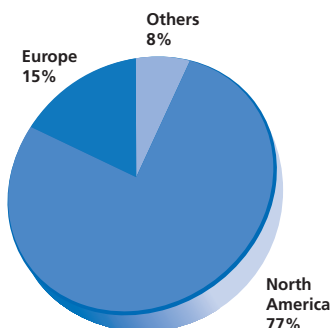
SALES ANALYSIS

For the six months ended 30 September 2006

Turnover Breakdown by Products



Turnover Breakdown by Regions



CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September	
		2006 \$'000	2005 \$'000
Turnover	2	910,623	773,451
Cost of sales		(686,852)	(591,095)
Other revenue		223,771	182,356
Selling expenses		3,816	3,678
Administrative expenses		(98,245)	(87,476)
		(18,064)	(17,400)
Profit from operations		111,278	81,158
Finance costs		(23,842)	(17,298)
Share of profits less losses of associates		12,682	12,094
Profit before taxation	3	100,118	75,954
Income tax	4	(9,531)	(5,019)
Profit attributable to equity holders of the Company		90,587	70,935
Dividend attributable to the period	5(a)		
Interim dividend declared after the balance sheet date		21,117	18,200
Earnings per share	6		
Basic		5.23 cents	4.68 cents
Diluted		4.83 cents	4.26 cents

The notes on pages 7 to 15 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 September 2006 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 September 2006 \$'000	At 31 March 2006 \$'000
Non-current assets			
Fixed assets	7	354,140	293,346
Interest in leasehold land held for own use under operating leases		102,331	86,439
Interest in associates		445,095	432,413
Other financial assets		94,100	94,100
		995,666	906,298
Current assets			
Inventories		307,326	248,069
Trade and other receivables	8	461,265	570,859
Cash and cash equivalents		344,819	176,686
		1,113,410	995,614
Current liabilities			
Trade and other payables	9	91,420	82,473
Bank loans and overdrafts		147,320	230,954
Obligations under finance leases		7,821	10,989
Current taxation		29,876	33,844
		276,437	358,260
Net current assets		836,973	637,354
Total assets less current liabilities carried forward		1,832,639	1,543,652

CONSOLIDATED BALANCE SHEET (Continued)

At 30 September 2006 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 September 2006 \$'000	At 31 March 2006 \$'000
Total assets less current liabilities brought forward		1,832,639	1,543,652
Non-current liabilities			
Bank loans		474,153	475,384
Convertible bonds		180,106	187,776
Obligations under finance leases		36,128	37,736
Provision for long service payments		1,800	1,800
Deferred tax liabilities		2,482	2,756
		694,669	705,452
NET ASSETS		1,137,970	838,200
CAPITAL AND RESERVES			
Share capital	10	175,972	151,666
Reserves	10	961,998	686,534
		1,137,970	838,200

The notes on pages 7 to 15 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September	
		2006 \$'000	2005 \$'000
Total equity at 1 April		838,200	748,069
Net profit for the period		90,587	70,935
Total recognised income and expense for for the period		90,587	70,935
Dividends declared	5(b)	(31,851)	(30,333)
Movements in shareholders' equity arising from capital transactions with equity holders of the Company			
– Issue of new shares		229,381	–
– Shares issued on conversion of convertible bonds		11,653	–
		241,034	–
Total equity as at 30 September		1,137,970	788,671

The notes on pages 7 to 15 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2006 \$'000	2005 \$'000
Cash generated from operations	126,343	54,667
Tax paid	(13,773)	(6,523)
Net cash from operating activities	112,570	48,144
Net cash used in investing activities	(88,201)	(38,723)
Net cash generated/(used in) from financing activities	144,581	(24,962)
Net increase/(decrease) in cash and cash equivalents	168,950	(15,541)
Cash and cash equivalents at 1 April	175,869	279,415
Cash and cash equivalents at 30 September	344,819	263,874

The notes on pages 7 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 18 December 2006.

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 2006.

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 2006. 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 audit committee of the Company.

The financial information relating to the financial year ended 31 March 2006 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 2006 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 July 2006.

2 Segmental information

No business segment analysis of the Group is presented as the Group operated principally in a single business segment, i.e. manufacturing and sale of garments throughout the period.

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

	Group turnover	
	Six months ended	
	30 September	
	2006	2005
	\$'000	\$'000
North America	698,551	587,823
Europe	137,564	131,561
Other regions	74,508	54,067
	910,623	773,451

3 Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended	
	30 September	
	2006	2005
	\$'000	\$'000
(a) <i>Finance costs:</i>		
Interest on bank and other borrowings wholly repayable within five years	20,654	14,226
(b) <i>Other items:</i>		
Cost of goods sold	686,852	591,095
Depreciation of fixed assets	24,257	19,503

4 Income tax

	Six months ended 30 September	
	2006 \$'000	2005 \$'000
Provision for Hong Kong Profits Tax for the period	5,498	3,913
Provision for overseas tax	4,307	849
Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences	(274)	257
	9,531	5,019

Provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 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.

The Group's subsidiaries in the People's Republic of China ("PRC") are subject to PRC income tax at 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.

5 Dividends

(a) *Dividends attributable to the period*

	Six months ended 30 September	
	2006 \$'000	2005 \$'000
Interim dividend declared of 1.2 cents per share (2005: 1.2 cents)	21,117	18,200

The interim dividend of 1.2 cents per share or \$21,117,000 in total proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	Six months ended 30 September	
	2006 \$'000	2005 \$'000
Final dividend in respect of the previous year, approved and accrued during the period of 1.8 cents per share (2005: 2 cents)	31,851	30,333

6 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the period ended 30 September 2006 is based on the profit attributable to equity holders of the Company of \$90,587,000 (2005: \$70,935,000) and the weighted average number of ordinary shares of 1,733,110,000 shares (2005: 1,516,664,000 shares) in issue during the period.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the period ended 30 September 2006 is based on the adjusted profit attributable to equity holders of the Company of \$96,436,000 (2005: \$75,194,000) and the weighted average number of ordinary shares of 1,996,288,000 shares (2005: 1,765,398,000 shares) after adjusting for the effects of all dilutive potential ordinary shares.

7 Fixed assets

Additions to fixed assets during the six months ended 30 September 2006 comprise:

	\$'000
Land and buildings held for own use	16,574
Plant and machinery	52,058
Furniture, fixtures and office equipment	13,620
Motor vehicles	1,725
	<hr/>
	83,977

8 Trade and other receivables

	At 30 September 2006 \$'000	At 31 March 2006 \$'000
Trade receivables	356,941	491,857
Deposits with subcontractors for manufacturing of garments	39,706	33,188
Other prepayments and receivables	64,618	45,814
	<hr/>	
	461,265	570,859

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:

	At 30 September 2006 \$'000	At 31 March 2006 \$'000
Within 3 months	326,299	264,673
More than 3 months but less than 6 months	30,642	227,184
	<hr/>	
	356,941	491,857

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

9 Trade and other payables

	At 30 September 2006 \$'000	At 31 March 2006 \$'000
Bills payable	22,586	21,768
Trade payables	55,561	49,437
Accrued expenses and other payables	13,273	11,268
	91,420	82,473

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:

	At 30 September 2006 \$'000	At 31 March 2006 \$'000
Due within 1 month or on demand	30,790	25,722
Due after 1 month but within 3 months	38,624	37,207
Due after 3 months but within 6 months	8,733	8,276
	78,147	71,205

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

10 Capital and reserves

	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Exchange reserve \$'000	Contributed surplus \$'000	PRC statutory reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 April 2005	151,666	81,165	56,931	-	6,400	40	449,713	745,915
Dividend approved in respect of previous year	-	-	-	-	-	-	(30,333)	(30,333)
Equity settled share-based transactions	-	-	5,670	-	-	-	-	5,670
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	2,522	-	-	-	2,522
Profit for the year	-	-	-	-	-	-	132,626	132,626
Profit appropriation to reserve funds	-	-	-	-	-	34	(34)	-
Dividend declared in respect of the current year	-	-	-	-	-	-	(18,200)	(18,200)
At 31 March 2006	151,666	81,165	62,601	2,522	6,400	74	533,772	838,200
At 1 April 2006	151,666	81,165	62,601	2,522	6,400	74	533,772	838,200
Issue of new shares (Note)	22,750	206,631	-	-	-	-	-	229,381
Conversion of convertible bonds	1,556	14,000	(3,903)	-	-	-	-	11,653
Dividend approved in respect of previous year	-	-	-	-	-	-	(31,851)	(31,851)
Profit for the period	-	-	-	-	-	-	90,587	90,587
At 30 September 2006	175,972	301,796	58,698	2,522	6,400	74	592,508	1,137,970

10 Capital and reserves (Continued)

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

	Number of shares	Amount \$'000
<i>Authorised:</i>		
Ordinary shares of \$0.1 each		
At 1 April 2005, 31 March 2006 and 30 September 2006	2,000,000,000	200,000
<i>Issued and fully paid:</i>		
At 1 April 2005 and 31 March 2006	1,516,664,000	151,666
At 1 April 2006	1,516,664,000	151,666
Issue of new shares (Note)	227,500,000	22,750
Conversion of convertible bonds	15,555,600	1,556
At 30 September 2006	1,759,719,600	175,972

Note: On 10 April 2006, Efulfilment Enterprises Limited, the controlling shareholder of the Company entered into a placing agreement to place 227,500,000 existing shares of the Company to independent investors at a placing price of HK\$1.03 per share. On the same date, Efulfilment Enterprises Limited entered into a subscription agreement to subscribe for 227,500,000 new shares of the Company at a subscription price of HK1.03 per share. The Company's net proceeds from the share subscription amounted to HK\$229,381,000.

11 Contingent liabilities

There have been no material adverse changes in contingent liabilities of the Group subsequent to 31 March 2006, details of which are disclosed in its annual financial statements for the year ended 31 March 2006.

12 Material related party transactions

During the period, the following significant related party transactions took place:

	Six months ended 30 September	
	2006 \$'000	2005 \$'000
Sales to related parties	244,282	208,832
Expenses paid to related parties:		
Warehouse rentals	184	186
Directors' quarters rentals	816	816
Guangzhou office rentals	243	243

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business of the Group.

13 Post balance sheet event

After the balance sheet date, the directors of the Company proposed an interim dividend, details of which are disclosed in note 5.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Industry Overview

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

Operations Review

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

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

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

The Group continued to expand its production capacity during the period under review in order to meet increasing demands from the international market. Currently, the Group operates production bases in Cambodia and the PRC with a gross floor area of over 120,000 m² and a skilled workforce of over 18,000 employees. As of 30 September 2006, Tack Fat's annual production capacity amounted to 1,125,000 dozens of swimwear, 1,365,000 dozens of casual wear and 63,000 dozens of sportswear at an overall utilization rate of 95%.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review and Prospects (Continued)

Future Prospects

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW

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

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

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

Liquidity, Financial Resources and Capital Structure

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

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

Cash Flow

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

Employees

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

Exposures to Fluctuations in Exchange Rates

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, US dollars and Renminbi, which were relatively stable during the period. The Group is not exposed to material exchange risks.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Contingent Liabilities

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

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Interim Results and Dividend

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

Closure of the Transfer Books and Register of Members

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

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

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

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

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 (note)	43.33

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

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

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 director also has 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 2006.

Directors' and chief executives' benefits from rights to acquire shares

At no time during the six months ended 30 September 2006 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 2006.

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.

Up to the date of approval of this report, none of the above options granted to the employees have been exercised.

The directors consider that it is not appropriate to disclose the value of the share options granted since any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain. The directors believe that the evaluation of the share options based upon speculative assumptions would not be informative and might be misleading.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

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 2006 amounting to 5% or more of the ordinary shares in issue:

	Position	Ordinary shares held	Percentage of total issued shares
Kwok Chiu (Note 1)	Long	652,800,000	37.10%
Efulfilment Enterprises Limited (Note 1)	Long	652,800,000	37.10%
Sharp Asset Holdings Limited (Note 1)	Long	109,624,000	6.23%
Sansar Capital Management, LLC	Long	263,064,000	14.95%
SinoPac Capital Limited (Note 2)	Long	234,000,000	13.30%
Templeton Asset Management Limited	Long	175,106,000	9.95%
Sansar Capital Master Fund, LP	Long	144,105,700	8.19%
McCarthy Kent C.	Long	139,432,000	7.92%
Sansar Capital Special Opportunity Master Fund, LP	Long	122,550,300	6.96%
Allianz Aktiengesellschaft	Long	107,944,000	6.13%

Note 1: 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 2: To the best knowledge of the directors of the company, some of the holders of the 1% convertible bonds due 2009 have transferred their bonds in favour of SinoPac Capital Limited as security and SinoPac Capital Limited is therefore taken to be interested in the underlying shares of the convertible bonds under the SFO. 15,555,600 shares have been issued in favour of Sinopac Capital Limited upon exercise of the conversion right attached to the convertible bonds in August 2006.

Save as disclosed above, no other interests, other than the directors and chief executive of the Company, whose interests are set out in section "Directors' and chief executives' interests in shares, underlying shares and debentures" above, required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2006, 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 2006, 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 terms 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 2006.

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 including a review of the unaudited interim financial report for the six months ended 30 September 2006 with the directors.

By Order of the Board
Kwok Wing
Chairman

Hong Kong, 18 December 2006

德發集團國際有限公司
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