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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in Tack Fat Group International Limited (Provisional Liquidators Appointed), you should at once hand this circular and the accompanying forms of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**TACK FAT GROUP INTERNATIONAL LIMITED**  
(Provisional Liquidators Appointed)  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 00928)

**RESTRUCTURING OF TACK FAT GROUP INTERNATIONAL LIMITED  
(PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER ALIA,**

- (1) PROPOSED OPEN OFFER ON THE BASIS OF 339 OFFER SHARES FOR EVERY 5 NEW SHARES HELD ON THE RECORD DATE;**  
**(2) PROPOSED ISSUE OF CONVERTIBLE BONDS;**  
**(3) APPLICATION FOR WHITEWASH WAIVER;**  
**(4) SPECIAL DEAL;**  
**(5) PROPOSED APPOINTMENT OF DIRECTORS;**  
**AND**  
**(6) GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES;**  
**AND**  
**NOTICE OF EGM**

**Financial Advisor to the Company**



**ASIAN CAPITAL**  
(CORPORATE FINANCE) LIMITED  
卓亞(企業融資)有限公司

**Independent Financial Advisor to  
The Independent Board Committees and Independent Shareholders**



**Underwriter to the Open Offer**



**ASIAN CAPITAL**  
(CORPORATE FINANCE) LIMITED  
卓亞(企業融資)有限公司

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A letter of advice from Access Capital to the Independent Board Committees and the Independent Shareholders is set out on pages 72 to 87 of this circular. The recommendations of the Independent Board Committees to the Independent Shareholders are set out on pages 70 to 71 of this circular.

It should be noted that the last day in the New Shares being on a cum-entitlement basis is 24 September 2010. New Shares will be on an ex-entitlement basis from 27 September 2010.

To qualify for the Open Offer, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be 6 October 2010. In order to be registered as members of the Company on the Record Date, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m., 28 September 2010.

A notice convening the EGM to be held at Plaza 1-2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong at 11:00 a.m. Wednesday, 15 September 2010 are set out on pages 186 to 193. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person in the EGM or any adjourned meeting should you so wish. In such event, the instrument appointing a proxy shall be deemed revoked.

If the Underwriter terminates the Underwriting Agreement or if the conditions to the Underwriting Agreement have not been fulfilled in accordance therewith, the Open Offer will not proceed. Shareholders and potential investors are advised to exercise due caution when dealing in the Shares, and if they are in any doubt about their position they should consult their professional advisors.

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

“1st Announcement”	the announcement of the Company dated 7 June 2010 in relation to the entering into the Restructuring Agreement and the proposed application of the Whitewash Waiver
“2nd Announcement”	the announcement of the Company dated 23 July 2010 in relation to (i) the Capital Reorganisation; (ii) the Open Offer; (iii) the subscription of Investor Convertible Bonds; (iv) the subscription of Creditors Convertible Bonds; and (v) the proposed application of the Whitewash Waiver
“3rd Announcement”	the announcement of the Company dated 6 August 2010 in relation to, among others, (i) the Underwriting Agreement; (ii) the Sub-underwriting Letter; (iii) the New Profit Agreement; (iv) the Special Deal; and (v) the revised timetable
“Access Capital”	Access Capital Limited, the independent financial advisor to the Open Offer Independent Board Committee, the Whitewash Waiver Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the transactions contemplated under the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal and a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“acting in concert”	has the same meaning ascribed to it under the Takeovers Code
“Anway”	Anway Limited, an indirect wholly-owned subsidiary of the Company, which holds 90% share interest in Best Favour
“Asian Capital” or “Underwriter”	Asian Capital (Corporate Finance) Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, the financial advisor to the Company and the underwriter to the Open Offer
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Authorised Share Capital Increase”	the increase of the authorised share capital of the Company from HK\$2,212,606.80 to HK\$500,000,000 by the creation of additional 49,778,739,320 New Shares at par value of HK\$0.01 each following the completion of the Capital Reduction, Capital Cancellation and Share Consolidation

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## DEFINITIONS

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“Best Favour”	Best Favour Investments Limited, an indirectly 90% owned subsidiary of the Company
“Board”	the board of Directors
“business day(s)”	any day other than Saturday, Sunday or any other day on which banks in Hong Kong are required or permitted to close
“Capital Cancellation”	the proposed cancellation of the unissued share capital of the Company in its entirety upon the Capital Reduction becoming effective, resulting in the authorised and issued share capital of the Company becoming HK\$2,212,606.80
“Capital Reduction”	the proposed reduction of the nominal value of each Share from HK\$0.10 to HK\$0.001
“Capital Reorganisation”	the proposed reorganisation of the capital of the Company including Capital Reduction, Capital Cancellation, Share Consolidation and Authorised Share Capital Increase
“Cash Consideration”	the sum of HK\$50,000,000 in cash
“Cayman Companies Law”	the Companies Law (2010 Revision) of the Cayman Islands as amended from time to time
“Cayman Islands Court”	the Grand Court of the Cayman Islands
“Cayman Scheme”	the proposed scheme of arrangement to be effected under Section 86 of the Cayman Companies Law, in its present form, or with or subject to modification of it, any addition to it or any condition approved or imposed by the Cayman Islands Court
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CITIC Bank”	CITIC Bank International Limited (formerly known as CITIC Ka Wah Bank Limited), the creditor of Anway
“Claim”	any debt, liability or obligation whether known or unknown, whether present or future, whether certain or contingent, whether liquidated or unliquidated and which include without limitation a debt or liability to pay money or money’s worth, any liability under any statute or enactment, any liability for breach of trust, any liability in contract, tort or bailment and any liability arising out of an obligation to make restitution which would be admissible to proof in a compulsory winding-up of a company under the Companies Ordinance or the Cayman Companies Law

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## DEFINITIONS

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“Closing”	the completion of all the transactions under the Restructuring Agreement
“Closing Date”	the date being a business day on which Closing takes place or such other date as the Provisional Liquidators, the Company and the Investor may agree in writing
“Closing Notice”	the written notice to be given by the Provisional Liquidators to the Investor within 3 business days following satisfaction of the conditions precedent (unless waived by agreement in writing) of the Restructuring Agreement
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Company”	Tack Fat Group International Limited (Provisional Liquidators Appointed), a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 00928)
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Conversion Price”	HK\$0.01 per Conversion Share
“Conversion Share(s)”	New Share(s) to be issued to (i) the Investor upon conversion of the Investor Convertible Bonds; and (ii) the Creditors upon conversion of the Creditors Convertible Bonds
“Convertible Bonds”	collectively, the Creditors Convertible Bonds and Investor Convertible Bonds
“Creditor”	a person to whom or which the Company owes a Claim other than the Preferential Creditors
“Creditors Convertible Bonds”	the convertible bonds to be issued by the Company with principal amount of HK\$20,000,000 and tenure of one year bearing an interest rate of 2% per annum and convertible into New Shares at the option of the holders at the Conversion Price of HK\$0.01 per Conversion Share
“Creditors Subscription Agreement”	the subscription agreement dated 6 July 2010 entered into by New Profit, Key Winner, the Company and the Provisional Liquidators setting out the terms and conditions of the Creditors Convertible Bonds
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to approve, the Open Offer, the Whitewash Waiver, the Special Deal and other transactions contemplated in the Restructuring Agreement to be held at 11:00 a.m. on Wednesday, 15 September 2010 or any adjournment thereof
“Escrow Agent”	FTI Consulting (Hong Kong) Limited (formerly known as FS Asia Advisory Limited and Ferrier Hodgson Limited), a company incorporated in Hong Kong with limited liability
“Ever Century”	Ever Century Holdings Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“Ever Century Shares”	700 ordinary shares of US\$1.00 each, being the entire issued share capital of Ever Century
“Exchange Participant”	has the same meaning ascribed to it under the Listing Rules
“Excluded Shareholders”	the Shareholders, whose addresses as shown on the register of members of the Company on the Record Date are in places outside Hong Kong where based on the legal opinions provided by the relevant overseas legal advisors of the Company, the Directors are of the opinion that it is necessary or expedient to exclude such Shareholders from the Open Offer on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in such places
“Exclusivity and Escrow Agreement”	the exclusivity and escrow agreement dated 12 January 2009 made between the Investor, the Provisional Liquidators and the Escrow Agent as amended pursuant to side letters dated 8 July 2009 and 8 January 2010 to grant the Investor an exclusivity period to negotiate the restructuring of the Group
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong, or any delegate of the Executive Director
“Forefront”	Forefront Finance Co., Limited, a company incorporated in Hong Kong with limited liability
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hansom”	Hansom Finance Limited, a company incorporated in Hong Kong with limited liability

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## DEFINITIONS

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“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Court”	the High Court of Hong Kong Special Administrative Region
“Hong Kong Scheme”	the proposed scheme of arrangement to be effected under Section 166 of the Companies Ordinance, in its present form, or with or subject to modification of it, any addition to it or any condition approved or imposed by the Hong Kong Court
“Independent Board Committees”	the Open Offer Independent Board Committee and the Whitewash Waiver Independent Board Committee
“Independent Shareholders”	the independent Shareholders, i) who are not the Investor, its ultimate beneficial owner and parties acting in concert with any of them, and/or not involved in or interested in (otherwise than solely as a Shareholder) the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal and therefore permitted to vote in respect of the resolutions to approve the transactions contemplated under the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal in the EGM; or ii) who are not the controlling Shareholder(s) and therefore permitted to vote in respect of the resolution to approve the Open Offer in the EGM
“Interested Shareholders”	the Shareholders who are also the Creditors, namely QVT and Quintessence, holding an aggregate of 1,087,262 Shares, representing approximately 0.05% of the existing issue share capital of the Company as at the Latest Practicable Date
“Investor”	Radford Developments Limited, a company incorporated in the British Virgin Islands with limited liability
“Investor Convertible Bonds”	the convertible bonds to be issued by the Company with principal amount of HK\$100,000,000 and tenure of three years bearing no interest and convertible into New Shares at the option of the holders at the Conversion Price of HK\$0.01 per Conversion Share
“Investor Subscription Agreement”	the subscription agreement dated 24 June 2010 entered into by the Investor, the Company and the Provisional Liquidators setting out the terms and conditions of the Investor Convertible Bonds

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## DEFINITIONS

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“Issue Mandate”	the general mandate proposed to be granted to the Directors to issue, allot and deal with additional New Shares of the Company not exceeding 20% of the total nominal amount of the issued share capital of the Company immediately after Closing on the Closing Date
“Key Winner”	Key Winner Holdings Limited, a company incorporated in Hong Kong with limited liability which is controlled by the Provisional Liquidators
“Last Acceptance Date”	22 October 2010, being the last date for acceptance of any payment for the Offer Shares
“Last Trading Date”	30 July 2008, being the last trading date of the Shares prior to the release of the 1st Announcement
“Latest Practicable Date”	27 August 2010, being the latest practicable date prior to the printing of this circular ascertaining certain information in this circular
“Latest Time for Termination”	27 October 2010, being the latest time for the Underwriter to terminate the Underwriting Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	15 December 2010, being the deadline set by the Stock Exchange for the Company to satisfy all the Resumption Conditions
“Memorandum and Articles of Association”	the memorandum and articles of association of the Company
“Merrier”	Merrier Limited, a company incorporated in the British Virgin Islands with limited liability
“New Profit”	New Profit Holdings Limited (In Creditors’ Voluntary Liquidation), a company incorporated in Hong Kong and a former indirect non-wholly owned subsidiary of the Company which was voluntarily wound up in May 2010
“New Profit Agreement”	the agreement dated 30 July 2010 entered into between the Company, the Provisional Liquidators, Best Favour, Key Winner, New Profit, the joint and several liquidator of New Profit, Anyway, CITIC Bank and Swimwear for the settlement of claims against New Profit and Anyway and release of security over shares in Best Favour

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## DEFINITIONS

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“New Profit Luo Ding”	New Profit Garment (Luo Ding) Company Limited, a company incorporated in the PRC and a wholly-owned subsidiary of New Profit
“New Profit Stakeholders”	Swimwear, CITIC Bank and Noble Group Investment Limited (the 10% shareholder of Best Favour) and any other person that may be identified during the restructuring process
“New Shares(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
“Offer Share(s)”	New Shares to be allotted and issued under the Open Offer, being 15,001,474,104 New Shares
“Open Offer”	the proposed issue of the Offer Shares on the basis of 339 Offer Shares for every 5 New Shares held by the Qualifying Shareholders on the Record Date on the terms to be set out in the Prospectus Documents and summarised herein
“Open Offer Independent Board Committee”	an independent board committee of the Board established which comprises of all the independent non-executive Directors, who have no direct or indirect interest in the Open Offer for advising the Independent Shareholders in relation to the Open Offer
“Overseas Letter”	a letter from the Company to the Excluded Shareholders explaining the circumstances in which the Excluded Shareholders are not permitted to participate in the Open Offer
“Overseas Shareholders”	the Shareholders with registered address on the register of members of the Company outside Hong Kong at the close of business on the Record Date
“Posting Date”	7 October 2010, the expected date for the despatch of the Prospectus Documents
“PRC” or “China”	the People’s Republic of China which, for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Preferential Creditor”	any creditor of the Company with a Claim against the Company which would be treated as a preferential claim and have a priority in a winding-up commenced on 12 November 2008 in Hong Kong pursuant to Section 265 of the Companies Ordinance

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## DEFINITIONS

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“Prospectus”	the prospectus under the Open Offer
“Prospectus Documents”	the Prospectus and the application form in respect of the assured entitlement under the Open Offer
“Provisional Liquidators”	Messrs Fok Hei Yu and Roderick John Sutton, the joint and several provisional liquidators of the Company, both of FTI Consulting (Hong Kong) Limited (formerly known as FS Asia Advisory Limited and Ferrier Hodgson Limited)
“Qualifying Shareholder(s)”	the Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Quintessence”	Quintessence Fund LP, a Creditor with a Claim of approximately HK\$9 million, representing approximately 0.79% of the total amount of the Claims based on the latest published accounts of the Company for the year ended 31 March 2010, and a Shareholder with an interest of 105,412 Shares, representing approximately 0.005% of the existing issued share capital of the Company as at the Latest Practicable Date
“QVT”	QVT Fund LP, a Creditor with a Claim of approximately HK\$83 million, representing approximately 7.27% of the total amount of the Claims based on the latest published accounts of the Company for the year ended 31 March 2010, and a Shareholder with an interest of 981,850 Shares, representing approximately 0.044% of the existing issued share capital of the Company as at the Latest Practicable Date
“Record Date”	6 October 2010, the date by reference to which entitlements to the Open Offer will be determined
“Repurchase Mandate”	the general mandate proposed to be granted to the Directors to exercise the power of the Company to repurchase New Shares up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company immediately after Closing on the Closing Date
“Restructuring Agreement”	the restructuring agreement dated 26 May 2010 entered into between the Company, the Provisional Liquidators, the Investor and the Escrow Agent in respect of the restructuring of the Group

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## DEFINITIONS

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“Resumption Conditions”	<p>the conditions set out in the Stock Exchange’s letter to the Company dated 9 April 2010 for the resumption of trading in the Shares as follows:</p> <ol style="list-style-type: none"><li>(1) complete the open offer, subscription of convertible bonds and all other transactions in the Resumption Proposal;</li><li>(2) publish a circular containing (i) detailed disclosure of the Resumption Proposal comparable to prospectus standard; (ii) profit forecast for each of the two years ending 31 March 2012 which should be prepared by the Directors (including proposed Directors) after due and careful enquiry; and (iii) pro forma balance sheet upon completion of the Resumption Proposal;</li><li>(3) provide comfort letter from the auditors or the financial advisor relating to working capital sufficiency for the next 12 months from the latest practicable date before expected resumption date; and</li><li>(4) undertake to (i) appoint an independent professional advisor to conduct follow-up reviews on the internal control procedures within 6 months from resumption date; and (ii) disclose the review results in subsequent financial reports</li></ol>
“Resumption Proposal”	<p>a resumption proposal submitted by the Company to the Stock Exchange in relation to the resumption of trading in the Shares</p>
“Scheme Administrators”	<p>such persons who are appointed as scheme administrators or their successors pursuant to the terms of the Hong Kong Scheme or Cayman Scheme, as the case may be</p>
“Scheme Creditors”	<p>those Creditors whose Claims are to be dealt with under the Schemes</p>
“Scheme Meetings”	<p>meetings of Creditors to sanction the Schemes, to be held at 10:00 a.m., on 30 August 2010, at 14th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong</p>
“Schemes”	<p>collectively the Hong Kong Scheme and the Cayman Scheme</p>
“Settlement Deed”	<p>the settlement deed dated 3 April 2009 entered into between the Company, the Provisional Liquidators, Merrier, Forefront, Hansom for the transfer of the Ever Century Shares back to the Company</p>

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Consolidation”	the proposed consolidation of every ten (10) issued shares of the company of HK\$0.001 each into one (1) consolidated New Share of HK\$0.01 each immediately upon the Capital Reduction becoming effective
“Share(s)”	ordinary share(s) of the Company from time to time
“Shareholder(s)”	holder(s) of the share(s) of the Company from time to time
“Special Deal”	the settlement of the Claims of the Interested Shareholders by way of cash consideration and the issue of the Creditors Convertible Bonds in the same proportion as the other Creditors (other than the Preferential Creditors) under the terms of the Schemes, which constitutes a special deal under Rule 25 of the Takeovers Code
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.01 per Offer Share
“Sub-underwriting Letter”	the sub-underwriting letter issued by the Investor to the Asian Capital on 27 July 2010 to accept an offer to subscribe for all the Untaken Shares
“Supplemental Restructuring Side Letter”	the side letter dated 24 August 2010 to supplement the Restructuring Agreement such that (i) closing is conditional on, save for all other conditions remaining unchanged, the Special Deal being approved by the Shareholders and the Executive; and (ii) the Long Stop Date is extended to 15 December 2010
“Suspension”	the suspension of trading in the Shares since 30 July 2008
“Swimwear”	Tack Fat Swimwear Manufacturing Limited (In Liquidation), a former wholly-owned subsidiary of the Company and a creditor of New Profit
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement entered into between the Company and Asian Capital on 27 July 2010 pursuant to which Asian Capital will fully underwrite the Offer Shares

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## DEFINITIONS

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“Untaken Shares”	the Offer Shares which have been offered to but have not been accepted by the Qualifying Shareholders and the Offer Shares to which the Excluded Shareholders would have been entitled if they are regarded as the Qualifying Shareholders and any fractional entitlement thereof
“Whitewash Waiver”	a waiver of the obligation of the Investor, its ultimate beneficial owner and parties acting in concert with any of them to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by them which may arise as a result of the transactions contemplated under the Restructuring Agreement, the Sub-underwriting Letter and the Investor Subscription Agreement relating to the conversion of the Investor Convertible Bonds
“Whitewash Waiver Independent Board Committee”	an independent board committee of the Board established which comprises of all the non-executive Directors, who have no direct or indirect interest in the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal, for advising the Independent Shareholders in relation to the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal
“Working Capital Account”	an account in the name of and controlled by the Provisional Liquidators into which the Investor has deposited HK\$10 million pursuant to the Exclusivity and Escrow Agreement
“XXEZZ Assets”	the assets which are an essential part of the Group’s retail apparel business in the PRC, namely inventory, accounts receivables and fixed assets, including the trademark of <i>XXEZZ</i>
“%”	per cent
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar(s), the lawful currency of the United States of America

*Unless the context requires otherwise, translation of HK\$ into RMB is made in this circular, for illustration purpose only, at the rates of approximately HK\$1.00 = RMB0.88.*

*Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

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## EXPECTED TIMETABLE

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*The expected timetable for the Capital Reorganisation and the Open Offer set out below is for indicative purposes only and has been prepared on the assumption that all the conditions of the Capital Reorganisation and the Open Offer will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.*

### EXPECTED TIMETABLE

**2010**

Latest time for lodging proxy forms for the EGM. . . . . 11:00 a.m. on  
Monday, 13 September

Expected date of the EGM . . . . . 11:00 a.m. on Wednesday,  
15 September

Announcement of results of the EGM. . . . . Wednesday, 15 September

**The following events are conditional on the results of the EGM and the relevant Cayman Islands Court hearings in relation to the Capital Reduction. The dates are therefore tentative.**

Latest time for lodging transfer of Shares in order to qualify  
for the posting of new share certificates for the New Shares . . . . . 4:30 p.m. on Tuesday,  
14 September

Closure of register of members for posting of new share  
certificates for New Shares (both dates inclusive) . . . . . Wednesday, 15 September to  
Wednesday, 22 September

Effective date of the Capital Reorganisation and record date  
for posting of new share certificates for the New Shares . . . . . After 5:00 p.m. on  
Wednesday, 22 September

Posting of new share certificate for the New Shares and  
register of members reopens . . . . . Friday, 24 September

Last day of cum-entitlements of the New Shares . . . . . Friday, 24 September

First day of ex-entitlements of the New Shares. . . . . Monday, 27 September

Latest time for lodging transfer of the New Shares  
in order to qualify for the Open Offer. . . . . 4:30 p.m. Tuesday,  
28 September

Closure of register of members to determine the eligibility  
of the Open Offer (both dates inclusive) . . . . . Wednesday, 29 September to  
Wednesday, 6 October

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## EXPECTED TIMETABLE

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Record Date for the Open Offer . . . . .	Wednesday, 6 October
Register of members reopens and despatch of the Prospectus Documents . . . . .	Thursday, 7 October
Latest time for acceptance of and payment for Offer Shares . . . . .	4:00 p.m. Friday, 22 October
Latest Time for Termination . . . . .	4:00 p.m. Wednesday, 27 October
Announcement of results of the Open Offer . . . . .	Thursday, 28 October
Despatch of certificates for Offer Shares . . . . .	Monday, 1 November
If the Open Offer is terminated, refund checks to be despatched on or before . . . . .	Monday, 1 November
Resumption of trading in the Shares and dealings in Offer Shares commence . . . . .	Wednesday, 3 November

*Note: All references to time in this circular are references to Hong Kong time.*

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER**

If there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning
  - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Last Acceptance Date, the latest time of acceptance of and payment for the Offer Shares will not take place at 4:00 p.m. on the Last Acceptance Date, but will be extended to 5:00 p.m. on the same day instead;
  - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Last Acceptance Date, the latest time of acceptance of and payment for the Offer Shares will not take place on the Last Acceptance Date, but will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on the Last Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. An announcement will be made by the Company in such event.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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**TACK FAT GROUP INTERNATIONAL LIMITED**  
**(Provisional Liquidators Appointed)**  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 00928)

*Provisional Liquidators:*

Mr. John Roderick SUTTON

Mr. FOK Hei Yu

*Non-executive Director:*

Mr. MCMULLEN James

*Independent non-executive Directors:*

Mr. PAU Chin Hung, Andy

Mr. CHOONG Khuat Leok

Mr. KOOI Tock Chian

*Registered Office:*

Century Yard

Cricket Square, Hutchins Drive

George Town, Grand Cayman

Cayman Islands

British West Indies

*Principal place of business*

*in Hong Kong:*

14/F The Hong Kong Club Building

3A Chater Road, Central

Hong Kong

31 August 2010

*To the Shareholders*

Dear Sir or Madam,

- RESTRUCTURING OF TACK FAT GROUP INTERNATIONAL LIMITED  
(PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER ALIA,**
- (1) PROPOSED OPEN OFFER ON THE BASIS OF 339 OFFER SHARES FOR EVERY 5 NEW SHARES HELD ON THE RECORD DATE;**
  - (2) PROPOSED ISSUE OF CONVERTIBLE BONDS;**
  - (3) APPLICATION FOR WHITEWASH WAIVER;**
  - (4) SPECIAL DEAL;**
  - (5) PROPOSED APPOINTMENT OF DIRECTORS;**
- AND**
- (6) GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES**

### INTRODUCTION

It was set out in the 1st Announcement and the 2nd Announcement that the Company proposed to effect the Capital Reorganisation and raise approximately HK\$150 million, before expenses, by issuing 15,001,474,104 Offer Shares at the Subscription Price of HK\$0.01 per Offer Share on the basis of 339 Offer Shares for every 5 New Shares held by the Qualifying Shareholders on the Record Date and payable in full on acceptance. It was also set out in the 2nd Announcement that, on 24 June 2010, the Company, the Provisional Liquidators and the Investor entered into the Investor Subscription Agreement and on 6 July 2010, the Company, the Provisional Liquidators, New Profit and Key Winner entered into the Creditors Subscription Agreement for the subscription of the Investor Convertible Bonds and Creditors Convertible Bonds respectively.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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As disclosed in the 3rd Announcement that on 6 August 2010, the Underwriting Agreement was entered into between the Company and the Underwriter and the Sub-underwriting Letter was issued by the Underwriter and accepted by the Investor on 27 July 2010. It was also announced in the 3rd Announcement that the Company despatched a circular in relation to the proposed Capital Reorganisation on 7 August 2010 and a separate extraordinary general meeting would be held on 30 August 2010.

Reference is made to the Company's announcement dated 14 April 2010. It was set out in the letter from the Stock Exchange dated 9 April 2010 that trading in the Shares will be resumed if the Company fulfils the Resumption Conditions by 8 October 2010. As the expected date to complete all the Resumption Conditions will be delayed according to the expected timetable set out on page 12 in this circular, the Company had applied and the Stock Exchange has agreed on 20 August 2010 that the time for the satisfaction of the Resumption Conditions is extended to 15 December 2010.

The purpose of this circular is to provide you with, among other matters, (i) further details of the Restructuring Agreement, the Open Offer, the Investor Subscription Agreement, the Creditors Subscription Agreement, the Underwriting Agreement, the Sub-underwriting Letter, the Whitewash Waiver and the Special Deal; (ii) the advice from Access Capital to the Independent Board Committees and the Independent Shareholders on the terms of the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal (as the case may be); (iii) the recommendation from the Independent Board Committees to the Independent Shareholders on the terms of the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal (as the case may be); (iv) the information regarding the proposed appointment of the Directors; (v) the information regarding the Issue Mandate and Repurchase Mandate; and (vi) notice of the EGM.

### THE RESTRUCTURING AGREEMENT

On 26 May 2010, the Company, the Provisional Liquidators, the Investor and the Escrow Agent entered into the Restructuring Agreement which provided for, *inter alia*, the proposed terms for the Capital Reorganisation, the Open Offer, the Investor Subscription Agreement, debt restructuring and the Schemes, and the proposed application for the Whitewash Waiver. Terms of these proposed transactions have been finalised and set out in the relevant sections below. The parties to the Restructuring Agreement entered into the Supplemental Restructuring Side Letter on 24 August 2010 to supplement the Restructuring Agreement in the way that (i) Closing is now conditional on, save for all other conditions remaining unchanged, the Special Deal being approved by the Shareholders in the EGM and the consent for the Special Deal being granted by the Executive; and (ii) the Long Stop Date is extended to 15 December 2010, being the deadline set by the Stock Exchange for the Company to satisfy all the Resumption Conditions. The Investor has no intention to waive the condition in respect of the Special Deal of the Restructuring Agreement as supplemented by the Supplemental Restructuring Side Letter.

### Conditions precedent

Closing is conditional on satisfaction of each of the following conditions precedent (unless waived by agreement in writing of the Investor and the Provisional Liquidators):

- (i) the Hong Kong Scheme being sanctioned by the Hong Kong Court;

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- (ii) the Cayman Scheme being sanctioned by the Cayman Islands Court;
- (iii) the issue of Investor Convertible Bonds and Creditors Convertible Bonds, the Capital Reorganisation, the Open Offer, the appointment of new Directors (as agreed between the Investor and the Company and conditional and subject only on the issue of the Closing Notice and to the provisions of the Takeovers Code), the Whitewash Waiver, the Special Deal, and other transactions contemplated in the Restructuring Agreement being approved by the Shareholders in the EGM;
- (iv) the approval for resumption of trading in the Shares and the New Shares being confirmed by the Stock Exchange;
- (v) the granting by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the New Shares in issue on Closing and to be issued pursuant to the Restructuring Agreement, the Investor Subscription Agreement and the Creditors Subscription Agreement;
- (vi) the granting by the Executive of the Whitewash Waiver;
- (vii) the consent by the Executive in respect of the Special Deal;
- (viii) the withdrawal of the petition to wind-up the Company and the discharge of the Provisional Liquidators;
- (ix) the due execution of the Investor Subscription Agreement, the Creditors Subscription Agreement, the Underwriting Agreement and the New Profit Agreement;
- (x) the completion of the Open Offer;
- (xi) execution of transfer agreement in respect of transfer of claims and any non-XXEZZ Assets to Key Winner (for the benefit of the Scheme Creditors);
- (xii) the release of share charges over the shares of Ever Century; and
- (xiii) provision of evidence of the Investor to pay HK\$74,000,000 and the remaining costs in the amount of HK\$4,800,000 on Closing.

Conditions (ix) has been fulfilled. The Investor has no intention to waive conditions (iii) and (vi) in respect of the Whitewash Waiver.

### **Interim working capital**

The Provisional Liquidators shall hold the working capital provided by the Investor under the Exclusivity and Escrow Agreement in the Working Capital Account to be used pending Closing or termination of the Restructuring Agreement solely for the purpose of funding the working capital needs of the XXEZZ Assets. Any amounts standing to the credit of the Working Capital Account will be paid by the Provisional Liquidators to the Investor on termination of the Restructuring Agreement or to the Company on the Closing Date.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### Group reorganisation

It was disclosed in the audited annual report of the Company for the year ended 31 March 2009 that pursuant to the Company's announcement dated 29 May 2007, the Company acquired the *XXEZZ* business in June 2007 by acquiring 90% interest in Best Favour, which was principally engaged in fashion design and management of its *XXEZZ* brand of smart casual wear. Investigations conducted by the Provisional Liquidators show that the brand "*XXEZZ*" did not belong to the Group. However, Best Favour has always been managing the brand of *XXEZZ* pursuant to a written authority. With the Provisional Liquidators' effort to rectify such situation, *XXEZZ* trademark is now owned by a company, which does not belong to the Group but is controlled by the Provisional Liquidators. The Provisional Liquidators will take all necessary steps to transfer the *XXEZZ* trademark to the Group to facilitate the Group's business continuity before Closing and undertake to take such other steps as are necessary to procure that on Closing the Group's only assets are the *XXEZZ* Assets.

### Termination

The Provisional Liquidators may terminate the Restructuring Agreement on written notice to the Investor if the Investor breaches or defaults in any of its obligations under the Restructuring Agreement or fails to comply fully with such obligations and fails to rectify such breach, default or non-compliance within 10 business days of the Provisional Liquidators notifying the Investor in writing of such breach, default or non-compliance. If the Restructuring Agreement is terminated in this manner, all Creditors' Claims together with interest shall continue to remain due and payable by the Company and the Provisional Liquidators will be entitled to retain all amounts standing to the credit of the account controlled by the Provisional Liquidators for the purpose of paying costs and expenses for implementing the Restructuring Proposal (the "**Costs Account**").

The Investor shall be entitled to terminate the Restructuring Agreement on written notice to the Company and the Provisional Liquidators if Closing does not occur on or before the Long Stop Date other than as a result of the Investor breaching or defaulting in any of its obligations under the Restructuring Agreement or failing to comply fully with its obligations under the Restructuring Agreement. If the Restructuring Agreement is terminated in this manner, all Creditors' Claims together with interest shall continue to remain due and payable by the Company and the Provisional Liquidators will transfer to the Investor all amounts standing to the credit of the Working Capital Account and the Costs Account, less any unpaid costs and expenses payable up to the date of termination.

The Restructuring Agreement shall be terminated automatically if:

- (i) the listing of the Shares has been cancelled by the Stock Exchange before the Closing Date and the Company has failed in an appeal to the Listing Appeals Committee of the Stock Exchange to reverse the decision;
- (ii) an order has been made by the Hong Kong Court to wind-up the Company; or
- (iii) the Provisional Liquidators and the Investor agree in writing that the Restructuring Agreement shall be terminated.

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If the Restructuring Agreement is terminated automatically, all Creditors' Claims together with interest shall continue to remain due and payable by the Company and the Provisional Liquidators will transfer to the Investor all amounts standing to the credit of the Working Capital Account and the Costs Account, less any unpaid costs and expenses payable up to the date of termination.

### Exclusivity and Escrow Agreement

Pursuant to the Restructuring Agreement, the Exclusivity and Escrow Agreement will continue in full force and effect until the earlier of the Closing or the termination of the Restructuring Agreement.

### PROPOSED CAPITAL REORGANISATION

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$400,000,000 comprising 4,000,000,000 Shares of HK\$0.10 each, of which 2,212,606,800 Shares had been issued and fully paid. The issued share capital of the Company was HK\$221,260,680. The Company intends to put forward a proposal to the Shareholders to effect the Capital Reorganisation at a separate extraordinary general meeting to be held on 30 August 2010.

The effect of the Capital Reorganisation on the share capital of the Company is summarised in the following table:

	Prior to the Capital Reorganisation	After the Capital Reduction	After the Capital Cancellation	After the Share Consolidation	After the Authorised Share Capital Increase
Par value of share (HK\$)	0.10	0.001	0.001	0.01	0.01
Number of authorised shares	4,000,000,000	4,000,000,000	2,212,606,800	221,260,680	50,000,000,000
Authorised share capital (HK\$)	400,000,000.00	4,000,000.00	2,212,606.80	2,212,606.80	500,000,000.00
Number of shares in issue	2,212,606,800	2,212,606,800	2,212,606,800	221,260,680	221,260,680
Paid-up capital (HK\$)	221,260,680.00	2,212,606.80	2,212,606.80	2,212,606.80	2,212,606.80

A credit amount of approximately HK\$219 million arising from the Capital Reduction will be applied in a manner as permitted by the Cayman Companies Law and the Memorandum and Articles of Association, including but not limited to setting off part of the accumulated losses of the Company of approximately HK\$2,188 million as at 31 March 2010.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

Details of the Capital Reorganisation were disclosed in the Company's circular despatched to the Shareholders on 7 August 2010.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### PROPOSED OPEN OFFER

The Company, subject to the Capital Reorganisation becoming effective, proposes to raise approximately HK\$150 million before expenses, by way of the Open Offer of 15,001,474,104 Offer Shares at the Subscription Price of HK\$0.01 per Offer Share on the basis of 339 Offer Shares for every 5 New Shares to be held by the Qualifying Shareholders on the Record Date and payable in full on application. The Offer Shares will have a nominal amount of approximately HK\$150 million in aggregate.

### Issue Statistics of the Open Offer

Basis of the Open Offer	:	339 Offer Shares for every 5 New Shares held on the Record Date by the Qualifying Shareholders
Subscription price	:	HK\$0.01 per Offer Share payable in full upon application
Number of New Shares upon completion of the Capital Reorganisation	:	221,260,680 New Shares
Number of Offer Shares	:	15,001,474,104 Offer Shares, representing: <ul style="list-style-type: none"><li>(a) approximately 678.00% of the existing issued share capital of the Company;</li><li>(b) approximately 6,780.00% of the issued share capital of the Company upon the completion of the Capital Reorganisation;</li><li>(c) approximately 98.55% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issue of the Offer Shares;</li><li>(d) approximately 59.48% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issue of the Offer Shares and full conversion of the Investor Convertible Bonds only;</li><li>(e) approximately 87.10% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issue of the Offer Shares and full conversion of the Creditors Convertible Bonds only; and</li></ul>

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- (f) approximately 55.11% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the issue of the Offer Shares and full conversion of the Investor Convertible Bonds and Creditors Convertible Bonds;

Enlarged issued share capital upon completion of the Open Offer and before conversion of the Convertible Bonds : 15,222,734,784 New Shares

### **Qualifying Shareholders**

The Open Offer will be available only to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Prospectus, for information only, to the Excluded Shareholders.

To qualify for the Open Offer, the Shareholder must be registered as a member of the Company on the Record Date and not be an Excluded Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the shares of the Company (with the relevant share certificate(s)) with the Hong Kong share branch Registrar, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Tuesday, 28 September 2010.

### **Closure of register of members**

The Company's register of members will be closed from Wednesday, 29 September 2010 to Wednesday, 6 October 2010 (both dates inclusive), for the purpose of, among other things, establishing entitlements to the Open Offer. No transfer of Shares will be registered during this period.

### **Subscription Price**

The Subscription Price for the Offer Shares is HK\$0.01 per Offer Share, payable in full upon application under the Open Offer.

The Subscription Price, which is equivalent to the par value of the New Shares, represents:

- (a) a discount of approximately 99.75% to the theoretical closing price of HK\$4.00 per share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.40 per Share as quoted on the Stock Exchange on the Last Trading Date;

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- (b) a discount of approximately 99.78% to the average theoretical closing price of HK\$4.46 per share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.446 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;
- (c) a discount of approximately 99.79% to the average theoretical closing price of HK\$4.79 per share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.479 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date;
- (d) a premium of approximately HK\$5.87 over the audited consolidated net liabilities per New Share of approximately HK\$5.86 as at 31 March 2010 (based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million at 31 March 2010 and 221,260,680 New Shares in issue upon the Capital Reorganisation becoming effective); and
- (e) a premium of approximately HK\$0.0043 over the unaudited pro forma net assets value per New Share of approximately HK\$0.0057 as at 31 March 2010 based on the unaudited pro forma net assets value of approximately HK\$86.70 million as at 31 March 2010 and 15,222,734,784 New Shares to be in issue upon the Capital Reorganisation becoming effective and the issue of the Offer Shares and before conversion of the Convertible Bonds.

The Subscription Price was determined after arm's length negotiations between the Company and the Investor. In determining the Subscription Price, the Company and the Investor have taken into consideration, among other things, the Suspension and the audited consolidated net liabilities per Share of approximately HK\$5.86 as at 31 March 2010 based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million and 2,212,606,800 Shares in issue as set out in the Company's published audited financial statements for the year ended 31 March 2010.

Each Shareholder will be entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors, including the members of the Open Offer Independent Board Committee (who has given their view in the section of "Letter from the Open Offer Independent Board Committee" as set out in page 70 in this circular) consider that the terms of the Open Offer including the Subscription Price are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Fractions of Offer Shares**

Fractional entitlements to Offer Shares will not be issued but will be aggregated and taken up by the Underwriter. For example, a Qualifying Shareholder who holds 13 New Shares as at the Record Date, he/she/it will be entitled to receive 881 Offer Shares on pro-rata basis.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### **Share certificates for the fully-paid Offer Shares and refund checks**

Subject to fulfillment of the conditions of the Open Offer, share certificates for all fully paid Offer Shares are expected to be posted to the Qualifying Shareholders who have successfully applied for, and paid for them, after the Latest Time for Termination, at their own risk. The board lot size of the fully paid Offer Shares is 8,000 and the theoretical board lot value of the Offer Shares will be HK\$32,000. If the Open Offer is terminated, refund checks will be despatched on or before Monday, 1 November 2010 by ordinary post at the respective Shareholders' own risk.

### **Status of the Offer Shares**

The Offer Shares (when allotted, fully paid and issued) will rank *pari passu* in all respects with the New Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

### **Rights of Excluded Shareholders**

If on the Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents are not expected to be registered and/or filed under the applicable securities legislation of any jurisdictions outside Hong Kong. The Board will make enquiries as to whether the offer or the issue of Offer Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory bodies or stock exchanges pursuant to Rule 13.36(2)(a) of the Listing Rules. If, based on the legal opinions provided by the relevant overseas advisors to the Company, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders on account of either the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Open Offer will not be available to such Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Excluded Shareholders. The results of the enquiries and the basis of any exclusion of the Overseas Shareholders will be included in the Prospectus Documents.

The Company will send the Prospectus, for information only, to the Excluded Shareholders (if any) and will not send any application form in respect of the assured allotment of Offer Shares to the Excluded Shareholders. However, so long as the Excluded Shareholders are Independent Shareholders, they are entitled to cast their votes on the resolution(s) in relation to the Open Offer and the Whitewash Waiver in the EGM.

### **No Transfer of nil-paid entitlements and no application for excess Offer Shares**

The invitation to subscribe for Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange.

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The Company has also decided that the Qualifying Shareholders will not be entitled to subscribe for any Offer Share in excess of their respective assured entitlements. Considering that each Qualifying Shareholder will be given equal and fair opportunities to participate in the Company's future development by subscribing for his/her/its entitlements under the Open Offer, the Company considers it appropriate not to put in additional effort and costs to administer the excess application procedures. Any Offer Shares not taken up by the Shareholders will be underwritten by the Underwriter. Details of the Underwriting Agreement are set out in the section below. As the Underwriter is not directly or indirectly owned by any of the Directors, chief executive or substantial Shareholder or any associates of them, therefore, the absence of excess application does not require approval by the Shareholders in the EGM.

### **Application for listing**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between the Exchange Participants on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **Conditions of the Open Offer**

Completion of the Open Offer is conditional, among others, upon:

- (i) the Capital Reorganisation becoming effective;
- (ii) the passing of the necessary resolutions by the Independent Shareholders in the EGM to approve the Open Offer and the Whitewash Waiver;
- (iii) the Executive granting the Whitewash Waiver and the satisfaction of any conditions attached thereto;
- (iv) the Hong Kong Scheme being sanctioned by the Hong Kong Court and the Cayman Scheme being sanctioned by the Cayman Islands Court;
- (v) the duly execution of the Underwriting Agreement and the Underwriting Agreement not being terminated or rescinded by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- (vi) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors as having been approved by the resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Posting Date;
- (vii) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Posting Date; and
- (viii) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, the Offer Shares by no later than the first day of their dealings.

The Company has no intention to waive any of these conditions.

### **Reasons for the Open Offer and use of proceeds**

The Group is principally engaged in the retailing of apparels in the PRC.

Under the Schemes, the Company will transfer all its cash held to the Scheme Administrators for the benefit of the Scheme Creditors at Closing, but less any cash to be applied in satisfaction of Costs, any cash raised by the Open Offer of New Shares and any proceeds from the Company's issue of the Investor Convertible Bonds. The Company is of the view that it is prudent to finance the Group in form of equity to fund its working capital needs and long term organic growth. The gross proceeds from the Open Offer is approximately HK\$150 million and the net proceeds from the Open Offer after deducting for expenses to be paid by the Company for the issue and application for listing of the Offer Shares is estimated to be approximately HK\$146 million. Together with the subscription of the Investor Convertible Bonds by the Investor, the Company will receive further approximately HK\$24 million in cash after Closing. As such, the Company will have a cash position amounting to approximately HK\$170 million after Closing and is of the view that this level of cash position will facilitate the Group's business development in the long run.

In view of the potential dilution effect of the interests of the Shareholders due to the issue of Investor Convertible Bonds and the Creditors Convertible Bonds, the Open Offer is an opportunity for the Shareholders to participate in the growth of the Group.

### **Fund raising activities in the past 12 months**

The Company did not carry out any rights issue, open offer or other issue of equity securities for fund raising purpose or otherwise within the past 12 months immediately prior to the Latest Practicable Date.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### UNDERWRITING ARRANGEMENT AND THE SUB-UNDERWRITING LETTER

On 27 July 2010, the Company and the Underwriter entered into the Underwriting Agreement. The Underwriter, which is licensed under the SFO to perform Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, is also the financial advisor to the Company. Save for that, the Underwriter is an independent third party of the Company or its connected persons. Save for being engaged as the financial advisor to the Company, the Underwriting Agreement and the Sub-underwriting Letter, there is no agreement or arrangement between the Underwriter and the Company or the Investor, its ultimate beneficial owner and parties acting in concert with any of them.

Pursuant to the Underwriting Agreement, the Underwriter conditionally agreed to fully subscribe or procure subscription for the Offer Shares which have not been taken up by the Shareholders and any fractional entitlement to Offer Shares. The maximum number of the Untaken Shares underwritten by the Underwriter is 15,001,474,104 Offer Shares. The Underwriter will receive an underwriting commission of 2.75% of the aggregate Subscription Price for the Offer Shares.

### Conditions precedent to the Underwriting Agreement

The obligations of the Company and the Underwriter hereto under the Underwriting Agreement are conditional upon:

- a) the approval by the Shareholders in the EGM of all the transactions contemplated under the Restructuring Agreement and the Underwriting Agreement including but not limited to the allotment and issue of the Offer Shares;
- b) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong, respectively, one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Posting Date;
- c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter to the Excluded Overseas Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Posting Date; and
- d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings as stated in the Prospectus.

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If any of the conditions is not fulfilled by the respective time and/or date specified above (or such later time and/or date as the Underwriter may agree), then either party may by notice to the other party terminate the Underwriting Agreement, in which case, no party to the Underwriting Agreement shall have any claim against any other party to the Underwriting Agreement for costs, damages, compensation or otherwise except that such termination shall be without prejudice to any accrued rights or obligations under the Underwriting Agreement.

### **Underwriter's obligations under the Underwriting Agreement**

If and to the extent that at 4:00 p.m. on the business day after the Last Acceptance Date, there shall be any Untaken Shares, then the Underwriter shall subscribe or shall procure subscriber(s) to subscribe for all such Untaken Shares on the terms as set out in the Prospectus Documents (other than as to the time of acceptance and payment) and shall pay or procure to be paid to the Company the aggregate Subscription Price in respect of the Untaken Shares by not later than 4:00 p.m. on the third business day after the Last Acceptance Date.

The Underwriter shall provide the name(s) and account number(s) of itself or such subscriber(s) to the Company by not later than 4:00 p.m. on the second business days after the Last Acceptance Date. Following payment as aforesaid, all obligations and liabilities of the Underwriter under the Underwriting Agreement shall cease.

In the event that the Underwriter defaults in complying with its obligations in the Underwriting Agreement, the Company is irrevocably authorised to treat the Underwriting Agreement as an application by the Underwriter for the number of the Untaken Shares and subject to the terms and conditions and on the basis of the information contained in the Prospectus Documents (other than as to the time of acceptance and payment). Pursuant to the terms of the Sub-underwriting Letter as disclosed below, the obligation of the Underwriter in respect of the Untaken Shares is fully sub-underwritten by the Investor. In the case of default by the Underwriter, the Investor will substitute the Underwriter to take up the Untaken Shares in the event that the Underwriter does not exercise its right to procure other subscribers. As such, the Underwriter will not trigger a general offer obligation under the Takeovers Code.

The Underwriter undertakes to the Company that in the event that the Underwriter exercises its right to procure subscribers other than the Investor, it will procure third parties independent of the Company, the Company's connected person, and the Investor, its ultimate beneficial owner and parties acting in concert with any of them to be the subscribers and the subscription of the aggregate Untaken Shares by any subscribers procured by the Underwriter will not result in any general offer obligation upon allotment and issue of the Offer Shares to them.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### Termination Clause of the Underwriting Agreement

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination, any of the following happens:

- (a) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
  - (1) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole;
  - (2) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole;
  - (3) any material adverse change; or
  - (4) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole.
- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the business of the Group taken as a whole and a change in currency conditions for the purpose of the Underwriting Agreement includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (c) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement of a material nature which would materially and adversely affect the success of the Open Offer.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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**The Company may, by way of giving written notice to the Underwriter, to terminate and rescind the Underwriting Agreement at any time before the Latest Time for Termination if the Restructuring Agreement is terminated pursuant to the terms thereto.**

### **Sub-underwriting Letter**

On 27 July 2010, the Underwriter offered in writing to the Investor and the Investor accepted by the Sub-underwriting Letter to act as a sub-underwriter to subscribe for up to 15,001,474,104 Offer Shares, i.e. the maximum number of the Untaken Shares. The Investor and the Underwriter are independent to each other.

The Sub-underwriting Letter may be terminated if the Underwriting Agreement is terminated by either the Underwriter or the Company pursuant to the conditions and termination clause in the Underwriting Agreement listed out above.

### **Sub-underwriter's obligations under the Sub-underwriting Letter**

Upon the Underwriter's notification about the total number of the Untaken Shares on or before 5:00 p.m. on the business day after the Last Acceptance Date, the Investor is required to arrange payment of the aggregate Subscription Price of the Untaken Shares by telegraphic transfer in Hong Kong dollars on or before 4:00 p.m. on the second business day after the Last Acceptance Date to the Company's account.

The Investor shall provide with the Underwriter details of the designated custodian for the deposit of the Untaken Shares by not later than 12:00 noon on the third business day after the Last Acceptance Date.

The Investor shall bear and arrange the payment of the buyer's ad valorem stamp duty payable to the Government of Hong Kong, buyer's Stock Exchange trading fee, buyer's SFC transaction levy and buyer's CCASS stock settlement fee, if required, arising from the subscription of the Untaken Shares.

In the event that the Investor defaults in complying with its obligations in the Sub-underwriting Letter, the Underwriter shall reserve the right to procure other subscribers to subscribe for the Untake Shares or treat the Sub-underwriting Letter as an application by the Investor for the number of the Untake Shares and subject to the terms and conditions and on the basis of the information contained in the Prospectus Documents (other than as to the time of acceptance and payment) and the Underwriter will instruct the Company to allot and issue such Untaken Shares to the Investor upon such terms and conditions. As such, the Investor shall pay to the Company the full amount in respect of the relevant number of Untaken Shares against delivery by the Company to the Investor (or as it may direct) of documentary evidence of entitlement to the Untaken Shares. The Open Offer shall be completed upon payment by the Investor. The completion of the Open Offer is one of the Resumption Conditions for the resumption of trading in the shares of the Company.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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In the event that the Company has allotted and issued the Untaken Shares to the Investor under the Sub-underwriting Letter and the Investor fails to pay to the Company the subscription money in respect of the aggregate Subscription Price of the Untaken Shares issued and allotted to the Investor, it would be a claim of unpaid subscription money between the Company, the Underwriter and the Investor. If due to the fact that the Company does not receive the payment from the Investor, the Listing Committee of the Stock Exchange does not grant or withdraws or revokes listing of and permission to deal in the Offer Shares (the condition (d) to the Underwriting Agreement), the Open Offer will not be completed, the Resumption Conditions cannot be satisfied and trading in the Shares cannot be resumed.

The Underwriter will not take up any of the Untaken Shares as a result of entering into the Sub-underwriting Letter with the Investor.

### WARNING OF THE RISK OF DEALING IN THE SHARES

**The New Shares will be on an ex-entitlement basis commencing from Monday, 27 September 2010 based on the expected timetable in this circular. The Open Offer is conditional upon, *inter alia*, the fulfilment or waiver of the conditions set out under the paragraph headed “Conditions of the Open Offer” of this circular. In particular, it is subject to the Underwriting Agreement not being terminated in accordance with its terms thereof. The Open Offer may or may not proceed. Any dealing in the Shares from the Latest Practicable Date up to the date on which all the conditions of the Open Offer are fulfilled or waived will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealings in the Shares are recommended to consult their own professional advisors. Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the shares of the Company.**

### THE INVESTOR SUBSCRIPTION AGREEMENT

Date	:	24 June 2010
Issuer	:	The Company
Subscriber	:	The Investor
Conditions precedent	:	Completion of the Investor Subscription Agreement is conditional upon, <i>inter alia</i> :  (i) approval by the Independent Shareholders in the EGM of transactions contemplated under the Restructuring Agreement and the Investor Subscription Agreement including but not limited to the issue of the Investor Convertible Bonds and the Conversion Shares;

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- (ii) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and the Investor do not reasonably object) approval for the listing of and permission to deal in the Conversion Shares; and
- (iii) the conditions precedent of the Restructuring Agreement (other than any conditions precedent relating to the Investor Subscription Agreement) having been satisfied or waived in accordance with the terms thereof.

Termination : The Investor may, by notice to the Company, terminate the Investor Subscription Agreement if there is a material adverse change prior to Closing and to rescind the Investor Subscription Agreement pursuant to the terms stipulated in the Investor Subscription Agreement.

The Company may, by notice to the Investor, terminate the Investor Subscription Agreement at any time before the Closing Date if the Restructuring Agreement is terminated pursuant of the terms thereto.

Completion : Subject to the fulfillment of the conditions precedent of the Investor Subscription Agreement, completion shall take place on the Closing Date.

### **Principal terms of Investor Convertible Bonds**

Reference is made to the 2nd Announcement, the Company announced that on 24 June 2010, the Company, the Provisional Liquidators and the Investor entered into the Investor Subscription Agreement pursuant to which the Company agreed to issue Investor Convertible Bonds with principal amount of HK\$100 million, with zero coupon and 3-year tenure, after Closing Date bearing no interest and convertible into New Shares at the Conversion Price of HK\$0.01 per Conversion Share. The principal terms of the Investor Convertible Bonds are summarised below:

Issuer	:	the Company
Subscriber	:	the Investor
Principal amount	:	HK\$100,000,000
Issue price	:	HK\$100,000,000
Coupon rate	:	zero coupon

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- Maturity date : the third anniversary of the issue date of Investor Convertible Bonds
- Conversion Price : The holders of the Investor Convertible Bonds will have the right to convert Investor Convertible Bonds into Conversion Shares at the initial Conversion Price of HK\$0.01 per Conversion Share (subject to adjustment), representing (i) a discount of approximately 99.75% to the theoretical closing price of HK\$4.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.40 per Share as quoted on the Stock Exchange on the Last Trading Date; (ii) a discount of approximately 99.78% to the average theoretical closing price of HK\$4.46 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.446 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Date; (iii) a discount of approximately 99.79% to the average theoretical closing price of HK\$4.79 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.479 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Date; (iv) a premium of approximately HK\$5.87 over the audited consolidated net liabilities per New Share of approximately HK\$5.86 as at 31 March 2010 based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million at 31 March 2010 and 221,260,680 New Shares in issue upon Capital Reorganisation; and (v) a premium of approximately HK\$0.0043 over the unaudited pro forma net assets value per New Share of approximately HK\$0.0057 as at 31 March 2010 based on the unaudited pro forma net assets value of approximately HK\$86.70 million as at 31 March 2010 and 15,222,734,784 New Shares to be in issue upon the Capital Reorganisation becoming effective and the issue of the Offer Shares and before conversion of the Convertible Bonds.
- Adjustments to conversion price : The conversion price will be subject to adjustments for, among other things, subdivisions, consolidations or reclassification of New Shares, capitalisation of profits or reserves, capital distributions, stock dividends, rights issues and other events which may have a diluting effect on the bondholders.
- Conversion period : The holders of the Investor Convertible Bonds will have the right to convert the whole or any part of the outstanding principal amount of the Investor Convertible Bonds into Conversion Shares at any time during the period commencing on the Closing Date and ending on seven days before the maturity date at the Conversion Price per Conversion Share.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- Redemption : Unless previously converted into New Shares, the outstanding principal amount of the Investor Convertible Bonds will be redeemed at 100% of their outstanding principal amount on the maturity date.
- Early redemption : The Investor Convertible Bonds may be redeemed in amounts of HK\$1,000,000 or integral multiples thereof at the option of the Company on any business day prior to the maturity date by giving not less than seven (7) business days' prior written notice to a holder of the Investor Convertible Bonds.
- Ranking of Investor Convertible Bonds : The Investor Convertible Bonds shall constitute direct, unsubordinated, unconditional and unsecured obligations of the Company.
- Ranking of Conversion Shares : The Conversion Shares will rank *pari passu* in all respects with the New Shares then in issue on the relevant date of registration of holders of such Conversion Shares on the register of members of the Company. Holders of the Conversion Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Conversion Shares.
- Listing: : No application will be made for the listing of Investor Convertible Bonds. An application has been made for the listing of, and permission to deal in, the New Shares to be issued by the Company upon the conversion of Investor Convertible Bonds.
- Transferability : None of the Investor Convertible Bonds (nor any part thereof) can be transferred without the prior written consent of the Company, except by a transfer to subsidiaries (as that term defined in the Listing Rules) or the holding company (as that term defined in the Companies Ordinance of the holder of the Investor Convertible Bonds). The Investor undertakes to the Company that any transfer to be made will be subject to the compliance with the Listing Rules.
- Denomination : HK\$1 million and integral multiples thereof.
- Voting : Holder(s) of the Investor Convertible Bonds will not be entitled to attend or vote at any general meetings of the Company by reason of merely being the holder of Investor Convertible Bonds.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### Effect on the share capital

Based on the Conversion Price of HK\$0.01 per New Share and assuming full conversion of Investor Convertible Bonds, Investor Convertible Bonds will be convertible into 10,000,000,000 New Shares (representing an aggregate nominal value of HK\$100 million), representing (i) approximately 452.0% of the issued share capital of the Company as at the date of this circular; (ii) approximately 4,519.6% of the issued share capital of the Company upon completion of the Capital Reorganisation; (iii) approximately 65.7% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares; (iv) approximately 39.6% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of the Investor Convertible Bonds only; (v) approximately 58.1% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of Offer Shares and the full conversion of the Creditors Convertible Bonds only; and (vi) approximately 36.7% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of both of Investor Convertible Bonds and Creditors Convertible Bonds.

### Reasons for the Investor Subscription Agreement and the use of proceeds

It is the intention of the Investor to have the Group focuses on the retail apparel operation under the brand name “XXEZZ” in the PRC. When opportunities arise, with a mainline in casual wear, the Investor will also consider the viability for the Group of providing new line of accessories.

The Company will receive gross proceeds from the subscription of the Investor Convertible Bonds of HK\$74 million from the Investor, after setting off the working capital loan of HK\$10 million provided by the Investor to the Company under the Exclusivity and Escrow Agreement and fees and costs of HK\$16 million incurred by the Company in negotiation, documentation and implementation of the restructuring of the Group. A sum of HK\$50 million out of the subscription money of the Investor Convertible Bonds will be made available to the Scheme Administrators for the benefit of the Scheme Creditors and New Profit for the benefit of the New Profit Stakeholders respectively in the proportion of five to two. The remaining HK\$24 million of the proceeds will be applied towards the working capital requirements of the Group.

The Provisional Liquidators and the Directors consider the terms of the Investor Subscription Agreement are fair and reasonable and in the interest of the Company, the Shareholders and the creditors of the Company as a whole.

### THE CREDITORS SUBSCRIPTION AGREEMENT

Date : 6 July 2010

Issuer : The Company

Subscribers : Key Winner and New Profit

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- Conditions precedent : Completion of the Creditors Subscription Agreement is conditional upon, *inter alia*:
- (i) the approval by the Shareholders in the EGM of transactions contemplated under the Restructuring Agreement and the Creditors Subscription Agreement including but not limited to the issue of the Creditors Convertible Bonds and the Conversion Shares;
  - (ii) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company, Key Winner and New Profit do not reasonably object) approval for the listing of and permission to deal in the Conversion Shares; and
  - (iii) the conditions precedent of the Restructuring Agreement (other than any conditions precedent relating to the Creditors Subscription Agreement) having been satisfied or waived in accordance with the terms thereof.
- Termination : The subscribers may, by notice to the Company, terminate the Creditors Subscription Agreement at any time before the Closing Date if there is a material adverse change prior to the Completion, and to rescind the Creditors Subscription Agreement.
- The Company may, by notice to the subscribers, terminate the Creditors Subscription Agreement at any time before the Closing Date if the Restructuring Agreement is terminated pursuant to the terms thereto.
- Completion : Subject to the fulfillment of the conditions precedent of the Creditors Subscription Agreement, completion shall take place on the Closing Date.

### **Principal terms of Creditors Convertible Bonds**

- Issuer : the Company
- Subscribers : (i) Key Winner, a company controlled by the Provisional Liquidators; and
- (ii) New Profit, a former indirect 90%-owned subsidiary of the Company
- Principal amount : HK\$20,000,000

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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Issue price	:	Key Winner and New Profit will receive the Creditors Convertible Bonds at nil consideration. The Creditors Convertible Bonds are issued for the benefit of the Scheme Creditors and the New Profit Stakeholders which will be allocated as to five sevenths to Key Winner and as to two sevenths to New Profit as part of the Schemes and the debt restructuring for the compromise, discharge and settlement of all Claims against the Company.
Coupon rate	:	2% per annum, payable on maturity date
Maturity date	:	the first anniversary of the issue date of Creditors Convertible Bonds
Conversion Price	:	The holders of the Creditors Convertible Bonds will have the right to convert Creditors Convertible Bonds into Conversion Shares at the initial Conversion Price of HK\$0.01 per Conversion Share (subject to adjustment), representing (i) a discount of approximately 99.75% to the theoretical closing price of HK\$4.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.40 per Share as quoted on the Stock Exchange on the Last Trading Date; (ii) a discount of approximately 99.77% to the average theoretical closing price of HK\$4.46 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.446 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Date; (iii) a discount of approximately 99.79% to the average theoretical closing price of HK\$4.79 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.479 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Date; (iv) a premium of approximately HK\$5.87 over the audited consolidated net liabilities per New Share of approximately HK\$5.86 as at 31 March 2010 based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million at 31 March 2010 and 221,260,680 New Shares in issue upon Capital Reorganisation; and (v) a premium of approximately HK\$0.0043 over the unaudited pro forma net assets value per New Share of approximately HK\$0.0057 as at 31 March 2010 based on the unaudited pro forma net assets value of approximately HK\$86.70 million as at 31 March 2010 and 15,222,734,784 New Shares to be in issue upon the Capital Reorganisation becoming effective and the issue of the Offer Shares and before conversion of the Convertible Bonds.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- Adjustments to conversion price : The Conversion Price will be subject to adjustments for, among other things, subdivisions, consolidations or reclassification of New Shares, capitalisation of profits or reserves, capital distributions, stock dividends, rights issues and other events which may have a diluting effect on the bondholders.
- Conversion period : The holders of the Creditors Convertible Bonds will have the right to convert the whole or any part of the outstanding principal amount of the Creditors Convertible Bonds into Conversion Shares at any time during the period commencing on the Closing Date and ending on seven days before the maturity date at the Conversion Price per Conversion Share.
- Redemption price at maturity : Unless previously redeemed, converted or purchased and cancelled, Creditors Convertible Bonds will be redeemed at 100% of their principal amount plus interest of 2% per annum on their maturity date.
- Early redemption : The Creditors Convertible Bonds may be redeemed in amounts of HK\$1,000,000 or integral multiples plus any interest accrued thereof at the option of the Company on any business day prior to the maturity date by giving not less than seven (7) business days' prior written notice to a holder of the Creditors Convertible Bonds.
- Ranking of Creditors Convertible Bonds : The Creditors Convertible Bonds shall constitute direct, unsubordinated, unconditional and unsecured obligations of the Company.
- Ranking of Conversion Shares : The Conversion Shares will rank *pari passu* in all respects with the New Shares then in issue on the relevant date of registration of holders of such Conversion Shares on the register of members of the Company. Holders of the Conversion Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Conversion Shares.
- Listing: : No application will be made for the listing of Creditors Convertible Bonds. An application has been made for the listing of, and permission to deal in, the New Shares to be issued by the Company upon the conversion of Creditors Convertible Bonds.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- Transferability : None of the Creditors Convertible Bonds (nor any part thereof) can be transferred without the prior written consent of the Company, except by a transfer to subsidiaries (as that term defined in the Listing Rules) or the holding company (as that term defined in the Companies Ordinance of the holder of the Creditors Convertible Bonds.
- Denomination : HK\$1 million and integral multiples thereof, or, subject to the prior consent of the Company, such other denomination as the holders of the Creditors Convertible Bonds may request.
- Voting : Holder(s) of Creditors Convertible Bonds will not be entitled to attend or vote at any general meetings of the Company by reason of merely being the holder of Creditors Convertible Bonds.

### **Effect on the share capital**

Based on the Conversion Price of HK\$0.01 per New Share and assuming full conversion of Creditors Convertible Bonds, the Creditors Convertible Bonds will be convertible into 2,000,000,000 New Shares (representing an aggregate nominal value of HK\$20 million), representing (i) approximately 90.4% of the issued share capital of the Company as at the date of this circular; (ii) approximately 903.9% of the issued share capital of the Company upon completion of the Capital Reorganisation; (iii) approximately 13.1% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares; (iv) approximately 7.9% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of the Investor Convertible Bonds only; (v) approximately 11.6% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of Offer Shares and the full conversion of the Creditors Convertible Bonds only; and (vi) approximately 7.3% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of both of Investor Convertible Bonds and Creditors Convertible Bonds.

### **Reasons for the Creditors Subscription Agreement**

Pursuant to the Restructuring Agreement, the Company will implement the Schemes and debt restructuring. As part of the Schemes and the debt restructuring, the Company will issue and the Scheme Creditors and New Profit (for the benefit of the New Profit Stakeholders) will receive the Creditors Convertible Bonds in the proportion of five to two respectively. The Company considers that the Schemes and the debt restructuring is the only viable way to compromise, discharge and settle all the claims against the Company and is of the view that the terms of the Creditors Subscription Agreement are fair and reasonable and in the interest of the Company, the Shareholders and the creditors of the Company as a whole.

The Company will not receive any money from the subscription of the Creditors Convertible Bonds.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### DEBT RESTRUCTURING

According to the latest published audited accounts of the Group for the year ended 31 March 2010, the total outstanding liabilities of the Group and the Company were approximately HK\$1,349.07 million and HK\$1,140.90 million respectively. Upon completion of the Schemes and the New Profit Agreement, all the liabilities of the Company will be discharged and the Group will have no outstanding liabilities other than the Convertible Bonds and those incurred or to be incurred in its ordinary course of business. The pro forma net assets value of the Group is included in Appendix V to this circular.

### Ever Century Share Charge

Reference is made to the Company's announcements dated 24 October 2008 and 6 April 2009 that during the course of the investigations by the Provisional Liquidators, they discovered that between June and July 2008, the Company entered into a number of loans with money lenders purportedly in order to meet the Group's short term financing needs, including the loans with Forefront and Hansom. As security for the loans advanced by Forefront and Hansom, the Company granted a charge over all the shares in its wholly-owned subsidiary, Ever Century, on 12 June 2008 (the "Share Charge"). Ever Century holds directly and indirectly the entire issued share capital of all the remaining subsidiary companies in the Group. As the Company failed to repay the outstanding loan due to Forefront, Forefront exercised its right under the Share Charge on 15 August 2008 and the Ever Century Shares were transferred to a nominee of Forefront, Merrier.

On 3 April 2009, the Company, the Provisional Liquidators, Forefront, Merrier, Hansom and the Investor entered into the Settlement Deed pursuant to which:

- (a) Merrier agreed to, among other things, transfer the Ever Century Shares back to the Company with nil consideration in order to facilitate the restructuring of the Company;
- (b) each of Forefront and Hansom acknowledges, confirms and agrees that while Forefront effected a transfer of the legal ownership of the Ever Century Shares to Merrier on 15 August 2008, there was no intention to change the beneficial ownership of the Ever Century Shares or the Company's control over Ever Century and each of Forefront and Hansom unconditionally and irrevocably agreed and approved the transaction as completed under the Settlement Deed;
- (c) if the restructuring of the Company is not completed within 12 months from the date of the Settlement Deed (or such other date as agreed in writing between Forefront, Hansom, the Company and the Provisional Liquidators) and Forefront or Hansom wishes to enforce the Share Charge, Forefront and Hansom respectively undertake to give two weeks notice to the Company and the Provisional Liquidators before taking any action to transfer the Ever Century Shares pursuant to their respective charge; and
- (d) the Company and the Provisional Liquidators agree and acknowledge that the transfer of the Ever Century Shares by Merrier pursuant to the terms of the Settlement Deed, are without prejudice to the respective rights of Forefront or Hansom.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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As announced by the Company on 14 April 2010, a supplemental deed to the Settlement Deed was entered into between the Company, the Provisional Liquidators, Forefront, Merrier, Hansom and the Investor on 9 April 2010, pursuant to which Forefront and Hansom agreed to extend the period of not exercising their respective share charge over the Ever Century Shares from 12 months to 24 months from the date of the Settlement Deed (i.e. 3 April 2009).

Both Forefront and Hansom will be treated the same as the other Creditors (other than the Preferential Creditors) under the Schemes. As at the Latest Practicable Date and to the best information of the Provisional Liquidators, save as disclosed above, Forefront, Merrier and Hansom are independent to the Company, the Investor, its ultimate beneficial owner and parties acting in concert with any of them.

### Schemes

Pursuant to the terms of the Restructuring Agreement, the Company has applied to the Hong Kong Court and the Cayman Islands Court for orders convening the Scheme Meetings, which are to be held at 10:00 a.m., on 30 August 2010, at 14th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong. Pursuant to the Schemes, (a) all Claims against the Company will be compromised, discharged and/or settled; (b) the Scheme Creditors will receive a pro rata distribution of five sevenths of the Creditors Convertible Bonds; and (c) the Company will transfer or procure the transfer to the Scheme Administrators for distribution to the Scheme Creditors:

- (i) five sevenths of the Cash Consideration;
- (ii) any cash held by or for the account of the Company excluding any net proceeds from the Open Offer and the issue of the Investor Convertible Bonds at Closing; and
- (iii) all rights, title and interest in the companies transferred to Key Winner by Ever Century on or about 29 May 2009, and any other assets in the Group other than the XXEZZ Assets.

The principal terms of the Schemes include:

- (i) the Company shall transfer all assets of the Company other than the XXEZZ Assets to Key Winner (for the benefit of the Scheme Creditors) with effect from the Closing Date or as the Provisional Liquidators shall direct;
- (ii) Key Winner shall subscribe for and the Company shall on the Closing Date issue the Creditors Convertible Bonds to Key Winner (for the benefit of the Scheme Creditors) on and subject to the terms of the Restructuring Agreement, the Creditors Subscription Agreement and the Memorandum and the Articles of Association; and

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- (iii) without limiting the generality of (i) above, the Company shall assign to Key Winner for the benefit of the Scheme Creditors all Claims (including receivables) which the Company may have against any person, including any claims against its present or former Directors, officers, auditors and advisors.

### Special Deal

As at the Latest Practicable Date, there were two Creditors, namely QVT and Quintessence (the Interested Shareholders), who are also Shareholders.

Details of the Claims and shareholding interest of the Interested Shareholders are as follows:

	<b>Claim</b>		<b>Shareholding</b>	
	<b>(as at 31 March 2010)</b>		<b>in the Company</b>	
	<i>HK\$ millions</i>	<i>%</i>	<b>(as at the Latest</b>	<b>Practicable Date)</b>
	<u>          </u>	<u>          </u>	<i>no. of shares</i>	<u>          </u>
QVT	83	7.27%	981,850	0.044%
Quintessence	<u>9</u>	<u>0.79%</u>	<u>105,412</u>	<u>0.005%</u>
the Interested Shareholders	<u><u>92</u></u>	<u><u>8.06%</u></u>	<u><u>1,087,262</u></u>	<u><u>0.049%</u></u>
Total Claims/Total number of Shares in issue	1,141	100%	2,212,606,800	100%

As at the Latest Practicable Date, QVT and Quintessence had the same general partner and the same investment manager, but they did not have any other relationships.

Save as disclosed above, the Interested Shareholders are independent third parties of the Company and the Investor, its ultimate beneficial owner and parties acting in concert with any of them.

Pursuant to the Restructuring Agreement and the Investor Subscription Agreement, the Company proposes to raise HK\$100 million (before expenses) upon the Investor's subscription of the Investor Convertible Bonds, out of the proceeds from which, HK\$50 million will be the Cash Consideration to repay to the Scheme Creditors and the New Profit Stakeholders in a proportion of 5:2. In addition, the Company will issue Creditors Convertible Bonds to the Scheme Creditors and New Profit Stakeholders in a proportion of 5:2, with a total principal amount of HK\$20 million at nil consideration pursuant to the Creditors Subscription Agreement. Therefore, five sevenths of the Cash Consideration and Creditors Convertible Bonds (equivalent to a total principal amount of approximately HK\$50 million, the "**Repayment**") will be used to settle with the Creditors all the Claims against the Company.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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These Interested Shareholders, in their capacity of the Creditors and if admitted as Scheme Creditors, would receive their respective portion of the Repayment (in respect of Cash Consideration and Creditors Convertible Bonds) as follows:

	Claim (as at 31 March 2010)		Creditors				Repayment (Note)
			Cash Consideration (Note)		Convertible Bonds (Note)		
	HK\$ millions	%	HK\$ millions	%	HK\$ millions	%	
QVT Fund LP	83	7.27%	2.60	5.19%	1.04	5.19%	7.27%
Quintessence Fund LP	9	0.79%	0.28	0.56%	0.11	0.56%	0.79%
the Interested Shareholders	<u>92</u>	<u>8.06%</u>	<u>2.89</u>	<u>5.75%</u>	<u>1.15</u>	<u>5.75%</u>	<u>8.06%</u>
Total	1,141	100%	50	100%	20	100%	100%

*Note: These figures are indicative only, subject to adjudication and derived without taking into consideration the Claims from the Preferential Creditors amounting to approximately HK\$0.5 million as at 31 March 2010 and any administrative costs to be or having been incurred in relation to the Schemes. Pursuant to the Schemes, the repayment to the Preferential Creditors and payment of the administrative costs being incurred in relation to the Schemes rank before the repayment of the other Creditors (including the Interested Shareholders).*

Terms of the distribution of the Repayment among all the Scheme Creditors (other than Preferential Creditors) are the same pursuant to the terms of the Schemes. As part of the Repayment (the cash portion) is contributed by the proceeds from the subscription of the Investor Convertible Bonds by the Investor and the other part of the Repayment is in the form of Creditors Convertible Bonds, the Interested Shareholders are interested in the Investor Subscription Agreement, the Creditors Subscription Agreement and the Whitewash Waiver.

As at the Latest Practicable Date, save for the Interested Shareholders, there was no other Shareholder being Creditor or New Profit Stakeholder.

As the terms of the settlement of the Claims to the Interested Shareholders under the Schemes are not extended to the other Shareholders, such settlement constitutes a special deal for the Company under Rule 25 of the Takeovers Code, and requires the consent of the Executive, which will normally be granted provided that Access Capital, the independent financial advisor to the Whitewash Waiver Independent Board Committee and the Independent Shareholders, publicly stating that in its opinion the respective terms of the settlement of the Claims to the Interested Shareholders are fair and reasonable; and the respective resolutions in respect of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal being approved by the Independent Shareholders by way of poll at the EGM. The opinion of Access Capital is set out in “The Letter from Access Capital” in this circular.

The Interested Shareholders will abstain from voting on the resolutions in respect of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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The Provisional Liquidators consider that the terms of the settlement of the Claims to the Interested Shareholders have been determined on an arm's length basis. The Company has made an application to the Executive for its consent to the Special Deal.

### **New Profit Agreement**

On 30 July 2010, the Company, the Provisional Liquidators, Anyway, Best Favour, Key Winner, New Profit, the joint and several liquidator of New Profit, Swimwear and CITIC Bank entered into the New Profit Agreement.

The principal terms of the New Profit Agreement are:

- (i) on the Closing Date, the Company shall transfer or procure the transfer of two sevenths of the Cash Consideration (i.e. HK\$14,285,714.00) and issue two sevenths of the Creditors Convertible Bonds to New Profit or as it directs following consultation with the New Profit Stakeholders;
- (ii) after receipt of the distributions described in (i), New Profit shall distribute to the New Profit Stakeholders in the agreed order of priority;
- (iii) Swimwear acknowledges and agrees that upon receiving its respective entitlement, its claims against New Profit is settled and it shall be deemed to have no further claim against New Profit and to have waived any and all rights of action of any nature against New Profit arising prior to the date of payment of its respective entitlement;
- (iv) CITIC Bank acknowledges and agrees that upon receiving its respective entitlement, it shall be deemed to have no further claims against Anyway and to have waived any and all rights of action of any nature against Anyway arising prior to the date of payment of its respective entitlement. CITIC Bank will take all steps necessary to release, on the Closing Date, the security over the shares in Best Favour; and
- (v) Noble Group Investment Limited, the 10% shareholder of Best Favour, will receive 10% of any residual amount due to Best Favour upon the distribution by New Profit.

### **SHAREHOLDING STRUCTURE OF THE COMPANY**

The Company undertakes that from the date of the Restructuring Agreement until the effective date of the Schemes it will not create, allot or issue any Shares, options or rights to subscribe in respect of any share capital of any member of the Group (other than the New Shares created/issued under the Capital Reorganisation, the Investor Subscription Agreement, the Creditors Subscription Agreement and the Open Offer).

Asian Capital will not take up any of the Untaken Shares as a result of the Sub-underwriting Letter with the Investor.

## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

Assuming the Capital Reorganisation having been effective, the shareholding structures of the Company immediately before and after Closing are set out below:

### *Scenario #1: Assume all Shareholders take up their respective entitlements under the Open Offer*

Shareholders	As at the Latest Practicable Date		Immediately following the completion of Capital Reorganisation		Immediately following the completion of Capital Reorganisation and Open Offer		Immediately following the completion of Capital Reorganisation, Open Offer and full conversion of Investor Convertible Bonds only <i>(Note 1)</i>		Immediately following the completion of Capital Reorganisation, Open Offer and full conversion of Creditors Convertible Bonds only		Immediately following the completion of Capital Reorganisation, Open Offer and full conversion of both Investor Convertible Bonds and Creditors Convertible Bonds <i>(Note 1)</i>	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
The Investor, its beneficial owner and parties acting in concert with any of them	-	0.0%	-	0.0%	-	0.0%	10,000,000,000	39.6%	-	0.0%	10,000,000,000	36.7%
Scheme Creditors and New Profit Stakeholders	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,000,000,000	11.6%	2,000,000,000	7.3%
Mr. Kwok Wing and associates	762,424,000	34.5%	76,242,400	34.5%	5,245,477,120	34.5%	5,245,477,120	20.8%	5,245,477,120	30.5%	5,245,477,120	19.3%
Public Shareholders	1,450,182,800	65.5%	145,018,280	65.5%	9,977,257,664	65.5%	9,977,257,664	39.6%	9,977,257,664	57.9%	9,977,257,664	36.7%
<b>Total</b>	<b>2,212,606,800</b>	<b>100.0%</b>	<b>221,260,680</b>	<b>100.0%</b>	<b>15,222,734,784</b>	<b>100.0%</b>	<b>25,222,734,784</b>	<b>100.0%</b>	<b>17,222,734,784</b>	<b>100.0%</b>	<b>27,222,734,784</b>	<b>100.0%</b>

*Notes:*

- The above calculation illustrates the effect on the shareholding structures of the Company upon the Investor Convertible Bonds being converted in full immediately after the Open Offer. As at the date of this circular, the Investor has no intention to exercise its rights to convert the Investor Convertible Bonds upon Closing, and the Investor will comply with the relevant requirements under the Listing Rules and the Takeovers Code upon full or partial conversion of the Investor Convertible Bonds.

## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

**Scenario #2: Assume no Shareholder takes up their respective entitlements under the Open Offer and the Investor, as the sub-underwriter under the Sub-underwriting Letter, take up all the Offer Shares**

Shareholders	Immediately following the completion of Capital Reorganisation and Open Offer		Immediately following the completion of Capital Reorganisation, Open Offer and first placing down		Immediately following the completion of Capital Reorganisation, Open Offer, first placing down, full conversion of Investor Bonds only and second placing down		Immediately following the completion of Capital Reorganisation, Open Offer, first placing down and full conversion of both Investor Convertible Bonds and Creditors Convertible Bonds and second placing down		Immediately following the completion of Capital Reorganisation, Open Offer, first placing down, full conversion of both Investor Convertible Bonds and Creditors Convertible Bonds and second placing down							
	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares						
The Investor, its ultimate beneficial owner, and parties acting in concert with any of them	-	0.0%	-	0.0%	0.0%	15,001,474,104	98.5%	11,417,051,088	75.0%	21,417,051,088	66.3%	11,417,051,088	78.7%	20,417,051,088	75.0%	
Scheme Creditors and New Profit Stakeholders	-	0.0%	-	0.0%	-	-	0.0%	-	0.0%	-	-	0.0%	2,000,000,000	7.3%	2,000,000,000	7.3%
Mr. Kwok Wing and associates	76,242,400	34.5%	76,242,400	0.5%	76,242,400	0.5%	76,242,400	0.3%	76,242,400	0.3%	76,242,400	0.4%	76,242,400	0.3%	76,242,400	0.3%
Public Shareholders	1,450,182,800	65.5%	145,018,280	1.0%	3,729,441,296	24.5%	3,729,441,296	14.8%	6,229,441,296	24.7%	3,729,441,296	21.7%	3,729,441,296	13.7%	4,729,441,296	17.4%
<b>Total</b>	<b>2,212,606,800</b>	<b>100.0%</b>	<b>221,260,680</b>	<b>100.0%</b>	<b>15,222,734,784</b>	<b>100.0%</b>	<b>25,222,734,784</b>	<b>100.0%</b>	<b>25,222,734,784</b>	<b>100.0%</b>	<b>17,222,734,784</b>	<b>100.0%</b>	<b>27,222,734,784</b>	<b>100.0%</b>	<b>27,222,734,784</b>	<b>100.0%</b>

**Notes:**

- The Investor will place down its New Shares, if necessary after closing and before resumption of trading in the Shares to maintain the Company's compliance with the public float requirement under the Listing Rules. Except for this, as at the date of this circular, the Investor has no plan to sell its interests in the Company (whether shares or convertible bonds of the Company);
- The above calculation illustrates the effect on the shareholding structures of the Company upon the Investor Convertible Bonds being converted in full immediately after the Open Offer. As at the date of this circular, the Investor has no intention to exercise its rights to convert the Investor Convertible Bonds. After Closing, if the Investor converts the Investor Convertible Bonds fully or partially, it will comply with the relevant requirements under the Listing Rules and the Takeovers Code and ensure that the Company will comply with the public float requirement upon its conversion;
- The Investor undertakes not to convert any of the Investor Convertible Bonds in the event that such conversion will lead to the Company's non-compliance with the public float requirement under the Listing Rules. As at the date of this circular, the Investor has no plan to sell its interests in the Company (whether shares or convertible bonds of the Company).

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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As at the Latest Practicable Date, neither the Board nor the Provisional Liquidators had received any information from any substantial Shareholders of their intention to take up their entitlements under the Open Offer.

### WHITEWASH WAIVER

As the Investor, also being the sub-underwriter under the Sub-underwriting Letter, will fully sub-underwrite the Open Offer, no other party will incur general offer obligation as a result of the arrangements pursuant to the Underwriting Agreement and the Sub-underwriting Letter.

Assuming all the Offer Shares are taken up by the Shareholders and the Investor exercises full conversion of the Investor Convertible Bonds, the Investor will hold approximately 10,000 million New Shares, representing (i) approximately 39.6% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of the Investor Convertible Bonds; and (ii) approximately 36.7% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of the Investor Convertible Bonds and Creditors Convertible Bonds.

Assuming none of the Shareholders takes up the Offer Shares and the Investor does not convert any Investor Convertible Bonds, the Investor will hold approximately 15,000 million New Shares, representing (i) approximately 98.5% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares; and (ii) approximately 87.1% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of the Creditors Convertible Bonds.

Assuming none of the Shareholders takes up the Offer Shares and the Investor exercises full conversion of the Investor Convertible Bonds, the Investor will hold approximately 25,000 million New Shares, representing (i) approximately 99.1% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of the Investor Convertible Bonds only; and (ii) approximately 91.8% of the issued share capital of the Company upon completion of the Capital Reorganisation and as enlarged by the issue of the Offer Shares and full conversion of both of the Investor Convertible Bonds and Creditors Convertible Bonds.

In the event that the shareholding of the Investor exceeds 50% of the issued share capital following the Closing, the Investor may increase its shareholding in the Company without incurring any further obligation to make a general offer under the Takeovers Code.

Accordingly, the Investor, its ultimate beneficial owner and parties acting in concert with any of them have made an application to the Executive under the Takeovers Code for, and the Executive has agreed to grant, a Whitewash Waiver waiving their obligations to make a mandatory general offer to the Shareholders under Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, the approval by the Independent Shareholders in the EGM, who are not interested or involved in the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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The Whitewash Waiver Independent Board Committee comprising all the non-executive Directors, namely, Mr. James D. McMullen, Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok and Mr. Kooi Tock Chian, has been established to make recommendations to the Independent Shareholders in respect of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal.

Access Capital has been appointed, with the approval of the Whitewash Waiver Independent Board Committee, to advise the Whitewash Waiver Independent Board Committee and the Independent Shareholders as to whether the terms of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are fair and reasonable and advise on how the Independent Shareholders should vote in respect of these resolutions in the EGM.

**If the Whitewash Waiver is not obtained, the Open Offer will lapse and will not proceed. The Shareholders and potential investors of the Company should note that the Open Offer is conditional which therefore may or may not proceed. Shareholders and potential investors should also note that completion of the Open Offer is only one of the conditions precedent to Closing and does not indicate that trading in the Shares will be resumed. Cautions should be exercised when dealing in the Shares.**

### INFORMATION ON THE GROUP

#### Overview of the Group's operation since Suspension

Due to the insolvency and winding up of all the subsidiaries engaged in manufacturing, ever since the Suspension, the Group has only been able to rescue and maintain its apparel retail business under a casual wear brand name *XXEZZ* in the PRC.

Reference is made to the announcement of the Company dated 29 May 2007, the Company acquired the *XXEZZ* business in June 2007 by acquiring 90% interest in Best Favour, which was principally engaged in fashion design and management of its *XXEZZ* brand of smart casual wear. Investigations conducted by the Provisional Liquidators show that the brand "*XXEZZ*" does not belong to the Group. However, Best Favour has always been managing the brand of *XXEZZ* pursuant to a written authority. With the Provisional Liquidators' effort to rectify such situation, *XXEZZ* trademark is now owned by a company, which does not belong to the Group but is now controlled by the Provisional Liquidators. The Provisional Liquidators will take all necessary steps to transfer the *XXEZZ* trademark to the Group to facilitate the Group's business continuity before Closing.

*XXEZZ* has specialised in women's and men's casual wear in the PRC since its establishment in 2002. Having been marketed as an "urban drifter" with its core of military inspired collection to offer an upbeat style, *XXEZZ* positions itself in the mid-range and mainstream market targeting young adults aged from 18 to 35. The product line of *XXEZZ* includes T-shirt, pullover, knit wear, sweater, skirt, jacket, down jacket, cargo pants, jeans, skirt, etc.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### Brand history and development

*XXEZZ* was launched in 2002, marketed itself as an “urban drifter”.

The brand awareness and the publicity were further enhanced in 2004 by its brand spokesperson, Ms. Stefanie Sng (孫燕姿), who is one of the prima donnas in Asia generally viewed as talented, positive, independent and healthy.

*XXEZZ* expanded rapidly; within 3 years, coverage of *XXEZZ* already included Huabei (華北), Huadong (華東), Huazhong (華中), Huanan (華南), northeastern and northwestern China.

*XXEZZ* held its 2006 Sprint/Summer Fashion Show in the 14th China International Clothing & Accessories Fair (CHIC 2006, 2006 紡織成衣貿易展), a major national exhibition sponsored by China National Textile and Apparel Council (CNTAC) which further proved its solid role in the apparel industry.

The Group in 2007 acquired 90% of the total issued capital of Best Favour, the holding company of the entire equity interest in the operation entity of *XXEZZ*, for a consideration of HK\$330 million, which was determined with reference to, among others, the valuation of 100% equity interest of Best Favour at HK\$384 million as at 30 April 2007. The Group considered that the acquisition would be a good opportunity for it to expand its consumer retail sector in the PRC riding on a well known apparel brand and an established distribution network and expected the investment would be earning accretive.

In 2007, *XXEZZ* was also one of the brands that joined and released its 2007 fall fashion in the 7th China (Shenzhen) International Brand Clothing & Accessories Fair (the 7th SZIC, 第七屆中國(深圳)國際品牌服裝服飾交易會), an international fashion brands clothing trade show organised annually by Shenzhen Garment Industry Association at the Shenzhen Convention and Exhibition Centre which attracted more than 100,000 visitors and few hundred exhibitors a year.

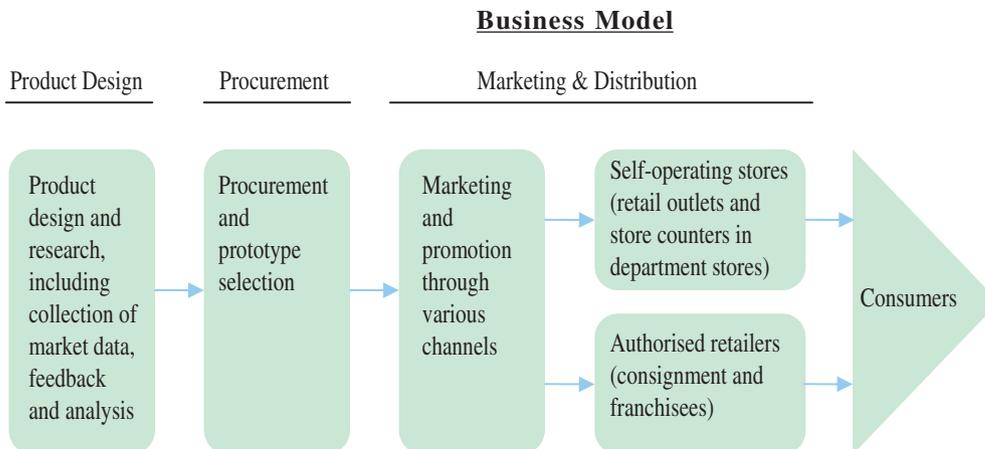
The products under the *XXEZZ* brand are distributed via two channels – the self-operating stores and authorised retailers – where the former is owned by the Group while the latter is authorised by *XXEZZ* to sell products using its brand name. The *XXEZZ* retail shops are strategically located in shopping malls and department stores in prime locations to maintain and promote the image of its brand. As at the Latest Practicable Date, *XXEZZ* established 54 self-operating stores and 6 authorised retailers which had a total store floor area of approximately 3,772 square metres, with coverage in 19 cities located in 14 provinces in the PRC.

## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

The location and number of the Group's self-operating stores as well as the authorised retailers in the PRC are illustrated as follows:



The following diagram illustrates the Group's business model:



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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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The Group has re-established its design department since March 2009 with two former experienced team members, including the chief designer who worked for New Profit Luo Ding between 2006 and 2008, rejoining the Group.

For each of the three years ended 31 March 2008, 2009 and 2010, the total turnover of *XXEZZ* amounted to approximately HK\$259.18 million, HK\$107.68 million and HK\$55.65 million respectively.

### **Principal strengths of *XXEZZ***

With the financial difficulties of the Company and limited working capital provided by the Investor, the Group can only focus on the *XXEZZ* retail business in the PRC and has used its best endeavors to maintain its key management team and rescue its established network. Currently, the principal strengths of *XXEZZ* are listed below.

#### **1. *Established sales network in the PRC with 60 shops and outlets***

As at the Latest Practicable Date, the Company's *XXEZZ* products are primarily sold through its 54 self-operating stores and 6 authorised retailers, amongst which 25 self-operating stores and 2 authorised retailers are established after suspension of trading in the Shares. Those stores are located in 14 provinces in the PRC covering over 19 cities such as Beijing, Shenzhen, Tianjin, Chengdu and Xian in the PRC. The Group maintains business relationships with some of the large department stores in the PRC, such as Beijing Guotai Department Store (北京國泰百貨), Tianjin Binjiang Department Store (天津濱江商廈), Shenzhen Carrefour (深圳家樂福), Xian China Resources Vanguard (西安華潤萬家), Dalian Wal-Mart (沃爾馬大連店) and Chengdu CapitaMalls (成都嘉茂購物中心).

#### **2. *Experienced management team***

Since 2005, *XXEZZ* has been under the management of Mr. Chen Li Wu (who resigned in December 2009 as general manager and development manager but retained himself as the senior consultant), Mr. Shao Guang Yuan, manager of authorised dealer department, and Ms. Liu Hong Li, manager of sales department, each of them has at least 9 years of experience in the garment industry. Ms. Li Chao, who is responsible for the stock department and her major duty is stock arrangement, has about 9 years of experience in the garment industry.

#### **3. *Focus on retail business***

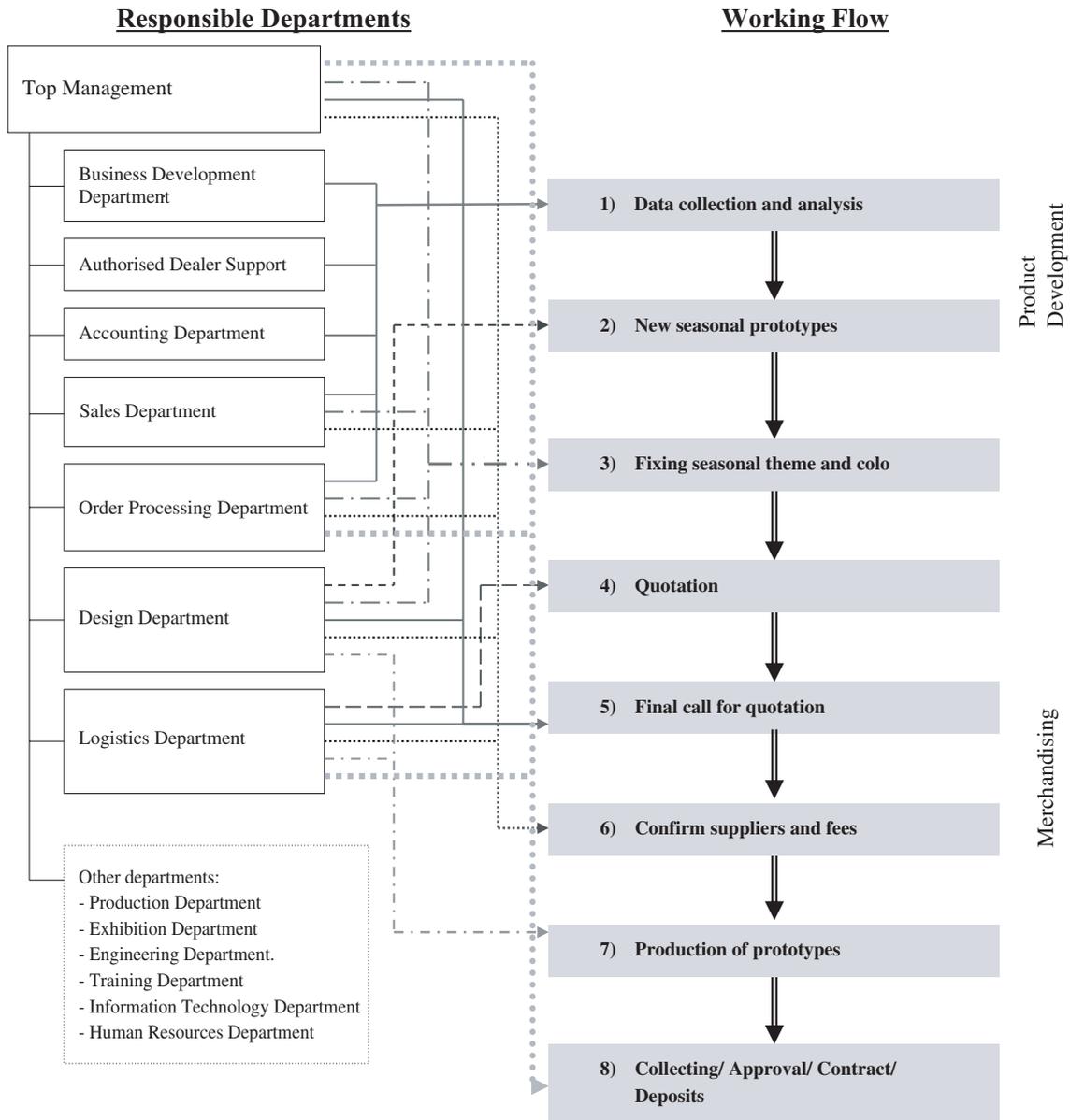
The Group does not own or operate any manufacturing facilities but engages a number of suppliers in the PRC for the production and delivery of its products. It is the Group's view that by minimising overheads for manufacture, it can concentrate its resources and effort on sales points management, product design, quality control and assurance, marketing and promotion and sales. The Group also believes that it can enjoy the flexibility in securing supply of its products without being limited by the production capacity of one single manufacturer. As such, the Group is able to expand its sales network effectively and secure adequate and timely supplies of fashion products.

# LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

## Product development and merchandising processes

The Group's product design and development team is responsible for product design and development.

XXEZZ has developed clear working flow guidelines for product sourcing and merchandise management with all the departments involved. The working flow is summarised in the following exhibit:



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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### *Step 1: Data collection and analysis*

For every two weeks, the sales department and the accounting department will collect relevant operating figures, including volumes in different districts and number of orders, to identify the “best ten” and “worst ten” which will be used for the selection of designs in forthcoming years. Comparisons will also be made between *XXEZZ* and its industrial peers for pricing.

### *Step 2: New seasonal prototypes*

The management of *XXEZZ* will objectively review the figures and opinion obtained in step 1 above for the selection of prototypes in the coming seasons. In the meantime, the designers will source prototypes from the market depending on the fashion trend for each season in the PRC and prime cities overseas.

### *Step 3: Fixing seasonal theme and color*

The design department will collect all short-listed prototypes to discuss with the senior management, sales department and inventory department for the determination of a theme and theme colors. Designers will request drafter team to produce a design books which will be approved by the design department.

### *Step 4: Quotation*

The order processing department will prepare price list and sample list setting out all requirements in accordance with the conclusion in step 3 above before searching for capable suppliers. At least three suppliers will be contacted for fee comparison and requested for the provision of quotations. Information of suppliers and quotation will be recorded for future reference.

### *Step 5: Final call for quotation*

All suppliers will receive the same quotation requirement regarding the same prototype for fair competition and the protection of *XXEZZ* interest. Any fee deduction at the expense of quality should be strictly avoided. The suppliers will be informed all the terms and conditions for delivery before placing a quotation. They are given 72 hours to submit a quotation and each quotation must be sealed and submitted to the senior management of *XXEZZ*.

### *Step 6: Confirm suppliers and fees*

The senior management of *XXEZZ* will centralise all quotations received by the deadline of submission; quotations are kept sealed until all senior staffs are present. All selected quotations will be clearly presented with fees, terms and conditions which the senior management will make final approval.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### *Step 7: Production of prototypes*

Following step 6 above, selected supplier will be informed to produce samples of each prototype for design team's review. When necessary, the designers will participate in the follow up of the prototype production.

### *Step 8: Collecting/Approval/Contract/Deposits*

When the prototypes, textures, handiwork and accessories meet such standard acceptable to the management, the order processing department will proceed with suppliers for the finalisation of production costs.

The merchandising team of XXEZZ purchases products on the basis of prevailing consumer preferences and market sentiment. The merchandising team captures the consumer preferences by conducting various marketing discussion group/forum and attending various trade shows. Base on their past experience, corresponding inventory level and market sentiment, the merchandising team will then determine the optimum quantity to be ordered. Accordingly, the merchandising team will contact various suppliers to place order with reference to respective offer price, product quality and delivery time.

The trade cycle is such that design, mock-up and placing of orders with manufactures has to be performed several months ahead of time in order that shops will have new goods to sell when the reason comes. This implies that a complete business and product planning cycle has to be put in place, matching sales capacity (measured by the number and size of outlets) to order placing (further broken down by product themes), advertising and promotion, shop decoration and fitting out, as well as staff resource planning including training.

### **Information system management**

The Group adopted a real-time point of sale system, Interlink (the "**Information System**"). The Group's retail stores are equipped with the said system to record and collect sales details and inventory movement on a timely basis. The Information System is linked with the accounting system to provide processed information in the form of daily point of sale report and monthly sales report for each retail store and the management of the Group. With the assistance of the Information System, it is easy to track all historical transactions of a particular item. The ability to sort information in such format as required by the retail stores and the management of the Group allows them to, among other things, better track and analyse product margins, consumer preferences and demand, as well as support inventory, sourcing and logistic arrangements.

### **Store operation management**

XXEZZ sells its products primarily through two channels, self-operating stores and authorised retailers.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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As at the Latest Practicable Date, there were 54 self-operating stores, which comprise 22 retail outlets and 36 store counters in department stores, with a total of 270 sales staff. Rental is charged according to the flow areas of the retail outlets and monthly sales turnover of the store counters in department stores.

For self-operating stores, in addition to basic salaries, the Group motivates its sales staff with incentive commission in addition to basic salaries. In general, the commission scheme mainly comprises two parts: (i) commissions based on the total monthly sales achieved by the relevant sales point or the relevant individual staff above the relevant monthly sales target set by the management of the Group; and (ii) extra bonus based on the special sales target set by the Group from time to time. The commission scheme proves to be effective in attracting and maintaining excellent sales staff which is demonstrated by a lower employee turnover rate. The Group also provides training programs to its sales staff, which cover topics such as shop operations, stock displays, effective communication skills, service standard requirements and product knowledge.

For authorised retailers, the Group either sells products through a consignment arrangement or through a franchises arrangement. Consignment refers to those authorised retailers who sell *XXEZZ* products and share a percentage of revenue generated from such sales. Under a franchise arrangement, the franchisees purchase products from the Group at a discount and resell those to customers at regular retail prices.

The franchisees are bound to exclusively sell products under the “*XXEZZ*” brand pursuant to the franchise agreement and the Group sells products to the franchisees with a profit margin.

### **Cash control and management policies**

Daily reports on the bank transactions and balances of the Group are prepared by its treasury staff and weekly cash sales reconciliation are prepared by separate account staff, both reports are reviewed by the management regularly. Monthly cashflow forecasts are also prepared to facilitate the management of the Group’s cashflow.

The Group has adopted strict internal control procedures for handling cash received at its stores, which include the following:

- all cash receipts are deposited in the bank in the next day;
- cash count is performed on every shift of staff, and cash count reports are prepared and reviewed by separate staff;
- all daily cash count reports and cash deposit slips are faxed to the respective accounting department in area offices, the originals shall be delivered to the area accounting departments on a monthly basis;
- regular check is conducted by area accounts staff for cash proceeds at the bank against the deposits slips received, inquiries shall be raised if there is any discrepancies;

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- weekly reconciliation is performed between the cash sales recorded in the Information System and respective cash receipts in the bank statements;
- random checks on the sales receipts to ensure that sales are properly recorded by the Information System;
- payment by debit or credit cards will only be accepted after online approval from banks/ credit card operators are obtained; and
- settlement by debit or credit cards are checked against bank statements to ensure proper receipts and discrepancies will be followed up with bank/credit card operators.

### **Inventory control**

XXEZZ monitors inventories at every stage they are on hand, including receipt, warehousing, transfer and return. With respect to receipt, the date of delivery, name of supplier and quantity of goods are recorded and the goods are matched against a packing list by a supervisor. Stock in and stock out notices will be prepared when the goods were allocated in and out of the divisional warehouse or main warehouse respectively. With the help of the Information System, inventory level at stores will then be closely followed to make replenishment if any shortage is found. Any defective goods which are returned will be stored separately in a specific area.

### **Risk factors**

#### ***Risks Relating to the Business***

*The Group's business is susceptible to abnormal weather conditions.*

The trade cycle is such that design, mock-up and placing of orders with manufacturers has to be performed several months ahead of time so that shops will have new goods to sell when the season comes. Therefore, if there are abnormal weather conditions, the revenue of the business will be susceptible to such unexpected changes.

*The Group may be affected by infringement of its intellectual property rights.*

The Group's trademarks and other intellectual property rights are important to its success and competitive position. The management relies, to a significant extent, on PRC laws to protect the Group's trademarks or other intellectual property rights. There is no assurance that third parties will not infringe the Group's intellectual property rights which will have adverse impact on the sales of products of the Group.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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*The Group may be exposed to claims relating to product liability, property damage or personal injury.*

As at the date of this submission, all of the Group's products were sold in the PRC. The Group may be exposed to product liability claims and other third party liabilities, and it may, as a result, have to expend significant financial and managerial resources to defend against such claims.

### ***Risks Relating to the Industry***

*The Group faces intense competition.*

The PRC market for casual wear products is highly competitive. The Group's casual wear products compete on the basis of brand image, design, product mix, quality, price, customer service and the breadth of the retail network. Foreign brands generally provide better quality and customer service and their designs tend to be more fashionable, while domestic brands generally are better priced and enjoy greater retail coverage in the PRC. With the liberalisation measures adopted pursuant to the PRC's accession to the World Trade Organisation, or WTO, foreign brands are permitted to expand their sales network within the PRC with fewer restrictions.

### ***Risks Relating to the PRC***

*The adverse changes in economic conditions in the PRC will affect the business of the Group.*

Currently, the Group's entire turnover is derived from the operations in the PRC. Accordingly, the business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in the PRC. PRC economic, political and social conditions, as well as government policies, could adversely affect the Group's business.

### ***Other Risks***

*A material disruption of the Group's operations or the operations of the Group's retail outlets from force majeure events could materially and adversely affect the Group's results of operations.*

The Group's operations are subject to uncertainties and contingencies beyond the management's control that could result in material disruptions and adversely affect the Group's results of operations. These include war, riot, public disorder, civil commotion, fire, earthquake, flood and other natural calamity, epidemic, outbreak of infectious disease, terrorism, whether locally or nationwide, or incidents such as industrial accidents, equipment failures, malfunction of information systems or other operational problems, strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or utilities. Any such disruption of the Group's operations could cause the Group to disrupt, limit or delay production, prevent the Group from meeting customer orders, increase the costs of production or require the Group to spend additional capital expenditures, each of which could materially and adversely affect the results of operations. Force majeure events may also materially and adversely affect the operations performance of the retail outlets and or the sales and demand of the products in the relevant markets. In such event, the Group's results of operations may be materially and adversely affected.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis of the operating results and business review of the Company for each of the three years ended 31 March 2010, 2009 and 2008. It should be noted that the auditors gave an adverse opinion in the accounts for the year ended 31 March 2008, and the replacement auditors disclaimed the final results for the year ended 31 March 2009 and gave qualified opinions on the final results for the year ended 31 March 2010. Also, maintenance of management continuity in a provisional liquidation scenario may not be consistent with the duties of the provisional liquidators, although in this situation, the Provisional Liquidators have endeavored to keep the operational management stable. Analyses of the financial performance should therefore be construed in that light, and may be of limited value.

#### **For The Three Years Ended 31 March 2010**

##### *Business review*

Trading in the shares of the Company has been suspended from trading on the Stock since 30 July 2008.

On 11 September 2008, the Company filed a self petition for winding up and Bank of America N.A. filed an application to support the petition for the winding up of the Company. The High Court appointed Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of Ferrier Hodgson Limited, to act as the Provisional Liquidators on the same day.

To the best of the Provisional Liquidators' knowledge and information, since the time of their appointment, the Company is principally engaged in investment holding and the Group is principally engaged in the apparel retail business in the PRC, being the only business remaining under the Group's control.

##### *Turnover and Gross Profit*

For the year ended 31 March 2010, the Group's turnover was approximately HK\$55.65 million, representing a decrease of approximately 48.3% as compared to the year ended 31 March 2009. The decrease was due to the limited working capital and a reduction of the Group's sales points in the PRC. The Group's gross margin for the year was approximately 32.0%.

For the year ended 31 March 2009, the Group's turnover was approximately HK\$107.7 million (2008: HK\$259.2 million), representing a decrease of approximately 58.5% as compared to the corresponding period of the previous year. The decrease was mainly due to the fact that customers' confidence towards the Group and its brand image faded and working capital was insufficient to support a normal operation caused by sudden suspension of trading in the Shares since 30 July 2008. The Group's gross margin for the year ended 31 March 2009 was only 33.2% (2008: 52.3%) for the same reasons as mentioned above.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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Continuing operations (31 March)	2010	Year-on-year change	2009	Year-on-year change	2008
Group's turnover (HK\$'000)	55,648	-48.32%	107,684	-58.5%	259,175
Group's gross profit (HK\$'000)	17,802	-50.24%	35,775	-73.6%	135,574
Group's gross margin	32.0%	-3.71%	33.2%	-19.1%	52.3%

### *Operating expenses*

Operating expenses comprised of (i) distribution costs; and (ii) administrative and other operating expenses. Distribution costs were all attributed to shops and branches whereas administrative and other operating expenses were attributed to the headquarter, shops and branches.

For the year ended 31 March 2010, distribution costs amounted to approximately HK\$43.4 million (2009: HK\$77.2 million), accounting for 77.9% of the turnover (2009: 71.7%), illustrating the effects of the fixed cost element of an ongoing operation suffering from a set-back in sales. During the year, administrative and other operating expenses were approximately HK\$15.4 million (where HK\$5 million were attributed to the headquarter and HK\$10.4 million were attributed to shops and branches) (2009: HK\$231.9 million, where HK\$224.4 million were attributed to the headquarter and HK\$7.5 million were attributed to shops and branches), representing a decrease of 43.8%.

For the year ended 31 March 2009, distribution costs amounted to approximately HK\$77.2 million (2008: HK\$99.6 million), accounted for 71.7% of the turnover (2008: 38.4%). The decrease was the result of the reduction in the number of outlets. During the year, administrative and other operating expenses were approximately HK\$231.9 million (where HK\$224.4 million were attributed to headquarter and HK\$7.5 million were attributed to shops and branches) (2008: HK\$2,683.2 million, where HK\$2,676.1 million were attributed to the headquarter and HK\$7.1 million were attributed to shops and branches), representing a decrease of 91.4% due to losses from (i) deconsolidation of subsidiaries; (ii) impairment of assets; and (iii) provisions for bank loan guarantee for certain subsidiaries and deconsolidated subsidiaries incurred during the year ended 31 March 2008. There is little comparative value in these figures for the same reasons as mentioned above.

### *Profit/Loss attributable to Shareholders*

The consolidated loss attributable to Shareholders amounted to approximately HK\$59.2 million for the year ended 31 March 2010 (2009: loss of HK\$97.2 million). Basic loss per share was approximately HK2.68 cents for the year ended 31 March 2010 (2009: loss per share HK4.41 cents). Loss attributable to the shops/branches amounted to approximately HK\$28.5 million for the year ended 31 March 2010 (2009: loss HK\$44.2 million).

The consolidated loss attributable to Shareholders for the year ended 31 March 2009 amounted to approximately HK\$97.2 million (2008: HK\$2,660.9 million). Loss per share was approximately HK4.41 cents as compared with loss per share of approximately HK124.52 cents for the preceding year. Loss attributable to the shops/branches amounted to approximately HK\$44.2 million for the year ended 31 March 2009 (2008: profit of HK\$33.1 million).

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### *The Group's financial position*

Bank balances and cash including escrow money as at 31 March 2010 was approximately HK\$13.0 million (2009: HK\$8.2 million). Bank balances and cash including escrow money as at 31 March 2009 was approximately HK\$8.2 million (2008: HK\$2.7 million).

Closing inventories at 31 March 2010 were approximately HK\$7.8 million (2009: HK\$15.2 million). Closing inventories at 31 March 2009 were approximately HK\$15.2 million (2008: HK\$46.2 million). Inventory turnover on sales for the year ended 31 March 2010 was 111 days. Inventory turnover on sales for the year ended 31 March 2009 was 156 days (2008: 531 days). This ratio has been distorted as the opening inventory figure for the financial year ended 31 March 2008, being the closing inventory as at 31 March 2007, consist of substantial amount of inventory from the deconsolidated subsidiaries). However, inventory days are distorted as the operation was at the brink of discontinuation, only rescued by the Investor's contribution of working capital.

The Group's gearing ratio measured on the basis of the Group's total bank borrowings relative to the shareholders' funds is not applicable as the Group had shareholders' deficits as at 31 March 2010, 31 March 2009 and 31 March 2008.

### *Human Resources*

As at 31 March 2010, the Group employed about 329 full time employees. The Group remunerates its employees based on performance and experience.

The Group's subsidiary in the PRC participates in a defined contribution retirement scheme organized by the PRC municipal government. The said subsidiary is required to make contributions at approximately 20% of the relevant PRC employees' salaries to the scheme.

Due to the failure to have access to the books and records of certain subsidiaries and resignations of the majority of management personnel responsible for maintaining the books and records, the Provisional Liquidators do not have sufficient data to compile the information regarding the Group's employees and remuneration policies for the two years ended 31 March 2009.

To the best knowledge of the Provisional Liquidators, save as disclosed above, the Group had no other significant obligations to make payments in respect of retirement benefits of the employees.

### **Other Information**

#### *Dividend*

There was no payment of any dividend for each of the years ended 31 March 2010, 2009 and 2008.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### *Foreign exchange exposure*

The Group has minimal exposure to foreign currency risks as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi. The Group currently does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities as the Company under provisional liquidation cannot incur liabilities resultant from hedging.

### *Material acquisitions and disposals*

Based on published information, the Group entered into the following transactions during the three years ended 31 March 2010:

- Entered into an agreement on 25 May 2007 to acquire 90% of the issued share capital of Best Favour at a cash consideration of HK\$330 million. Best Favour, through its subsidiaries, is engaged in the fashion design and management of its **XXEZZ** brand of smart casual wear. The said transaction was completed in June 2007.
- Entered into a settlement agreement with Sino Legend Limited (“**Sino Legend**”) on 13 October 2007 to redeem the Group’s 600,000 preferred shares in Sino Legend for (i) a cash consideration of US\$16 million (equivalent to approximately HK\$124.8 million); and (ii) the entire issued share capital of a company which owned certain trademarks of the “Mudd” brand in Greater China and the right of Mudd (USA) LLC (“**Mudd USA**”) to negotiate in good faith to enter into commercially reasonable arrangement (i.e. joint venture) to exploit certain trademarks of the “Mudd” brand in Asia (other than Greater China) and the Middle East providing for an equal sharing of costs and royalties with Iconix Brand Group, Inc. (“**Iconix**”) pursuant to the agreement entered into between Mudd USA and Iconix dated 31 March 2006. The said transaction was completed on 29 February 2008.
- Based on published information, prior to the appointment of the Provisional Liquidators, the Group entered into an agreement on 8 July 2008 to acquire 40% of both the entire issued share capital of and the shareholder’s loan due by Global Agricultural Development Limited at a total consideration of HK\$300 million which would be satisfied by the Group procuring Global Far East (Macao Commercial Offshore) Limited, an indirect wholly-owned subsidiary of the Company, to assign as beneficial owner, all the rights, title, benefits and interests in its account receivables in the aggregate book values of HK\$300 million upon completion of the said transaction. However, there is no evidence which shows that the said transaction has been completed.
- On 15 August 2008, the Company’s interest in Ever Century, a wholly owned subsidiary of the Company, which in turn holds directly and indirectly the entire issued share capital of all the remaining subsidiary companies in the Group, was transferred to Merrier.

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- On 3 April 2009, the Company, the Provisional Liquidators, Forefront, Merrier, Hansom and the Investor entered into the Settlement Deed pursuant to which Merrier agreed to transfer the interest in Ever Century (a wholly-owned subsidiary of the Company the entire equity interest of which was charged and transferred to Forefront by the Company in June 2008 and August 2008 respectively) back to the Company in order to facilitate the restructuring of the Company and Forefront and Hansom acknowledged, confirmed and agreed that there was no intention to change the beneficial ownership of interest in Ever Century or the Company's control over Ever Century.
- On 29 May 2009, the Provisional Liquidators, Ever Century and Key Winner (a special purpose vehicle controlled by the Provisional Liquidators) entered into a sale and purchase agreement where Key Winner agreed to acquire and the Provisional Liquidators (on behalf of the Company) agreed to sell Ever Century's entire interest in Lantern Services Limited, Potter Industries Limited and Sino Profit Limited at a nominal consideration of HK\$1. The said transaction was so arranged primarily in furtherance of the Group's restructuring.
- On 9 April 2010, the Company, the Provisional Liquidators, Forefront, Merrier, Hansom and the Investor entered into the supplemental deed to the Settlement Deed pursuant to which Forefront and Hansom agreed to extend the period of not exercising their respective share charge over the shares of Ever Century from 12 months to 24 months from the date of the Settlement Deed.

### **Prospect**

It is anticipated that the financial position of the Group will be substantially improved upon (i) the successful implementation of the Restructuring Agreement; and (ii) the resumption of trading in the shares on the Stock Exchange. The Investor and the Provisional Liquidators anticipate all existing liabilities owed to the Scheme Creditors and creditors of its subsidiaries holding guarantees given by the Company will be compromised and discharged through the Schemes.

It is the Investor's intention to maintain the Group's existing retail business, which is currently conducted through Shenzhen XXeZZ Clothing Company Limited (the "Newco"), an indirect wholly-owned subsidiary of the Company and the subsidiary of the Company operating a substantial part of the business. Since 31 March 2010, being the date of the latest published audited accounts of the Company, with the strong and continuous support provided by the Investor to the Group in terms of both business and financial aspects, the Group has been and will be able to sustain its retail business at a sufficient level in upcoming financial years and expand its retail business to a substantial level within a reasonable period of time after the resumption of trading in the Shares on the Stock Exchange.

### **Unaudited pro forma financial information of the restructured Group**

The unaudited pro forma financial information of the Group is set out in Appendix V to this circular. Taking into account the financial effects of (i) the Capital Reorganisation; (ii) the Open Offer; (iii) the last installment fees and costs provided by the Investor to the Company for the implementation of the restructuring of the Group; (iv) the subscription of the Investor Convertible

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Bonds; (v) the total of HK\$26 million, being the working capital loan from the Investor and the fees and costs incurred by the Company for the Group's restructuring, to be offset from the proceeds from the issue of the Investor Convertible Bonds; (vi) the Schemes and the New Profit Agreement; and (vii) the deconsolidation effect of New Profit and New Profit Luo Ding, the unaudited pro forma total assets value and net assets value of the Group were approximately HK\$235.06 million and HK\$86.70 million respectively as if Closing had taken place on 31 March 2010.

### **Profit forecast**

The profit forecast for the two financial years ending 31 March 2012 is set out in Appendix VII to this circular. The forecast consolidated profit attributable to equity holders of the Company for the years ending 31 March 2011 and 2012 are no less than approximately HK\$1,195.55 and HK\$10.09 million respectively. The unaudited pro forma forecast earnings per New Share for the year ending 31 March 2011 and 2012 are no less than approximately HK\$0.04 and HK\$0.0004 respectively.

Should the effects of the Schemes, the New Profit Agreement and the deconsolidation of New Profit and New Profit Luo Ding not be taken into account, the forecast consolidated loss attributable to equity holders of the Company for the year ending 31 March 2011 will then be approximately HK\$15.43 million. During the year ending 31 March 2012, the Company is expected to be operating in normal conditions.

### **INFORMATION ON THE INVESTOR**

The Investor is principally engaged in investment holding and is incorporated in the British Virgin Islands. The Investor is wholly-owned by Moon Light Investments Group Limited, which in turn is wholly-owned by Moon Light Trust. The trustee of Moon Light Trust is Fidelitycorp Limited. The sole beneficiary of Moon Light Trust is Ms. Huang Min Chuan Joan ("**Ms. Huang**"). Mr. Chuang Eugene Yue-chien ("**Mr. Chuang**"), son of Ms. Huang, is the sole director of the Investor.

The Investor, its ultimate beneficial owner and parties acting in concert with any of them are independent third parties of the Company and its connected persons. Save for entering into the Exclusivity and Escrow Agreement, the Restructuring Agreement, the Investor Subscription Agreement and the Sub-underwriting Letter, none of the Investor, its sole director, its ultimate beneficial owner and parties acting in concert with any of them has dealt in, borrowed or lent the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares during the period commencing on the date falling six months prior to the date of the 1st Announcement and up to the Latest Practicable Date. As at the date of the Latest Practicable Date, the Investor, its sole director, its ultimate beneficial owner and parties acting in concert with any of them did not hold or control any Shares, warrants, options or convertible securities of the Company or any derivatives in respect of the securities of the Company.

Ms. Huang has been an active investor in the securities market for over 30 years with an investment portfolio reaching as high as HK\$100 million. She is a financial investor and does not intend to sit on the Board.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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Mr. Chuang, aged 56, has over 30 years of experience in the financial services industry. He obtained a bachelor's degree in Biochemistry from the University of Pennsylvania in 1977 and Master of Business Administration from Indiana University in 1979. Upon graduation, Mr. Chuang joined PNC Financial Corp. rising to Vice President and General Manager before leaving in 1984. He then joined the Institutional Markets Division of Standard Chartered Group to work on Asia Pacific related transactions until 1986. From 1987 to 1991, he worked for Bankers Trust and then Salomon Brothers in Hong Kong and Taiwan, before leaving to set up Capital Union Inc. and Hennabun Capital Group Limited ("HCGL") (formerly known as Hennabun Management Inc. and then Hennabun Management International Limited), both privately held investment companies. He has been appointed as the Managing Director of HCGL as well as director of certain subsidiaries since 1996 to supervise and manage the overall activities of HCGL. He resigned as the Managing Director of HCGL in November 2009 but has been retained as a director and responsible officer of CU Corporate Finance Limited until March 2010, which is a subsidiary of HCGL and licensed by the Securities and Futures Commission of Hong Kong to conduct the regulated activity of advising on corporate finance. HCGL is a privately held financial group, and through its subsidiaries engages in the provision of stock broking, commodity trading, money lending, corporate finance advisory and investment management advisory services and proprietary trading.

Both Ms. Huang and Mr. Chuang are active investors in the securities markets. With the PRC having announced its economic policy in enhancing domestic consumption to supplement any shortfall in export, Ms. Huang is attracted by the prospects of the retail industry in the PRC. She believes that the Company's apparel retailing business will benefit from the economic driving factors in the PRC including rapid economic growth, urbanisation and increasing household expenditure and disposable income. A professional management team, namely Mr. Ho Tak Fun, Josef, Mr. King, Phillip and Mr. Chiu Siu Po, being the proposed Directors, has been identified for nomination to the Board and together with the retained key executives of the Group, the Investor believes that the Group should be managed by professionals, and the Company's business operations and future developments will benefit from the background, relevant knowledge and experience of the management.

As at the Latest Practicable Date, neither Ms. Huang nor Mr. Chuang has held any directorship in Hong Kong listed companies in the past three years. Both of Ms. Huang and Mr. Chuang confirmed that, other than their respective role in the Investor as set out in this circular, neither of them had or planned to have any role in the Company.

Ms. Huang is not related to Mr. Kwok Wing and his family members or Forefront.

There is no agreement, arrangement or understanding (including any compensation arrangement) existing between the Investor, its ultimate beneficial owner and parties acting in concert with any of them and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Restructuring Agreement, the Investor Subscription Agreement, the Sub-underwriting Letter and the Whitewash Waiver. As at the date of this circular, none of the Shareholders irrevocably committed themselves to vote for or against the Whitewash Waiver.

As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Investor, its ultimate beneficial owner and parties acting in concert with any of them and any other person.

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As at the Latest Practicable Date, neither the Company nor any of the Directors held any shares, warrants, options, convertible securities and derivatives in respect of the shares of the Investor nor have they dealt for value in the shares or other relevant securities of the Investor in the six months period immediately prior to the date of the 1st Announcement and up to the Latest Practicable Date.

### INTENTION OF THE INVESTOR

The Group has experienced significant write-down of investments in its manufacturing plants in the PRC and Cambodia. Given the Group's disastrous experience in running manufacturing businesses in the immediate past, the Investor would not want to intrude into the manufacturing sector for the time being, and would like to adopt outsourcing as the current strategy and focus on the retail operation of "XXEZZ" in the PRC. If suitable investment opportunities arise for vertical integration, the Investor may revitalise its apparel manufacturing business.

With a mainline in casual wear, the Investor will also consider the viability of providing new lines of accessories, e.g. watches, belts, bags, etc., by the Group to enhance and diversify the product coverage of the XXEZZ brand. With an adjusted product mix and more marketing promotions, the Investor intends to rebuild the brand image of XXEZZ and enhance the brand recognition by the customers. These, however, have not been factored into the profit forecast of the Group for the two years ending 31 March 2012 as contained in Appendix VII to this circular as the Investor intends to conduct further research on the market and analyse the situation before so deciding.

With ample working capital available to the Group upon Completion and with the experienced top management team on board, the Investor plans to set up new self-operating stores, engage new authorised retailer, boost shop floor area, increase marketing expenses for, organise more trade fairs, adopt a more effective cost control scheme in order to ride on the economic recovery in the PRC and boost the revenue and profit of the Group.

The Investor intends to use reasonable efforts to retain the three key executive as mentioned in the section headlined "Principal strengths of XXEZZ" above (other than Mr. Chen Li Wu who already resigned in December 2009 as general manager and development manager but retained himself as the senior consultant). These three key executives have an average of approximately 12 years of experience in the garment industry and an average of approximately 5 years of experience with the XXEZZ brand.

The Investor confirms that:

- (i) there is no agreement, arrangement or understanding that it will transfer, charge or pledge any of the Offer Shares or Conversion Shares, which it will acquire pursuant to the Sub-underwriting Letter and the Investor Subscription Agreement, to any other persons;
- (ii) it has no intention to dispose of or re-deploy the assets of the Group other than in the ordinary course of the business of the Group, nor does it have any intention to inject its assets into the Group;

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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- (iii) as at the date of this circular, it has no plan to sell its interests in the Company (whether shares or convertible bonds of the Company), except for the purpose of maintaining the public float requirement under the Listing Rules, if required; and
- (iv) the profit forecast of the Group for the two years ending 31 March 2012 as contained in Appendix VII to this circular has been made after due and care enquiry.

Ms. Huang and Mr. Chuang individually undertakes that, as at the date of this circular,

- i) she/he has no plan to cause the Group to conduct business other than retailing/manufacturing of apparel and accessories for the one year following Closing; and
- ii) she/he has no plan to sell any of her/his interests in the Company (acquired upon and after Closing whether Shares or Investor Convertible Bonds, except for the purpose of maintaining the public float requirement under the Listing Rules) for the first six months following Closing and, in the event that their shareholding, either individually or in aggregate, is more than 50% during the second six months following Closing, she/he will maintain at least 50% shareholding in the Company for the second six months following Closing.

As at the date of this circular, there was no negotiation agreement, intention or plan relating to (i) conducting business other than retailing/manufacturing of apparel and accessories; and (ii) selling its interests in the Company.

The Investor does not have any plans to discontinue or change the Group's existing business activities, the employment of the employees, nor management and senior management of the Group.

It is the intention of the Investor to maintain the listing status of the Shares on the Stock Exchange after the Open Offer becomes unconditional.

### **PROPOSED APPOINTMENT OF DIRECTORS AT THE EGM**

As at the date of this circular, the Board comprises one non-executive Director and three independent non-executive Directors. Upon Completion and trading in the shares of the Company being resumed, the Investor proposes to appoint three executive Directors. The proposed appointment of the Directors will be subject to the approval of the Shareholders by way of ordinary resolutions in the EGM in which the voting will be taken by way of poll. The Company will issue an announcement as required under Rule 13.51(2) of the Listing Rules as soon as practicable when the appointment of the Directors are effective.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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The biographies of the persons nominated by the Investor are set out below:

**Mr. King, Phillip**

Mr. King, aged 39, holds a Master's degree in Business Administration from the University of San Francisco in the United States of America. He has over 20 years of experience in real estate investment, management and development. Since 2005, Mr. King has been appointed executive director and managing director of Willie International Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. King was also an independent non-executive director of Glory Future Group Limited (presently known as China Metal Resources Holdings Limited), a company listed on the GEM which he subsequently resigned in November 2007. He has experience in administration, strategic development and investor relations for listed companies in Hong Kong.

**Mr. Ho Tak Fun, Josef**

Mr. Ho Tak Fun, Josef, aged 56, holds a Bachelor's degree in Business Administration, Marketing from the Chinese University of Hong Kong and a Master's degree in Science, Information System from Hong Kong Polytechnic University. He was a general manager of Jumbo Grade Co., Limited, which runs leading retail chain stores in books, magazines, stationery and specialty items and he has held the position as General Manager in the past 20 years with good exposure to international business. Mr. Ho is a seasoned retail practitioner with profound experience in launching, strategic planning, business development and operations of both the PRC and Hong Kong retail businesses. He also has extensive knowledge in marketing, merchandising, distribution and promotion on consumer products and mass merchandise.

**Mr. Chiu Siu Po**

Mr. Chiu Siu Po, aged 60, is the managing director and chief executive officer of More Fortune Company Limited, a company principally engaged in import and export of textile business. Mr. Chiu has over 35 years of experience in textile industry for the manufacturing, sales and distribution. Since 2006, Mr. Chiu has been appointed as an independent non-executive director of Freeman Corporation Limited, a company listed on the Main Board of the Stock Exchange. In addition to his valuable expertise in textile industry, Mr. Chiu also has extensive corporate and investment experience in both Hong Kong and the PRC markets.

The 3 candidates have different strengths to complement the needs in successfully managing the Group's principal business of apparel retailing. The Investor believes that with the knowledge and experience of the proposed Directors, the Group will be able to enrich the Chinese local brand XXEZZ with international thoughts and ideas.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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As at the date of this circular, each of the proposed Directors:

- (i) confirms that the profit forecast of the Group for the two years ending 31 March 2012 as contained in Appendix VII to this circular has been made after due and care enquiry; and
- (ii) undertakes that there is no plan to cause the Group to conduct business other than retailing and manufacturing of apparel and accessories for the one year following Closing.

Upon Completion, the Investor will also procure the appointment of three independent non-executive Directors, with at least one of them possessing accounting professional qualifications and one of them having legal training.

### **PROPOSED GENERAL MANDATE TO ISSUE NEW SHARES**

In the EGM, an ordinary resolution, as set out in the notice of the EGM of the Company, will be proposed for the Shareholders to consider and, if thought fit, to grant the Issue Mandate to the Directors to allot, issue and deal with Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue at Closing, that is 15,222,734,784 New Shares.

In addition, a separate ordinary resolution will further be proposed for extending the Issue Mandate authorising the Directors to allot, issue and deal with Shares to the extent of the Shares repurchased pursuant to the Repurchase Mandate. Details on the Repurchase Mandate are further elaborated below.

The Issue Mandate (including the extended Issue Mandate) to issue shares will remain in effect until the earliest of (i) the conclusion of the next annual general meeting of the Company after the Closing has taken place; (ii) the expiration of the period within which the next annual general meeting of the Company after the Closing has taken place is required by the Articles of Association or any applicable law to be held; and (iii) the revocation or variation of the authority given under the ordinary resolution of the Shareholders in a general meeting.

### **PROPOSED GENERAL MANDATE TO REPURCHASE NEW SHARES**

In the EGM, an ordinary resolution, as set out in the notice of EGM of the Company, will be proposed for the Shareholders to consider and, if thought fit, to grant the Repurchase Mandate to the Directors to enable them to repurchase New Shares subject to the criteria set out in this circular. Shareholders should note that the maximum number of New Shares that may be repurchased will be 10% of the New Shares of the Company in issue immediately after closing on the Closing Date

An explanatory statement containing all relevant information relating to the Repurchase Mandate and as required pursuant to the Listing Rules is set out in Appendix II to this circular. The information in the explanatory statement is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolution relating to the Repurchase Mandate.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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### EGM

The Open Offer Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok, and Mr. Kooi Tock Chian, has been formed to advise the Independent Shareholders in respect of the Open Offer. The Whitewash Waiver Independent Board Committee, comprising the non-executive Director and all independent non-executive Directors, namely Mr. James D. McMullen, Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok, and Mr. Kooi Tock Chian, has been formed to advise the Independent Shareholders in respect of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal.

The EGM will be convened for the purpose of approving the Open Offer, the Whitewash Waiver, the Special Deal and other transactions contemplated in the Restructuring Agreement and all these resolutions shall be voted by way of poll.

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer is made conditional on approval by the Independent Shareholders, that is any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolutions in respect of the Open Offer. As at the Latest Practicable Date, Mr. Kwok Wing, who was neither interested nor involved in the Restructuring Agreement, the Whitewash Waiver and the Special Deal, is a controlling Shareholder holding approximately 34.46% and therefore Mr. Kwok Wing and his associate are required to abstain from voting in favour of the resolution in respect of the Open Offer.

The Interested Shareholders, namely QVT and Quintessence, holding an aggregate of approximately 0.05% of existing issued share capital of the Company, who are interested in the transactions contemplated under the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Wavier and the Special Deal, therefore the Interested Shareholders and parties acting in concert with any of them shall abstain from voting for the resolutions in respect of the transactions contemplated under the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Wavier and the Special Deal. Except for the Interested Shareholders, there are no Shareholders having an interest (otherwise than solely as a Shareholder) in or involved in the transactions contemplated under the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Wavier and the Special Deal, therefore no other Shareholder is required to abstain from voting for the resolutions in respect of the transactions contemplated under the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Wavier and the Special Deal.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, 26th Floor Tesbury Centre, 28 Queen's Road East,

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in the EGM or any adjournment of it if you so wish.

An announcement will be made by the Company after the EGM on the results of the EGM pursuant to Rule 13.39(5) of the Listing Rules.

### **RECOMMENDATION**

The Board believes that the terms of the issue of the Convertible Bonds, the proposed appointment of the Directors, the Issue Mandate and the Repurchase Mandate are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed in the EGM in relation to the issue of the Convertible Bonds, the appointment of the Directors, the Issue Mandate (including the extended Issue Mandate) and the Repurchase Mandate.

The Open Offer Independent Board Committee has been established to advise the Independent Shareholders in respect of the Open Offer. Access Capital has been appointed as the independent financial advisor to advise the Open Offer Independent Board Committee and the Independent Shareholders in this regard.

The Whitewash Waiver Independent Board Committee has been established to advise the Independent Shareholders in respect of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal. Access Capital has been appointed as the independent financial advisor to advise the Whitewash Waiver Independent Board Committee and the Independent Shareholders in this regard.

You are advised to read carefully the letters from the Open Offer Independent Board Committee, the Whitewash Waiver Independent Board Committee and Access Capital set out on pages 70, 71, 72 to 87 of this circular respectively. The Open Offer Independent Board Committee, having taken into account the advice of Access Capital, considers the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Shareholders as a whole. The Whitewash Waiver Independent Board Committee, having taken into account the advice of Access Capital, considers the terms of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are in the interests of the Company and the Shareholders as a whole. Accordingly, the Open Offer Independent Board Committee and Whitewash Waiver Independent Board Committee recommend the Independent Shareholders to vote in favour of the proposed resolutions approving the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver, and the Special Deal in the EGM.

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## LETTER FROM THE PROVISIONAL LIQUIDATORS/BOARD

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Shareholders should note the despatch of this circular does not indicate that the Shares will resume trading and that the listing approval will be granted. The Shares may be delisted in the event that the Company fails to satisfy all the Resumption Conditions by 15 December 2010, being the deadline stipulated by the Stock Exchange. Shareholders and investors are advised to exercise caution when dealing in the Shares.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the letter from the Open Offer Independent Board Committee, letter from the Whitewash Waiver Independent Board Committee, letter from Access Capital and the appendices to this circular.

Yours sincerely,

For and on behalf of  
**TACK FAT GROUP INTERNATIONAL LIMITED**  
*(Provisional Liquidators Appointed)*

**FOK Hei Yu**  
**Roderick John Sutton**  
*Joint and Several Provisional Liquidators  
acting as agents without personal liability*

By order of the Board  
**TACK FAT GROUP INTERNATIONAL LIMITED**  
*(Provisional Liquidators Appointed)*

**Choong Khuat Leok**  
*Independent Non-executive Director*

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## LETTER FROM THE OPEN OFFER INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Open Offer Independent Board Committee setting out its recommendations to the Independent Shareholders in relation to the Open Offer.*



**TACK FAT GROUP INTERNATIONAL LIMITED**  
**(Provisional Liquidators Appointed)**  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 00928)

31 August 2010

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED OPEN OFFER ON THE BASIS OF 339 OFFER SHARES  
FOR EVERY 5 NEW SHARES HELD ON RECORD DATE**

We refer to the circular of the Company dated 31 August 2010 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise you as to whether the terms of the Open Offer are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Access Capital has been appointed as the independent financial advisor to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, Access Capital as set out in its letter of advice to you and us on pages 72 to 87 of the Circular, we are of the opinion that the Open Offer are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Open Offer. A notice of the EGM is set out on pages 186 to 193 of this Circular.

Yours faithfully,

For and on behalf of the

*Open Offer Independent Board Committee*

**Pau Chin Hung, Andy**

**Choong Khuat Leok**

**Kooi Tock Chian**

*Independent Non-executive Directors*

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## LETTER FROM THE WHITEWASH WAIVER INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Whitewash Waiver Independent Board Committee setting out its recommendations to the Independent Shareholders in relation to the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal.*



**TACK FAT GROUP INTERNATIONAL LIMITED**  
(Provisional Liquidators Appointed)  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 00928)

31 August 2010

*To the Independent Shareholders*

Dear Sir or Madam,

### **APPLICATION FOR WHITEWASH WAIVER AND CONSENT FOR SPECIAL DEAL**

We refer to the circular of the Company dated 31 August 2010 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise you as to whether the terms of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Access Capital has been appointed as the independent financial advisor to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, Access Capital as set out in its letter of advice to you and us on pages 72 to 87 of the Circular, we are of the opinion that the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal. A notice of the EGM is set out on pages 186 to 193 of the Circular.

Yours faithfully,

For and on behalf of the

*Whitewash Waiver Independent Board Committee*

**James D. McMullan**  
*Non-executive  
Director*

**Pau Chin Hung, Andy**  
*Independent  
non-executive  
Director*

**Choong Khuat Leok**  
*Independent  
non-executive  
Director*

**Kooi Tock Chian**  
*Independent  
non-executive  
Director*

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## LETTER FROM ACCESS CAPITAL

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*The following is the full text of the letter of advice from Access Capital to the Independent Board Committees and the Independent Shareholders in relation to the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal for the purpose of incorporation in this circular.*



**Suite 606, 6th Floor  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong**

31 August 2010

*To: The Independent Board Committees  
and the Independent Shareholders of  
Tack Fat Group International Limited (Provisional Liquidators Appointed)*

Dear Sirs,

**RESTRUCTURING OF TACK FAT GROUP INTERNATIONAL LIMITED  
(PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER ALIA,  
(1) PROPOSED OPEN OFFER ON THE BASIS OF 339 OFFER SHARES FOR  
EVERY 5 NEW SHARES HELD ON THE RECORD DATE;  
(2) PROPOSED ISSUE OF CONVERTIBLE BONDS;  
(3) APPLICATION FOR WHITEWASH WAIVER;  
AND  
(4) SPECIAL DEAL**

### **I. INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committees and the Independent Shareholders with regard to the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal, details of which are contained in the “Letter from the Provisional Liquidators/Board” of the circular to the Shareholders dated 31 August 2010 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

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## LETTER FROM ACCESS CAPITAL

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On 26 May 2010, the Company, the Provisional Liquidators, the Investor and the Escrow Agent entered into the Restructuring Agreement. The Restructuring Agreement involves, inter alia, the proposed terms for the Capital Reorganisation, the Open Offer, the Investor Subscription Agreement, debt restructuring (including the Schemes and the Creditors Subscription Agreement), and proposed application for the Whitewash Waiver. On 24 June 2010, the Company, the Provisional Liquidators and the Investor entered into the Investor Subscription Agreement. On 6 July 2010, New Profit, Key Winner, the Company and the Provisional Liquidators entered into the Creditors Subscription Agreement. On 27 July 2010, the Company and Asian Capital entered into the Underwriting Agreement for the Open Offer. On the same date, the Investor, as a sub-underwriter, entered into the Sub-underwriting Letter with Asian Capital, to fully sub-underwrite all the Offer Shares not taken by the Shareholders. The parties to the Restructuring Agreement entered into the Supplemental Restructuring Side Letter on 24 August 2010 pursuant to which, among other things, the Closing will also be conditional on the Special Deal being approved by the Shareholders in the EGM and the consent for the Special Deal being granted by the Executive.

Pursuant to the Restructuring Agreement, subject to the Capital Reorganisation becoming effective, the Company will implement the Open Offer of New Shares on the basis of 339 Offer Shares for every 5 New Shares held on the Record Date by the Qualifying Shareholders. As the Open Offer will increase the issued share capital of the Company upon completion of the Capital Reorganisation by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer is made conditional on approval by the Independent Shareholders at the EGM. Any controlling Shareholders and their associates are required to abstain from voting in favour of the relevant resolutions relating to the Open Offer. Mr. Kwok Wing is a controlling Shareholder holding approximately 34.46% as at the Latest Practicable Date and therefore Mr. Kwok Wing and his associates are required to abstain from voting in favour of the resolution in respect of the Open Offer.

As part of the Restructuring Agreement and the Investor Subscription Agreement, the Investor will subscribe for the Investor Convertible Bonds with the principal amount of HK\$100 million which are convertible into 10,000,000,000 New Shares at the option of the holders at a conversion price of HK\$0.01 per Conversion Share.

Upon completion of the Capital Reorganisation and assuming full conversion of the Investor Convertible Bonds only, the Investor and parties acting in concert with it will be interested in (i) approximately 39.6% of the then enlarged issued share capital of the Company assuming all the Shareholders taking up all the Offer Shares; and (ii) approximately 99.1% of the then enlarged issued share capital of the Company if none of the Shareholders takes up the Offer Shares. Accordingly, the Investor, its ultimate beneficial owners and parties acting in concert with any of them would be obliged to extend a mandatory general offer to all the Shareholders (other than those already owned or agreed to be acquired by the Investor, its ultimate beneficial owners or parties acting in concert with any one of them) under Rule 26 of the Takeovers Code, unless a Whitewash Waiver is obtained from the Executive. The Investor, its ultimate beneficial owner and parties acting in concert with any of them have made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted, will be subject to, the approval by the Independent Shareholders at the EGM, who are not interested or involved in the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal.

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## LETTER FROM ACCESS CAPITAL

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Under the Schemes, the Restructuring Agreement and the Creditors Subscription Agreement, all the Claims against the Company will be compromised, discharged and settled. Scheme Creditors and New Profit Stakeholders will subscribe for Creditors Convertible Bonds with the principal amount of HK\$20 million which are convertible into 20,000,000,000 New Shares at the option of the holders at a conversion price of HK\$0.01 per Conversion Share.

To the best knowledge of the Provisional Liquidators, the Interested Shareholders who held 1,087,262 Shares as at the Latest Practicable Date, representing approximately 0.05% of the existing issue share capital of the Company, had an aggregate claims of approximately HK\$92 million against the Company as at 31 March 2010. As the terms of the settlement of the Claims to the Interested Shareholders under the Schemes are not extended to the other Shareholders, it constitutes a special deal for the Company under Rule 25 of the Takeovers Code, and requires the consent of the Executive, which will normally be granted provided that an independent financial advisor to the Whitewash Waiver Independent Board Committee and the Independent Shareholders (who are not interested or involved in the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal), publicly stating that in its opinion the respective terms of the settlement of the Claims to the Interested Shareholders are fair and reasonable; and the respective resolutions in respect of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are approved by the Independent Shareholders by way of poll at the EGM.

### **II. THE INDEPENDENT BOARD COMMITTEES**

The Board currently consists of one non-executive Director, Mr. James D. McMullen and three independent non-executive Directors, Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok and Mr. Kooi Tock Chian.

The Open Offer Independent Board Committee, consisting of all independent non-executive Directors, namely Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok, and Mr. Kooi Tock Chian, was formed to advise the Independent Shareholders as to (i) whether the terms of the Open Offer is fair and reasonable so far as the Independent Shareholders are concerned and; (ii) whether the Open Offer is in the interests of the Company and the Shareholders as a whole.

The Whitewash Waiver Independent Board Committee, consisting of all non-executive Directors, namely Mr. James D. McMullen, Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok and Mr. Kooi Tock Chian, was established to advise the Independent Shareholders as to (i) whether the terms of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote on the resolutions in respect of the Whitewash Waiver and the Special Deal at the EGM.

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## LETTER FROM ACCESS CAPITAL

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We have been appointed, with the approval of the Independent Board Committees, to advise the Independent Board Committees and the Independent Shareholders in these respects.

### III. BASIS AND ASSUMPTIONS

In formulating our opinion, we have relied solely upon the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Provisional Liquidators. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Provisional Liquidators for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Provisional Liquidators contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Provisional Liquidators that no material facts have been omitted from the information provided and referred to in the Circular. We have not participated in the selection process of the restructuring proposals and we are therefore not in the position to comment on such process or the terms of any other proposals.

We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have not, however, conducted an independent verification of the information provided, nor have we carried out an in-depth investigation into the affairs of the Group or the prospects of the markets in which the Group operates.

### IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal, we have taken into account, inter alia, the following principal factors and reasons:

#### A. Background to and reasons for the Restructuring Agreement

##### 1. *Business of and financial information on the Company*

The Company was incorporated in Cayman Islands with limited liability on 12 March 2001 and was listed on the Main Board of the Stock Exchange on 29 April 2002. Trading in the Shares has been suspended since 30 July 2008 and the Provisional Liquidators were appointed on 11 September 2008. The Group is principally engaged in the fashion design and management of a casual wear retail brand “XXEZZ” in the PRC. Currently the brand trade mark is owned by a company, which does not belong to the Group but is now controlled by the Provisional Liquidators. The Provisional Liquidators will take the necessary steps to transfer the XXEZZ trademark to the Group before Closing. Further details of XXEZZ are set out in the “Letter from the Provisional Liquidators/Board” in the Circular.

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## LETTER FROM ACCESS CAPITAL

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Tabularised below are the consolidated financial highlights of the Company as extracted from the annual reports of the Company for the year ended 31 March 2010 (“2010 Annual Report”):

	<b>2009</b>	<b>2010</b>
	<b>31 March</b>	<b>31 March</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)
<b>Total assets</b>	66,187	52,424
<b>Total liabilities</b>	(1,317,001)	(1,349,070)
<b>Net liabilities</b>	(1,250,814)	(1,296,646)
<b>Turnover</b>	107,684	55,648
<b>Profit/(Loss) from operations</b>	(23,794)	6,168
<b>Loss for the year</b>	(87,130)	(58,921)

As depicted from the above table, the Group’s turnover for the year ended 31 March 2010 were approximately HK\$55.6 million representing a decrease of approximately 48.3% from that of last year (2009: approximately HK\$107.7 million). According to the 2010 Annual Report, the decline in turnover for the year ended 31 March 2010 was due to reduction in the Company’s sales points in the PRC and limited working capital. Profit from operations of approximately HK\$6.2 million was recorded for the year ended 31 March 2010 as compared to a loss from operations of approximately HK\$23.8 million in previous year. This was mainly attributed to the decrease in administrative and other operating expenses. However, due to the significant increase in finance costs to approximately HK\$63.1 million (2009: approximately HK\$13.5 million) which comprised mainly of interest on bank advances, other borrowings and convertible bonds, a loss for the year of approximately HK\$58.9 million was recorded (2009: loss of approximately HK\$87.1 million).

The Company had consolidated net liabilities of approximately HK\$1,297 million (2009: approximately HK\$1,251 million). The Company’s liabilities were mainly bank loan guarantees for subsidiaries.

### **2. Recent development of the Company’s business**

As set out in the “Letter from the Provisional Liquidators/Board” in the Circular, due to insolvency and winding up of all the subsidiaries engaged in manufacturing, ever since suspension of trading in the Shares, the Group has only been able to rescue and maintain its apparel retail business under a casual wear brand name XXEZZ in the PRC. Currently, the Group has a sales network of over 60 retail shops and outlets for its apparel retail business of the XXEZZ brand name in the PRC. The Group engages a number of suppliers in the PRC for the production and delivery of its products.

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## LETTER FROM ACCESS CAPITAL

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On 11 August 2009, the Investor and the Provisional Liquidators entered into a revolving loan facility agreement, pursuant to which, the Investor consented to provide additional working capital loan for the Group's retail business operating entity in the PRC of an aggregate amount equal to HK\$15 million till 31 December 2009 or any date to be extended by written agreement between the Investor and the Provisional Liquidators. As at 31 March 2010, the total amount of working capital loan from the Investor was HK\$30 million of which HK\$20 million has been repaid in April 2010 and the remaining HK\$10 million will be set off by the proceeds from the subscription of the Investor Convertible Bonds by the Investor.

### **3. *Reasons for the Restructuring Agreement***

As set out above, the Group has been in financial difficulties and is in lack of working capital for its operations. Trading in the Shares on the Stock Exchange has been suspended since 30 July 2008. On 11 September 2008, the Company filed for a self-petition for winding up and the Provisional Liquidators were appointed on the same date.

As mentioned in the "Letter from the Provisional Liquidators/Board", it is anticipated that the financial position of the Group will be substantially improved upon (i) the successful implementation of the Restructuring Agreement; and (ii) the resumption of trading in the Shares on the Stock Exchange. The Investor and the Provisional Liquidators anticipate all existing liabilities owed to the Scheme Creditors and creditors of its subsidiaries holding guarantees given by the Company will be compromised and discharged through the Schemes.

It is the Investor's intention to maintain the Group's existing retail business, currently conducted through Shenzhen XXEZZ Clothing Company Limited, an indirect wholly-owned subsidiary of the Company. With the strong and continuous support provided by the Investor to the Group in terms of both business and financial aspects, the Provisional Liquidators/Board consider that the Group has been and will be able to sustain its retail business at a sufficient level in upcoming financial years and expand its retail business to a substantial level within a reasonable period of time after the resumption of trading in the Shares on the Stock Exchange.

The Resumption Proposal was submitted to the Stock Exchange on 20 July 2009. According to the Company's announcement dated 14 April 2010, the Stock Exchange allowed the Company to proceed with the Resumption Proposal, subject to prior compliance with the Resumption Conditions by 8 October 2010 as set out in the letter. The Company had applied and the Stock Exchange has agreed on 20 August 2010 that the time for the satisfaction of the Resumption Conditions is extended to 15 December 2010.

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## LETTER FROM ACCESS CAPITAL

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### **B. Restructuring Agreement**

On 26 May 2010, the Company, the Provisional Liquidators, the Investor and the Escrow Agent entered into the Restructuring Agreement for the purpose of implementation of the Resumption Proposal and the transactions contemplated thereunder.

The Restructuring Agreement provides for, inter alia, the proposed terms for the Capital Reorganisation, the Open Offer, the Investor Subscription Agreement, debt restructuring (including the Schemes and the Creditors Subscription Agreement) and the proposed application of the Whitewash Waiver.

#### *1. Open Offer*

##### *a. Terms of the Open Offer*

Pursuant to the Restructuring Agreement, subject to the Capital Reorganisation becoming effective, the Company will implement the Open Offer of the New Shares on the basis of 339 Offer Shares for every 5 New Shares held on the Record Date by the Qualifying Shareholders. The Company intends to issue 15,001,474,104 Offer Shares at HK\$0.01 each to raise approximately HK\$150 million. The New Shares to be issued from the Open Offer will represent approximately 55.1% of the enlarged issued share capital of the Company assuming full conversion of the Investor Convertible Bonds and Creditor Convertible Bonds upon the Capital Reorganisation being effective.

##### *b. The Subscription Price*

The Subscription Price of HK\$0.01 per Offer Share represents:

- (i) a discount of approximately 99.75% to the theoretical closing price of HK\$4.00 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.40 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 99.78% to the average theoretical closing price of HK\$4.46 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.446 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;
- (iii) a discount of approximately 99.79% to the average theoretical closing price of HK\$4.79 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.479 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date;

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## LETTER FROM ACCESS CAPITAL

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- (iv) a premium of approximately HK\$5.87 over the audited consolidated net liabilities per New Share of approximately HK\$5.86 as at 31 March 2010 (based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million at 31 March 2010 and 221,260,680 New Shares in issue upon the Capital Reorganisation becoming effective); and
- (iv) premium of approximately HK\$0.0043 over the unaudited pro forma net assets value per New Share of approximately HK\$0.0057 as at 31 March 2010 based on the unaudited pro forma net assets value of HK\$86.70 million as at 31 March 2010 and 15,222,734,784 New Shares to be in issue upon the Capital Reorganisation becoming effective and the issue of the Offer Shares and before conversion of the Convertible Bonds.

According to the Company, the Subscription Price was determined on arm's length negotiations between the Company and the Investor taking into consideration, among other things, (i) the length of Suspension and (ii) the audited consolidated net current liabilities of approximately HK\$5.86 per Share as at 31 March 2010 based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million and 2,212,606,800 Shares in issue as set out in the Company's published audited financial statements for the year ended 31 March 2010.

As the terms of different restructuring proposals are subject to various factors such as nature of business and the specific state of affairs of each of the companies concerned as well as the seriousness of the financial and operational problems, we do not consider that it is meaningful to assess the fairness and reasonableness of the terms of the Open Offer by making reference to those of other companies with restructuring proposals.

Given the fact that the Shares were suspended from trading for more than two years, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and value of the Company and will not provide a fair basis for the evaluation of the Subscription Price. In view of (i) the Company's current net liabilities position; (ii) the Company cannot issue New Shares below the par value of HK\$0.01 each; and (iii) completion of the Open Offer is one of the conditions precedent of the Restructuring Agreement, we concur with the Directors that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

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*c. Underwriting arrangement*

The Company and the Underwriter have entered into the Underwriting Agreement on 27 July 2010 pursuant to which the Underwriter will fully underwrite the Untaken Shares. The conditions and termination clauses of the Underwriting Agreement and obligations of the Underwriter are set out in the section headed “Underwriting Arrangement and the Sub-underwriting Letter” in the “Letter from the Provisional Liquidators/Board”. The Underwriter, save for being the financial advisor to the Company, is an independent third party of the Company or with any of the Directors, chief executive, substantial Shareholders or any of their respective associates. The maximum number of Untaken Shares underwritten by the Underwriter is 15,001,474,104 Offer Shares. The Company will pay, pursuant to the Underwriting Agreement, 2.75% of the aggregate Subscription Price for the Offer Shares to the Underwriter as underwriting commission.

*d. Sub-underwriting arrangement*

On 27 July 2010, the Underwriter offered in writing to the Investor and the Investor accepted by the Sub-underwriting Letter to act as the sub-underwriter to subscribe for up to 15,001,474,104 Offer Shares, i.e. the maximum number of Untaken Shares.

The Sub-underwriting Letter may be terminated if the Underwriting Agreement is terminated by either the Underwriter or the Company pursuant to the conditions and termination clause in the Underwriting Agreement as set out in the section headed “Underwriting Arrangement and the Sub-underwriting Letter” in the “Letter from the Provisional Liquidators/Board”.

*e. Reasons for the Open Offer and use of proceeds*

The Company is of the view that it is prudent to finance the Group in form of equity to fund its working capital needs and long term organic growth. The gross proceeds from the Open Offer is approximately HK\$150 million and the net proceeds from the Open Offer after deducting for expenses is estimated to be approximately HK\$146 million which will be used for the working capital of the Company.

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*f. Our views*

Upon completion of the Open Offer, the capital base of the Company will be strengthened and the proceeds from the Open Offer will provide working capital for the Company. Having considered that (i) the Subscription Price was determined at an arm's length basis; (ii) all Qualifying Shareholders will be entitled to subscribe for the Offer Shares at the same price in proportion to their existing shareholdings in the Company; and (iii) the Company will benefit from the stronger capital base in particular if it requires further funding by means of equities, we consider that the terms of the Open Offer is fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interest of the Company and the Shareholders as a whole.

**2. *Investor Subscription Agreement***

*a. Terms of the Investor Subscription Agreement*

Pursuant to the Restructuring Agreement and the Investor Subscription Agreement, the Investor will subscribe for and the Company will on the Closing Date issue to the Investor (or as the Investor may direct) the Investor Convertible Bonds, in the aggregate principal amount of HK\$100 million on and subject to conditions precedent of the Investor Subscription Agreement.

Pursuant to the Investor Subscription Agreement, the Investor Convertible Bonds shall be convertible into New Shares at a conversion price of HK\$0.01 for each New Share. According to the "Letter from the Provisional Liquidators/Board", the Conversion Price was determined on arm's length negotiations between the Company and the Investor in view of the prolonged suspension of trading of the Shares and the net liabilities position of the Company as at 31 March 2010.

The conversion price of the Investors Convertible Bonds represents a discount of approximately 99.75% to the theoretical closing price of HK\$4.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.4 per Shares on the Last Trading Date. It is also equal to the par value of the New Share and the conversion price of the Creditors Convertible Bonds. Given that the Shares had been suspended for more than two years, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and value of the Company. Furthermore, in view of the net liabilities of the Company, we are of the view that the closing price of the Shares prior to the suspension of trading will not provide a fair basis for the evaluation of the Conversion Price.

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*b. Reasons for the Investor Convertible Bonds and use of proceeds*

The Company will receive gross proceeds from the subscription of the Investor Convertible Bonds of HK\$74 million from the Investor, after setting off the working capital loan of HK\$10 million provided by the Investor to the Company under the Exclusivity and Escrow Agreement and fees and costs of HK\$16 million incurred by the Company in negotiation, documentation and implementation of the restructuring of the Group. According to the Provisional Liquidators, a sum of HK\$50 million out of the subscription money of the Investor Convertible Bonds will be made available to the Scheme Administrators for the benefit of the Scheme Creditors and New Profit for the benefit of the New Profit Stakeholders respectively in the proportion of 5:2. The remaining HK\$24 million of the proceeds will be applied towards the working capital requirements of the Group.

*c. Our views*

Given (i) the issue of the Investor Convertible Bonds is one of the conditions precedent of the Restructuring Agreement; (ii) the proceeds of which will provide working capital of the Company; and (iii) our analysis of the possible dilution effects on the shareholdings of public Shareholders as set out in the paragraph headed “Possible dilution effect of the Open Offer, the Investors Convertible Bonds, the Creditors Convertible Bonds on the shareholdings of existing public Shareholders” below, we consider that the terms of the Investor Convertible Bonds are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

**3. Creditors Convertible Bonds**

*a. Terms of Creditors Subscription Agreement*

Pursuant to the Restructuring Agreement and the Creditors Subscription Agreement, Key Winner and New Profit will subscribe for and the Company will on the Closing Date issue to Key Winner and New Profit the Creditors Convertible Bonds, in the aggregate principal amount of HK\$20 million on and subject to terms of the Creditors Subscription Agreement. The Creditors Convertible Bonds carry a coupon rate of 2% per annum payable on the maturity date. Key Winner will be entitled to five sevenths and New Profit to two sevenths of the Creditors Convertible Bonds which will then be distributed to the Scheme Creditors and New Profit Stakeholders respectively.

The Conversion Price for the Creditors Convertible Bonds is the same as that for the Investor Convertible Bonds, i.e. HK\$0.01 for each New Share. Based on our opinion on the conversion price of the Investor Convertible Bonds as above, we are of the view that the closing price of the Shares prior to the suspension of trading will not provide a fair basis for the evaluation of the Conversion Price.

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*b. Reasons for the Creditors Convertible Bonds*

As part of the Schemes and the debt restructuring, the Company will issue and the Scheme Creditors and New Profit (for the benefit of the New Profit Stakeholders) will receive the Creditors Convertible Bonds as settlement of part of the debts owed by the Company. The Company will not receive cash from issuance of the Creditors Convertible Bonds. The Company considers that the Schemes and the debt restructuring is the only viable way to compromise, discharge and settlement of all claims against the Company and is of the view that the terms of the Creditors Subscription Agreement are fair and reasonable and in the interest of the Company, the Shareholders and the Creditors as a whole.

*c. Our views*

By issuing the Creditors Convertible Bonds for the settlement of part of the debts owed to the Scheme Creditors, other than the interest at 2% per annum i.e. HK\$400,000 to be payable at maturity, if none of the Creditors Convertible Bonds are converted, the cash position of the Company will not be adversely affected. Given this and the issue of the Creditors Convertible Bonds is part of the debt restructuring, we consider that the terms of the Creditors Convertible Bonds are fair and reasonable and the Creditors Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

**4. *Possible dilution effect of the Open Offer, the Investors Convertible Bonds, the Creditors Convertible Bonds on the shareholdings of existing public Shareholders***

As set out in the paragraph headed “Shareholding structures of the Company” in the “Letter from the Provisional Liquidators/Board”, if none of the Shareholders takes up the Offer Shares, upon completion of the Open Offer and full conversion of the Investor Convertible Bonds and the Creditor Convertible Bonds, the shareholdings of existing public Shareholders will be diluted from approximately 65.5% as at the Latest Practicable Date to approximately 17.4% if the Company’s minimum public float is maintained.

In light of the facts that (i) the issue of the Investor Convertible Bonds and the Creditors Convertible Bonds and the completion of the Open Offer are part of the conditions precedent of the Restructuring Agreement; (ii) the issue of the Investor Convertible Bonds and the Creditors Convertible Bonds are parts of the debt restructuring under the Schemes; (iii) while the issue of Investor Convertible Bonds will provide working capital for the Company, there will not be any immediate dilution effects on the shareholdings of public Shareholders; (iv) the Investor Convertible Bonds will not be entitled to interest and thus will not increase the interest burden of the Company; (v) the Open offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so and provides an equal opportunity among the Qualifying Shareholders to participate in the future growth and development

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of the Company, although the shareholding interests of those Qualifying Shareholders who do not take up their entitlements under the Open Offer will be diluted, we consider that the possible dilution effect of the Investor Convertible Bonds, Creditors Convertible Bonds and Open Offer is acceptable.

**5. *Possible financial effects of the Open Offer, subscription of the Investor Convertible Bonds and Creditors Convertible Bonds***

Based on the unaudited pro forma statement of financial information of the Group as set out in Appendix V to the Circular, upon Closing and as compared to the audited consolidated balance sheet of the Group as at 31 March 2010, the Group's total liabilities will be reduced by approximately HK\$1,201 million to approximately HK\$148.4 million.

With the proceeds from the subscription of the Investor Convertible Bonds, Open Offer and after setting off the restructuring cost and claims of the Creditors and New Profit Stakeholders, the Group's bank balances and cash will be increased to approximately HK\$185.7 million. Total assets of the Group will be increased by approximately HK\$182.6 million to approximately HK\$235.1 million. The Group's net liabilities position as at 31 March 2010 of approximately HK\$1,297 million will be improved to a net asset position of approximately HK\$86.7 million. The debt ratio of the Group (being the ratio of total liabilities to total assets) will be improved to approximately 0.63 times as compared to approximately 25.7 times as at 31 March 2010.

## V. SPECIAL DEAL

### a. The Schemes

As at 31 March 2010, the Company had total Claims of approximately HK\$1,141 million, of which HK\$0.5 million was due to the Preferential Creditors. Pursuant to the Schemes, the repayment to the Preferential Creditors and payment of the administrative costs being incurred in relation to the Schemes rank before the repayment of the other Creditors (including the Interested Shareholders). Also, under the Schemes, (a) all Claims against the Company will be compromised, discharged and/or settled; (b) the Scheme Creditors will receive a pro rata distribution of five sevenths of the Creditors Convertible Bonds; and (c) the Company will transfer or procure the transfer to the Scheme Administrators for distribution to the Scheme Creditors of the follows:

- (i) five sevenths of the Cash Consideration;
- (ii) any cash held by or for the account of the Company at Closing; and
- (iii) all rights, title and interest in the Companies transferred to Key Winner by Ever Century on or about 29 May 2009, and any other assets in the Group other than the XXEZZ Assets.

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Principal terms of the Schemes are set out in the section headed “Debt Restructuring” in the “Letter from the Provisional Liquidators/Board” in the Circular.

Pursuant to the Restructuring Agreement, out of the proceeds from the subscription of the Investor Convertible Bonds, HK\$50 million will be the Cash Consideration to repay to the Scheme Creditors and the New Profit Stakeholders in a proportion of 5:2. The total principal amount of HK\$20 million of Creditors Convertible Bonds will also be allocated to the Scheme Creditors and the New Profit Shareholders in a proportion of 5:2. Accordingly, a total equivalent principal amount of HK\$50 million (the “Repayment”), comprised of five sevenths of the Cash Consideration and Creditors Convertible Bonds, will be made available to the Scheme Creditors to settle their Claims against the Company.

According to the Provisional Liquidators, they have received in principle support from Creditors representing more than 75% of the total indebtedness of the Company for the Schemes. The Repayment was agreed between the Company, the Provisional Liquidators and the Investor after arm’s length negotiation.

To the best knowledge of the Provisional Liquidators, the Interested Shareholders holding 1,087,262 Shares, representing approximately 0.05% of the existing issue share capital of the Company, have aggregate Claims of approximately HK\$92 million against the Company representing approximately 8.06% of total Claims against the Company. As the terms of the settlement of the Claims to the Interested Shareholders under the Schemes are not extended to the other Shareholders, it constitutes a special deal for the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. The amount of the Claims and shareholding interest in the Company of each of the Interested Shareholders are set out in the section headed “Special Deal” in the “Letter from the Provisional Liquidator/Board” in the Circular.

### **b. Our view**

As the Company is in a net liabilities position, there are insufficient assets available for distribution to the Creditors. If the Schemes which is part of the Restructuring Proposal, fail to proceed, upon winding up of the Company, the return to Shareholders, if any, will be minimal.

Given that (i) the implementation of the Schemes is part of the Restructuring Proposal; (ii) all Claims against the Company will be compromised, discharged and settled under the Schemes; and (iii) the amount owed to the Interested Shareholders, which accounted for approximately 8.06% of the total Claims, if admitted as the Scheme Creditors, will be settled on same basis as other Scheme Creditors (other than the Preferential Creditors) under the Schemes, we are of the opinion that the settlement of Claims by the Interested Shareholders under the Schemes which constitutes a special deal for the Company under Rule 25 of the Takeovers Code are in the interests of the Company and the Shareholders as a whole and the terms of the settlement to the Interested Shareholders are fair and reasonable so far as the Independent Shareholders are concerned.

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### VI. WHITEWASH WAIVER

Pursuant to the Underwriting Agreement, the Underwriter conditionally agreed to fully subscribe or procure subscription for the Offer Shares which have not been taken up by the Shareholders and any fractional entitlement to the Offer Shares.

The Underwriter undertakes to the Company that in the event that the Underwriter exercises its right to procure subscribers other than the Investor, it will procure third parties independent of the Company and the Investor, its ultimate beneficial owner and parties acting in concert with any of them to be the subscribers and the subscription of the aggregate Untaken Shares by any subscribers procured by the Underwriter will not result in any general offer obligation upon allotment and issue of the Offer Shares to them.

Pursuant to the Sub-underwriting Letter, the obligation of the Underwriter in respect of the Untaken Shares is fully sub-underwritten by the Investor. In the case of default by the Underwriter, the Investor will substitute the Underwriter to take up the Untaken Shares in the event that the Underwriter does not exercise its right to procure other subscribers. In the event that the Investor defaults in complying with its obligations in the Sub-underwriting Letter, the Underwriter shall reserve the right to procure other subscribers to subscribe for the Untaken Shares or treat the Sub-underwriting Letter as an application by the Investor for the number of the Untaken Shares. In this regard, the Underwriter will not in any event take up any of the Offer Shares despite the Underwriting Agreement. As such, the Underwriter will not trigger a general offer obligation under the Takeovers Code.

As the Investor, also being the sub-underwriter, will fully sub-underwrite the Open Offer, no other party will incur general offer obligation as a result of the arrangements pursuant to the Underwriting Agreement.

As set out in the paragraph headed “Shareholding structure of the Company” in the “Letter from the Provisional Liquidators/Board”, upon completion of the Capital Reorganisation and if all the Offer Shares are taken up by the Shareholders, the Investor will hold (i) approximately 39.6% of the issued share capital of the Company upon full conversion of the Investor Convertible Bonds; and (ii) approximately 36.7% of the issued share capital of the Company upon full conversion of both the Investor Convertible Bonds and Creditors Convertible Bonds.

As the Investor will also act as the sub-underwriter, upon completion of the Capital Reorganisation and the Open Offer, if none of the Shareholders takes up the Offer Shares, the Investor will hold (i) approximately 98.5% of the issued share capital of the Company if none of the Investor Convertible Bonds are converted; (ii) approximately 99.1% of the issued share capital of the Company if all the Investor Convertible Bonds are converted; and (iii) approximately 91.8% of the issued share capital of the Company if all the Investor Convertible Bonds and Creditors Convertible Bonds are converted.

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Accordingly, whether the Shareholders take up any the Offer Shares or not, the Investor will be obliged to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Investor, its ultimate beneficial owner and parties acting in concert with any of them under Rule 26 of the Code as a result of the obligation of the Investor under the Sub-underwriting Letter and/or the conversion of the Investor Convertible Bonds. The Investor, its ultimate beneficial owner and parties acting in concert with any of them have applied to the Executive for a Whitewash Waiver. One of the conditions of the Restructuring Agreement is the granting of the Whitewash Waiver by the Executive and fulfillment of the conditions attached to the Whitewash Waiver, including approval by Independent Shareholders at the EGM by way of poll.

In the event that this condition is not fulfilled, the Restructuring Agreement will not be completed and the Company will be wound up. Given the net liabilities position of the Group as at 31 March 2010, there will be insufficient assets available for distribution to its Shareholders. In this regard, we are in the opinion that the grant of the Whitewash Waiver, which is one of the conditions precedent of the Restructuring Agreement is in the interests in the Company and its Shareholders as a whole.

### VII. RECOMMENDATION

Given the Company's net liabilities position, there will unlikely be any return to the Shareholders if the Company is put into liquidation should the Restructuring Agreement lapses. If the Restructuring Agreement is successfully implemented, which the Open Offer, the issue of the Investor Convertible Bonds and the Creditors Convertible Bonds and the Schemes form part of, the Shares may resume trading. This will provide an opportunity for an open market to the Shareholders to realize, should they wish so, part or all of their investments in the Company.

Having considered the above-mentioned principal factors and reasons, we consider that terms of the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are in the interests of the Company and the Independent Shareholders as a whole. Therefore, we advise the Open Offer Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolutions in relation to the Open Offer and the Whitewash Waiver Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolutions in relation to the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal to be proposed at the EGM.

Yours faithfully  
For and on behalf of  
**Access Capital Limited**  
**Alexander Tai**  
*Principal Director*

**DETAILS OF DIRECTORS PROPOSED TO BE ELECTED AT THE EGM**

The details of the Directors will offer himself for election in the EGM are set out below:

**Executive Directors*****Mr. Phillip King***

Mr. King, aged 39, received a Master's degree in Business Administration from the University of San Francisco in the United States of America. He has over 20 years of experience in real estate investment, management and development. Since 2005, Mr. King has been appointed executive director and the managing director of Willie International Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. King was also an independent non-executive director of Glory Future Group Limited (presently known as China Metal Resources Holdings Limited), a company listed on the GEM which he subsequently resigned in November 2007. He has experience in administration, strategic development and investor relations for listed companies in Hong Kong.

Save as mentioned above, as at the Latest Practical Date, Mr. King:

- (a) did not hold any directorships in other listed company in the last three years;
- (b) did not enter into any written service contract with the Company but he will hold office until the next annual general meeting of the Company and is subject to retirement by rotation and re-election pursuant to the Memorandum and Articles of Association;
- (c) was not interested in and did not hold any short position in any shares of underlying shares in or any debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO;
- (d) was not connected with any Directors, senior management or substantial Shareholders or controlling Shareholders (as defined in the Listing Rules); and
- (e) save for disclosed herein, there was no information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules relating to his appointment as independent non-executive Director.

The remuneration of Mr. King will be determined by the Board with reference to the prevailing market conditions.

***Mr. Ho Tak Fun, Josef***

Mr. Ho, aged 56, received a Bachelor degree in Business Administration, Marketing from the Chinese University of Hong Kong and a Master degree in Science, Information Systems from the Hong Kong Polytechnic University. He was a general manager of Jumbo Grade Co., Limited, which runs leading retail chain stores in books, magazines, stationery and specialty items and he has held the position as General Manager in the past 20 years with good exposure to international business. Mr. Ho is a seasoned retail practitioner with profound experience in launching, strategic planning, business development and operations of both the PRC and Hong Kong retail businesses. He also has extensive knowledge in marketing, merchandising, distribution and promotion on consumer products and mass merchandise.

Save as mentioned above, as at the Latest Practical Date, Mr. Ho:

- (a) did not hold any directorships in other listed company in the last three years;
- (b) did not enter into any written service contract with the Company but he will hold office until the next annual general meeting of the Company and is subject to retirement by rotation and re-election pursuant to the Memorandum and Articles of Association;
- (c) was not interested in and did not hold any short position in any shares of underlying shares in or any debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO;
- (d) was not connected with any Directors, senior management or substantial Shareholders or controlling Shareholders (as defined in the Listing Rules); and
- (e) save for disclosed herein, there was no information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules relating to his appointment as independent non-executive Director.

The remuneration of Mr. Ho will be determined by the Board with reference to the prevailing market conditions.

***Mr. Chiu Siu Po***

Mr. Chiu, aged 61, is the managing director and chief executive officer of More Fortune Company Limited, a company principally engaged in import and export of textile business. Mr. Chiu has over 35 years of experience in textile industry for the manufacturing, sales and distribution. Since January 2006, Mr. Chiu has been appointed as an independent non-executive director of Freeman Corporation Limited, a company listed on the Main Board of the Stock Exchange. In addition to his valuable expertise in textile industry, Mr. Chiu also has extensive corporate and investment experience in both Hong Kong and the PRC markets.

Save as mentioned above, as at the Latest Practical Date, Mr. Chiu:

- (a) did not hold any directorships in other listed company in the last three years;
- (b) did not enter into any written service contract with the Company but he will hold office until the next annual general meeting of the Company and is subject to retirement by rotation and re-election pursuant to the Memorandum and Articles of Association;
- (c) was not interested in and did not hold any short position in any shares of underlying shares in or any debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO;
- (d) was not connected with any Directors, senior management or substantial Shareholders or controlling Shareholders (as defined in the Listing Rules); and
- (e) save for disclosed herein, there was no information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules relating to his appointment as independent non-executive Director.

The remuneration of Mr. Chiu will be determined by the Board with reference to the prevailing market conditions.

This Appendix serves as an explanatory statement, as required by the Listing Rules, to provide requisite information to you to make an informed decision whether to vote for or against the resolution to approve the grant of the Repurchase Mandate to the Directors at the EGM.

### **1. SHARE CAPITAL**

Upon Closing, the authorised share capital of the Company will be HK\$500,000,000 comprising 50,000,000,000 New Shares, of which 15,222,734,784 New Shares are to be in issue.

Subject to the passing of the proposed resolution for the grant of the Repurchase Mandate and on the basis that no Shares are issued or repurchased by the Company prior to the EGM, the Company will be allowed under the Repurchase Mandate to repurchase up to a maximum of 1,522,273,478 New Shares after Closing.

### **2. REASONS FOR THE REPURCHASE**

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have the general authority from the Shareholders to enable the Company to repurchase its New Shares on the Stock Exchange. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per New Share and/or earnings per New Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

### **3. FUNDING OF REPURCHASES**

Pursuant to the Repurchase Mandate, the Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

Taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position as at 31 March 2010, being the date of its latest audited consolidated financial statements. However, the Directors do not intend to make any repurchases to such an extent as would, in circumstances, have a material adverse effect on the working capital requirements or the gearing position of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

### **4. SHARE PRICES**

Trading in the Shares has been suspended since 30 July 2008. The theoretical closing price immediately before Suspension was HK\$4.00 per New Share which is based on the closing price of HK\$0.40 per Share as quoted on the Stock Exchange as adjusted for the effect of the Capital Reorganisation and therefore the closing price prior to the date of this circular and the Latest Practicable Date.

**5. TAKEOVERS CODE**

If a Shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase securities pursuant to the Repurchase Mandate, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder or group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as are known to, or can be ascertained after reasonable enquiry by Provisional Liquidators and the Directors, the shareholding interests of the substantial Shareholders (within the meaning of the Listing Rules) were as follows:

Name of substantial Shareholders	Number of ordinary shares held	% holding
Kwok Wing ( <i>Note 1</i> )	762,424,000	34.46%
Kwok Chiu ( <i>Note 2</i> )	652,800,000	29.50%
Efulfilment Enterprises Limited	652,800,000	29.50%
Sansar Capital Management, LLC ( <i>Note 3</i> )	434,636,000	19.64%
Citigroup Inc.	315,581,000	14.26%
Sansar Capital Mast Fund, LP ( <i>Note 3</i> )	262,275,900	11.85%
Jayhawk China Fund (Cayman), Ltd.	195,700,000	8.84%
Sansar Capital special Opportunity Master Fund, LP ( <i>Note 3</i> )	152,396,400	6.89%

*Notes:*

1. These share were 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 the issued share capital of Sharp Asset Holdings Limited.
2. The issued share capital of Efulfilment Enterprises Limited is beneficially owned by Mr. Kwok Chiu and Mr. Kwok Wing, in the proportion of 50:50.
3. These interests include the shares held by Sansar Capital Master Fund, LP and Sansar Capital Special Opportunity Master Fund, LP.

As emanated in the "Letter from the Provisional Liquidators/Board" in this circular, if all the existing Shareholders take up their respective entitlements under the Open Offer and there is no conversion of the Convertible Bonds, their respective shareholding will remain unchanged.

If the Company fully exercises the Repurchase Mandate, Mr. Kwok Wing and parties acting in concert with him will hold approximately 38.29%, which will cause Mr. Kwok Wing and parties acting in concert with him to trigger a general offer obligation under the Takeovers Code. The Company will make sure that if such situation happens, the Company and Mr. Kwok Wing and parties acting in concert with him will comply with relevant regulations of the Listing Rules and Takeovers Code.

The Investor, its ultimate beneficial owner and parties acting in concert with any of them did not hold any shares of the Company as at the Latest Practicable Date. However, after subscribing for the Untaken Shares and the conversion of the Investor Convertible Bonds, the Investor, its ultimate beneficial owner and parties acting in concert with any of them may control:

- 1) less than 30% of the issued share capital of the Company. If the Company fully exercises the Repurchase Mandate and as a result the aggregate shareholding of the Investor, its ultimate beneficial owner and parties acting in concert with any of them increases to 30% or more, the Investor, its ultimate beneficial owner and parties acting in concert with any of them and will trigger a general offer obligation under the Takeovers Code. The Company will make sure that if such situation happens, the Company and the Investor, its ultimate beneficial owner and parties acting in concert with any of them will comply with relevant regulations of the Listing Rules and the Takeovers Code;
- 2) 30% or more but less than 50% of the issued share capital of the Company. If the Company fully exercises the Repurchase Mandate and as a result the aggregate shareholding of the Investor, its ultimate beneficial owner and parties acting in concert with any of them increases by more than 2% in any 12-month period, the Investor, its ultimate beneficial owner and parties acting in concert with any of them will trigger a general offer obligation under the Takeovers Code. The Company will make sure that if such situation happens, the Company and the Investor, its ultimate beneficial owner and parties acting in concert with any of them will comply with relevant regulations of the Listing Rules and the Takeovers Code; and
- 3) over 50% of the issued share capital of the Company. In this respect, the Investor, its ultimate beneficial owner and parties acting in concert with any of them may acquire further voting rights in the Company without triggering a general offer obligation under Rule 26 of the Takeovers Code. Accordingly, even a full exercise of the Repurchase Mandate will not cause the Investor, its ultimate beneficial owner and parties acting in concert with any of them to trigger a general offer obligation under the Takeovers Code.

Save as aforesaid, the Directors are not aware of any consequence which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

## **6. SHARE REPURCHASE MADE BY THE COMPANY**

The Company has not purchased any of its Shares (whether on the Stock Exchange or otherwise) during the six months preceding the date of this circular.

**7. GENERAL**

None of the Directors or their associates has any present intention to sell to the Company or its subsidiaries any of the New Shares if the Repurchase Mandate is approved at the EGM and exercised.

No connected person of the Company has notified the Company that he has a present intention to sell to the Company or its subsidiaries New Shares nor has any such connected person undertaken not to do so in the event that the Repurchase Mandate is granted.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the Listing Rules, including the maintenance of the public float requirement of the Listing Rules, as well as the applicable laws of the Cayman Islands.

### 1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 March 2010, details of which were extracted from the annual reports of the Company for each of the years ended 31 March 2010, 2009 and 2008.

The financial statements for the years ended 31 March 2010 and 2009 were audited by Hopkins CPA Limited. The financial statements for the year ended 31 March 2008 were audited by NCN CPA Limited (now known as Pan-China (H.K.) CPA Limited). Qualified opinions were issued by the auditors of the Company in relation to each of the financial years.

For each of the three years ended 31 March 2010, there was no exceptional or extraordinary item and no dividend was declared or paid.

#### Results of the Group

	For the year ended 31 March		
	2010	2009	2008 (Restated)
	HK\$'000	HK\$'000	HK\$'000
Turnover	55,648	107,684	259,175
Costs of sales	<u>(37,846)</u>	<u>(71,909)</u>	<u>(123,601)</u>
Gross profit	17,802	35,775	135,574
Other revenue	47,101	249,546	10,917
Distribution costs	(43,368)	(77,235)	(99,583)
Administrative and other operating expenses	<u>(15,367)</u>	<u>(231,880)</u>	<u>(2,683,194)</u>
Profit/(Loss) from operations	6,168	(23,794)	(2,636,286)
Finance costs	<u>(63,135)</u>	<u>(13,521)</u>	<u>(17,527)</u>
Loss before taxation	(56,967)	(37,315)	(2,653,813)
Tax	<u>(1,954)</u>	<u>(49,815)</u>	<u>(3,946)</u>
Loss for the year	<u><u>(58,921)</u></u>	<u><u>(87,130)</u></u>	<u><u>(2,657,759)</u></u>
Attributable to:			
Equity holders of the Company	(59,239)	(97,162)	(2,660,962)
Minority interests	<u>318</u>	<u>10,032</u>	<u>3,203</u>
Loss for the year	<u><u>(58,921)</u></u>	<u><u>(87,130)</u></u>	<u><u>(2,657,759)</u></u>
Basic loss per share	<u><u>(2.68 cents)</u></u>	<u><u>(4.41 cents)</u></u>	<u><u>(124.52 cents)</u></u>

**Financial position of the Group**

	<b>As at 31 March</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets and liabilities</b>			
Non-current assets	3,282	6,503	8,484
Current assets	49,142	59,684	57,593
	<u>52,424</u>	<u>66,187</u>	<u>66,077</u>
Total assets	52,424	66,187	66,077
Current liabilities	(1,349,070)	(1,317,001)	(915,532)
Non-current liabilities	–	–	(119,396)
	<u>(1,349,070)</u>	<u>(1,317,001)</u>	<u>(1,034,928)</u>
Total liabilities	(1,349,070)	(1,317,001)	(1,034,928)
Equity attributable to equity holders of the Company	<u>(1,296,646)</u>	<u>(1,250,814)</u>	<u>(968,851)</u>

**2. AUDITOR'S REPORT FOR THE YEAR ENDED 31 MARCH 2008**

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 March 2008 in which the auditor expressed an adverse opinion. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 March 2008.

**TO THE SHAREHOLDERS OF  
TACK FAT GROUP INTERNATIONAL LIMITED**  
*(Provisional Liquidators Appointed)*  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements of Tack Fat Group International Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (hereinafter referred to as the "Group") set out on pages 23 to 59, which comprise the consolidated and company balance sheets as at 31 March 2008, and the consolidated income statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Directors' Responsibility For The Financial Statements***

The Directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Suspension Of Trading Of The Company's Shares And Appointment Of The Joint And Several Provisional Liquidators***

Trading in the Company's shares on Stock Exchange has been suspended since 30 July 2008.

As stated in note 2 to the financial statements:

"On 11 September 2008, pursuant to a court order, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of Ferrier Hodgson Limited, were appointed as the provisional liquidators to the Company (the "Provisional Liquidators") as a result of the Company's self petition for winding up and Bank of America N.A.'s application to support the winding up petition against the Company. Upon the appointment of the Provisional Liquidators, the powers of the directors were suspended with regard to the affairs and business of the Company.

The Provisional Liquidators are responsible for the accuracy and completeness of the contents of this report and the audited financial statements for the year ended 31 March 2008 in relation to (i) the affairs of the Group after the appointment of the Provisional Liquidators; and (ii) the preparation of the contents of these audited financial statements for the year ended 31 March 2008 based on the books and records made available to the Provisional Liquidators."

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Provisional Liquidators, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion***

*Going concern and basis of preparation*

As disclosed in note 2 to the financial statements, the Provisional Liquidators are in the process of restructuring the Group's indebtedness and revitalising the Group's business and that the financial statements have been prepared on a going concern basis. The ability of the Group as a going concern assumes that the restructuring proposal by the financial advisor, Asian Capital (Corporate Finance) Limited, will be successfully implemented and that, following the restructuring, the Group will continue to meet in full its obligations as they fall due in the foreseeable future. We are unable to obtain information that is necessary to satisfy ourselves that the restructuring proposal will be successfully implemented and how the Group will be able to operate as a going concern after the restructuring. We are therefore unable to form an opinion as to whether the assumptions used to prepare the Group's financial statements on a going concern basis are appropriate and the Group will be able to continue as a going concern. Should the liquidation basis of accounting have to be used, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts and the liabilities to their estimated settlement amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities of the Group as current assets and liabilities respectively.

*Changes of directors, appointment of Provisional Liquidators, loss of books and records and management representation*

Subsequent to 31 March 2008, there were changes in the composition of the board of directors of the Company. On 24 June 2008, Mr. Gary Drew Douglas, Mr. Chan Chak Kai, Kenneth and Mr. Lam Yick Sing were appointed as executive directors of the Company. On 30 June 2008, Mr. Leung Yiu Wing, Eric resigned as independent non-executive director and Mr. Liu Kwong Sang was appointed as independent non-executive director of the Company. On 4 August 2008, Mr. Szeto Chak Wah, Michael and Mr. Lai Man Leung resigned as non-executive directors of the Company. On 5 August 2008, Mr. Chow Kai Leung, Sandy resigned as independent non-executive director of the Company. On 13 August 2008, Ms. Kristi Swartz and Mr. McMullen James were appointed as independent non-executive director and non-executive director of the Company respectively. On 14 August 2008, Mr. Chan Sze Hung was appointed as independent non-executive director of the Company. On 9 September 2008, Mr. Lam Yick Sing and Mr. Ho Yik Kin, Norman resigned as executive directors of the Company. On 11 September 2008, the Provisional Liquidators were appointed. On the same day, Mr. Chan Sze Hung resigned as independent non-executive director of the Company. On 12 September 2008, Mr. Gary Drew Douglas resigned as executive director of the Company and Mr. Liu Kwong Sang and Ms. Kristi Swartz resigned as independent non-executive directors of the Company. On 16 September 2008, Mr. Ching Kwok Ho, Samuel resigned as independent non-executive director of the Company. On 20 March 2009, Ms. Kwok Choi Ha resigned as executive director of the Company. On 25 March 2009, Mr. Kwok Kam Chuen resigned as executive director of the Company. We are unable to obtain representation from the former directors/directors/management that these financial statements present a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2008 and the results of the Group for the year then ended.

As explained in note 2 to the financial statements under the heading “Loss of books and records”, the Provisional Liquidators have not been able to locate all the books and records of the Group since their appointment. The Provisional Liquidators made no representation as to the completeness and accuracy of the information contained in these financial statements and, as a consequence, the Provisional Liquidators are not making any representation that these financial statements of the Group present a true and fair view of the state of affairs of the Group as at 31 March 2008 and the results of the Group for the year then ended.

The lack of representation from the former directors/directors/management/Provisional Liquidators on the completeness and accuracy of the information contained in these financial statements constitutes a severe limitation of the scope of our audit.

*Deconsolidation of subsidiaries and subsequent impairment of respective book values*

As disclosed in note 2 to the financial statements under the heading “Deconsolidation of subsidiaries and subsequent impairment of respective book values”:

“The financial statements has been prepared based on the books and records recovered by the Provisional Liquidators since their appointment. The Provisional Liquidators consider that control of the Company over certain subsidiaries has been lost subsequent to the year ended 31 March 2008.....

The Provisional Liquidators are of the view that the results and assets and liabilities of the said subsidiaries should not be consolidated to the financial statements of the Company. Furthermore, due to (i) the adverse financial positions of Tack Fat Swimwear, Tack Fat Manufacturing, Tack Fat International and Chiu Wing; and (ii) the Group’s control over the operations of Lantern Services Limited, Potter Industries Limited, Sino Profit Limited, Masswin and Think Tank Holdings Limited was lost before the appointment of the Provisional Liquidators, and it would be appropriate to fully impair their book value on the Group’s financial statements to zero.”

According to the Provisional Liquidators, cessation of control over those subsidiaries took place before their appointment on 11 September 2008. However, there is no explanation from the Provisional Liquidators as to how they arrived at the conclusion that control had been lost and at which point in time. On 21 December 2007, the Company published the unaudited interim report of the Group for the six months ended 30 September 2007. The unaudited consolidated balance sheet of the Group as at 30 September 2007 reflected that the Group had total assets and net assets of HK\$2,978,553,000 and HK\$1,793,172,000 respectively and the unaudited consolidated profit of the Group for the six months ended 30 September 2007 amounted to HK\$110,154,000. The loss of control, if justified, should have taken place subsequent to 21 December 2007. The effective date of the deconsolidation, accordingly, should be after 21 December 2007.

These financial statements are prepared on the basis that deconsolidation of the said subsidiaries was effective on 1 April 2007. These financial statements have not provided information and explanation why this basis is appropriate and why the assets and liabilities of the Group that were previously presented in the unaudited consolidated interim financial statements for the six months ended 30 September 2007 should be excluded.

In respect of non-consolidation of Tack Fat Swimwear, Tack Fat Manufacturing, Tack Fat International, Chiu Wing, Lantern Services Limited, Potter Industries Limited, Sino Profit Limited, Masswin and Think Tank Holdings Limited, we have not been able to obtain sufficient explanations from the Provisional Liquidators to satisfy ourselves that the control over those subsidiaries has been lost without recourse and that their financial positions are in such a state that making full impairment provision against their carrying values in the financial statements of the Group is appropriate and not misleading.

*Movements of the assets and liabilities of the Group from 31 March 2007 to 31 March 2008/  
Assets that may or will be recovered by the Provisional Liquidators*

As disclosed in note 2 to the financial statements, it was stated that “the financial statements of the Group have been prepared based on the available books and records”. No reconciliation of the changes of individual asset and liability items in the consolidated balance sheet as at 31 March 2007 to those as at 31 March 2008 is available for the audit. A summary of the Group’s assets and liabilities is set out below:

	<b>As at 31 March 2008 HK\$'000</b>	<b>As at 31 March 2007 HK\$'000</b>
Non-current assets		
Fixed assets	8,484	466,279
Interest in associates	–	546,497
Other financial assets	–	94,100
	<u>8,484</u>	<u>1,106,876</u>
Current assets		
Inventories	46,158	313,670
Trade and other receivables	8,762	833,108
Cash and cash equivalents	2,673	340,335
	<u>57,593</u>	<u>1,487,113</u>
<b>Total assets</b>	66,077	2,593,989
Less: Current liabilities	(850,192)	(436,428)
Non-current liabilities	<u>(119,396)</u>	<u>(581,689)</u>
<b>Net (liabilities)/assets</b>	<u><u>(903,511)</u></u>	<u><u>1,575,872</u></u>

We have not been able to obtain sufficient information from the Provisional Liquidators as to what actions they have taken or proposed to take in recovering assets and discharging liabilities of the Group since their appointment. Such information, in our view, is important and essential for our evaluation of the overall presentation of the financial statements. Accordingly, we are unable to form a conclusion as to whether the consolidated balance sheet of the Group has reflected all the assets and liabilities of the Group as at 31 March 2008, including assets that may have and/or will come under the possession of the Provisional Liquidators.

*Acquisition of subsidiaries in connection with the Group's retail business*

Pursuant to the Company's announcement and circular of 29 May 2007 and 18 June 2007 respectively, the Group entered into an agreement on 25 May 2007 (the "Acquisition Agreement") pursuant to which the Group acquired 90% equity interest in the share capital of Best Favour Investments Limited ("Best Favour") at a consideration of HK\$330 million. Best Favour and its subsidiaries are principally engaged in the fashion design and management of its XXEZZ brand of smart casual wear. The value of 100% equity interest in Best Favour was HK\$384 million according to a valuation conducted by an independent valuer on 30 April 2007. After the acquisition, the Group should have recorded the net assets and the goodwill of Best Favour and its subsidiaries less any subsequent impairment in value as deemed necessary by the Provisional Liquidators in the consolidated balance sheet as at 31 March 2008. The financial statements have not reflected such an asset in the consolidated balance sheet as at 31 March 2008 nor have provided sufficient information and explanations as to the reason why this asset should be fully impaired.

*Redemption of the Group's interest in an associate and refund of premium paid in respect of the option to acquire further interest in the associate*

Current assets of the consolidated balance sheet as at 31 March 2007 included interests in associates with an aggregate carrying value of HK\$546 million comprising the Group's interest in 50% of the voting rights in the general meeting of Sino Legend Limited ("Sino Legend"). The current assets of the consolidated balance sheet as at 31 March 2007 also included other financial assets with an aggregate carrying value of HK\$94 million of which HK\$78 million represented premium paid to acquire an additional 20.8% equity interest in Sino Legend (the "Premium").

Pursuant to the Company's announcement and circular of 23 October 2007 and 10 December 2007 respectively, the Group entered into an agreement on 23 October 2007 (the "Mudd Agreement") whereby Sino Legend was to redeem all of the Group's interests in Sino Legend, held by Newest Global Limited, a wholly-owned subsidiary of the Group, in consideration for the Group receiving from Sino Legend (i) cash of US\$16 million; (ii) the entire issued capital of a company holding all the interests and benefits in the exclusive rights (including ownership, propriety, licensing or other rights) of the Mudd family of Marks in Greater China (the "Greater China Mudd Trade Marks"); and (iii) the right to negotiate in good faith with Iconix Brand Group, Inc. ("Iconix"), a Delaware corporation which shares are listed on NASDAQ in the United States of America, to enter into a joint venture to exploit the Mudd Trade Marks in Asia (other than Greater China) and the Middle East providing for an equal sharing of costs and royalties with Iconix.

For the purpose of this transaction and as stated in the Company's circular dated 10 December 2007, independent valuations of the Greater China Mudd Trade Marks were obtained showing that the Greater China Mudd Trade Marks would have a value of HK\$651 million. The circular also stated the proposed accounting treatments upon completion of the transaction including the replacement of the Group's interests in Sino Legend by the Greater China Mudd Trade Marks with a carrying value of HK\$499.7 million.

Pursuant to the Company's announcement of 29 February 2008, the Mudd Agreement was completed on that day. Accordingly, the proposed accounting treatments should have been effected and the Group should have recorded the Greater China Mudd Trade Marks with a value of HK\$499.7 million and adjusted for any increase/decrease in the fair value of the said Trade Marks in the consolidated balance sheet as at 31 March 2008. The financial statements have not reflected such an asset in the consolidated balance sheet as at 31 March 2008 nor have they provided sufficient information and explanations as to the reasons why this asset should be fully impaired.

*Acquisition of 40% interest in Global Agricultural Development Limited ("Global Agricultural")*

As disclosed in the Company's announcement of 15 July 2008:

"On 8 July 2008, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell 40% of both the entire issued share capital of and the shareholder's loan due by Global Agricultural at a total consideration of HK\$300 million. The total consideration will be satisfied by the Purchaser procuring Global Far East (Macao Commercial Offshore) Ltd., a wholly-owned subsidiary of the Company, to assign as beneficial owner all the rights, title, benefits and interests in its account receivables in the aggregate book values of HK\$300 million upon Completion."

We have not been provided with the details as to the circumstances leading to such acquisition. We have not been informed that the above acquisition had been completed. These financial statements have not reflected the related accounts receivable in the consolidated balance sheet of the Group as at 31 March 2008 nor have they provided sufficient information and explanations as to the reasons why the related accounts receivable should be fully impaired.

*Transfers of shares in Ever Century Holdings Limited ("Ever Century")*

As disclosed in the Company's announcement of 24 October 2008:

"During the course of their investigations, the Provisional Liquidators have discovered that:

- (i) Between June and July this year the Company entered into a number of loans with money lenders purportedly in order to meet the Group's short term financing needs, including a loan with Forefront Finance. As security for the loan advanced by Forefront Finance, the Company granted a charge over all the shares in its wholly-owned subsidiary, Ever Century (the Charge) on 12 June 2008.
- (ii) Ever Century holds directly and indirectly the entire issued share capital of all the remaining subsidiary company in the Group (the Group Companies).

- (iii) On or about 15 August 2008, the entire issued share capital of Ever Century was transferred to a company called Merrier Limited (the Transfer).

The Provisional Liquidators have been unable to ascertain the circumstances of the Transfer. In particular, although the Transfer may relate to the Charge, the Provisional Liquidators cannot state at this stage whether the Transfer has been made to perfect the Charge or to enforce it.

The investigations of the Provisional Liquidators into this matter are continuing.”

In the announcement made by the Company on 6 April 2009:

“On 3 April 2009, the Company, the Provisional Liquidators, Forefront, Merrier, Hansom and the Investor entered into the Settlement Deed pursuant to which Merrier agreed to transfer the Ever Century Shares back to the Company in order to facilitate the restructuring of the Company and Forefront and Hansom acknowledged, confirmed and agreed that there was no intention to change the beneficial ownership of the Ever Century Shares or the Company’s control over Ever Century.....”

- (c) if the restructuring of the Company is not completed within 12 months from the date of the Settlement Deed (or such other date as agreed in writing between Forefront, Hansom, the Company and the Provisional Liquidators) and Forefront or Hansom wishes to enforce the Share Charge (in the case of Forefront) or Hansom Share Charge (in the case of Hansom), Forefront and Hansom respectively undertake to give two weeks notice to the Company and the Provisional Liquidators before taking any action to transfer the Ever Century Shares pursuant to their respective charge; and .....

Due to the limited information available to us, we are unable to ascertain whether sufficient disclosure has been made in these financial statements regarding the background, details and reasons of the above incidence and actions taken by the management and/or the Provisional Liquidators.

*Departure from the Hong Kong Financial Reporting Standards*

As explained in note 2 to the financial statements, a number of disclosures as required by the Hong Kong Financial Reporting Standards have not been made in these financial statements because the Provisional Liquidators did not have sufficient data and information as a result of unavailability of complete books and records of all the subsidiaries of the Group. Accordingly, the disclosures in these financial statements are not in full compliance with the relevant Hong Kong Financial Reporting Standards.

*Opening balances and comparative figures*

We were appointed auditors of the Group on 12 November 2007 to report on the consolidated financial statements for the year ended 31 March 2008. The comparative figures in the financial statements are based on the audited financial statements for the year ended 31 March, 2007 which were audited by Messrs. KPMG, Certified Public Accountants, that contained a qualified opinion and the basis for qualified opinion as stated in their auditor's report is extracted as follows:

“..... The financial statements of Sino Legend referred to above were audited by an audit firm which is unrelated to the network of member firms affiliated with KPMG International. This firm issued an unqualified report dated 24 July 2007 on these financial statements. However, we have yet to receive sufficient information from this firm as we consider necessary in order to enable us to form a conclusion as to the adequacy of their work for our purposes or to carry out sufficient alternative procedures.....”

We have not been provided with all the necessary books and records to satisfy ourselves that the balances brought forward as at 1 April 2007 and the comparative figures in these consolidated financial statements do not contain misstatements which might materially affect the current year's consolidated financial statements.

*Omission of consolidated cash flow statement*

The financial statements of the Group do not include a consolidated cash flow statement. According to HKAS 7 “Cash Flow Statements”, a consolidated cash flow statement is required to be presented in the financial statements of the Group to facilitate a proper understanding of the Group's cash flow for the year ended 31 March 2008.

*Adverse opinion*

In our opinion, because of the significance of the effects of the matters described in the paragraphs under the heading “Basis for Adverse Opinion” above, these financial statements do not give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2008 and of the Group's result for the year then ended in accordance with Hong Kong Financial Reporting Standards. These financial statements have not been properly prepared in accordance with the Hong Kong Companies Ordinance.

*Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance*

We have not obtained all the information and explanations that we considered necessary for the purpose of our audit and we are further of the opinion that proper books of account of the Group had not been kept.

**NCN CPA LIMITED**

*Certified Public Accountants*

**Fung Pui Cheung**

Practising Certificate Number P00755

20/F., Hong Kong Trade Centre,  
161-167 Des Voeux Road Central,  
Hong Kong S.A.R., China

22 July 2009

### 3. AUDITOR'S REPORT FOR THE YEAR ENDED 31 MARCH 2009

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 March 2009 in which the auditor expressed a disclaimer of opinion. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 March 2009.



HOPKINS CPA LIMITED  
3/F, Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

**Independent Auditor's Report to the Members of:-  
Tack Fat Group International Limited**  
*(Provisional Liquidators Appointed)*  
*(Incorporated in the Cayman Islands with limited liability)*

We were engaged to audit the consolidated financial statements of Tack Fat Group International Limited (Provisional Liquidators Appointed) ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 55, which comprise the consolidated and company balance sheet as at 31 March 2009, and the consolidated income statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Provisional Liquidators' Responsibility For The Financial Statements**

The Provisional Liquidators are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis For Disclaimer Of Opinion****1. Opening balances and corresponding figures**

The consolidated financial statements of the Group for the year ended 31 March 2008 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us, and were disclaimed by the previous auditors in their report dated 22 July 2009. There were no satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of the opening balances and corresponding figures shown in the current year's consolidated financial statements.

**2. Disclosures**

The following disclosures have not been made in the consolidated financial statements:

- i. The consolidated cash flows statements for the year ended 31 March 2009 as required by Hong Kong Accounting Standard ("HKAS") 7 "Cash Flow Statements" issued by the HKICPA;
- ii. Details of the Group's policy in respect of the financial risk management as required by HKFRS 7 "Financial Instruments: Disclosures" issued by the HKICPA;
- iii. Details of related parties transactions as required by Chapter 14 and/or Chapter 14A of the Listing Rules and HKAS 24 "Related Party Disclosures" issued by the HKICPA; and
- iv. Details of directors' and employees' emoluments as required by The Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

**3. Share-based payment**

No sufficient evidence has been provided to satisfy ourselves as to the completeness of the equity-settled share option scheme as at 31 March 2009 and disclosure required by HKFRS 2 "Share-based Payment".

**4. Tax payable**

One of the Group companies has understated the value-added tax payable since the date of incorporation and the amount provided to us amounting to HK\$50,384,000 as at 31 March 2009. However, we have not received sufficient evidence up to the date of this report to satisfy ourselves as to the completeness, existence and validity of the tax payable appearing in the consolidated balance sheet was fairly stated.

### 5. *Sundry income*

We have not been provided with adequate documents and information regarding the components of sundry income amounting to HK\$245,511,000 to satisfy ourselves as to the completeness, existence and validity of those transactions. Accordingly, we were unable to determine whether or not the total amount of sundry income disclosed in note 7 to the financial statements was fairly stated.

### 6. *Non-compliance with HKAS 27 “Consolidated and Separate Financial Statements”*

As explained in note 2 to the financial statements, provisional liquidators were appointed to Tack Fat Swimwear Manufacturing Limited, a Hong Kong incorporated subsidiary, on 6 October 2008. Tack Fat Manufacturing Factory Limited, was wound up by court order on 18 February 2009. Due to the absence of accounting information that is considered reliable by the Provisional Liquidators (from 1 April 2008 to the respective dates when the two companies ceased to be the subsidiaries of the Group), the results and financial positions of the above-mentioned subsidiaries have been excluded from consolidated financial statements of the Group as at 31 March 2009. Whilst the Provisional Liquidators consider such exclusion to be the best way of presenting the Group’s result and financial position, we consider this treatment to be in non-compliance with HKAS 27 “Consolidated and Separate Financial Statements” issued by HKICPA.

Any adjustments to the figures as described from points 1 to 6 above might have a significant consequential effect on the Group’s results for the year ended 31 March 2009 and the financial positions of the Group as at 31 March 2009 thereof in the consolidated financial statements.

### **Material Uncertainty Relating To The Going Concern Basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explains that a proposal for the resumption of trading in the Company’s shares and the restructuring of the Group (the “Resumption Proposal”) was submitted to The Stock Exchange of Hong Kong Limited on 20 July 2009. The financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed in the foreseeable future and following that the Group will continue to meet in full its financial obligations as they fall due. The financial statements do not include any adjustments that would result from a failure to complete the Resumption Proposal. We consider that the disclosures are adequate. However, in view of the extent of the material uncertainty relating to the completion of the Resumption Proposal, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

**Disclaimer Of Opinion**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2009 and of the Group's results for the year then ended in accordance with HKFRS and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

**Hopkins CPA Limited**

**Albert Man-Sum Lam**

Practising Certificate Number P02080

Hong Kong

19 November 2009

#### 4. AUDITOR'S REPORT FOR THE YEAR ENDED 31 MARCH 2010

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 March 2010 in which the auditor expressed a qualified opinion. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 March 2010.



HOPKINS CPA LIMITED  
3/F, Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

**Independent Auditor's Report to the Members of:-  
Tack Fat Group International Limited**  
*(Provisional Liquidators Appointed)*  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Tack Fat Group International Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 69, which comprise the consolidated and company statements of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Provisional Liquidators' Responsibility For The Financial Statements***

The Provisional Liquidators are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit and to report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Provisional Liquidators, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for qualified opinion***

*1. Comparative information of the consolidated statement of cash flows*

The Group has not disclosed the comparative information of the consolidated statement of cash flows in accordance with the requirements of the Hong Kong Accounting Standard ("HKAS") 1 (Revised) "Presentation of Financial Statements". Due to a lack of information, it is not practicable to quantify the effects of the departure from this requirement.

*2. Deconsolidation of the subsidiaries*

As explained in note 2 to the financial statements, Provisional Liquidators were appointed to Tack Fat Swimwear Manufacturing Limited on 6 October 2008 and Tack Fat Manufacturing Factory Limited was wound up by court order on 18 February 2009. Due to the absence of accounting information that is considered reliable by the Provisional Liquidators (from 1 April 2008 to the respective dates when the two companies ceased to be the subsidiaries of the Group), the results and financial positions of the above-mentioned subsidiaries have been excluded from consolidated financial statements of the Group as of 31 March 2009. However, under HKAS 27 "Consolidated and Separate Financial Statements" issued by HKICPA, these two subsidiaries should have been consolidated. Had these two subsidiaries been consolidated, many elements in the financial statements would have been materially affected. Our auditor's report on the financial statements for the year ended 31 March 2009 was modified accordingly.

*Opinion*

In our opinion, except for the effects on the financial statements of matters referred to in the preceding paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2010 and of the Group's results and cash flows for the year then ended in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

*Material Uncertainty Relating To The Going Concern Basis*

We draw attention to note 2 to the financial statements which explains that a proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "Resumption Proposal") was submitted to the Stock Exchange on 20 July 2009. On 9 April 2010, the Company was informed by the Stock Exchange in a letter that trading in the shares will be resumed subject to the satisfaction of conditions mentioned in note 2 to the financial statements by 8 October 2010. The financial statements have been prepared on a going concern basis on the assumptions that the Resumption Proposal will be successfully completed in the foreseeable future and following that the Group will continue to meet in full its financial obligations as they fall due. The financial statements do not include any adjustments that would result from a failure to complete the Resumption Proposal. We consider that appropriate disclosures have been made.

**Hopkins CPA Limited**  
**Albert Man-Sum Lam**  
Practising Certificate Number P02080  
Hong Kong

22 June 2010

## 5. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2010

**Consolidated Statement of Comprehensive Income***For the year ended 31 March 2010**(Amounts expressed in Hong Kong dollars)*

	<i>Notes</i>	<b>2010</b> \$'000	<b>2009</b> \$'000
<b>Turnover</b>	7	55,648	107,684
Cost of sales		<u>(37,846)</u>	<u>(71,909)</u>
<b>Gross profit</b>		17,802	35,775
Other revenue	8	47,101	249,546
Distribution costs		(43,368)	(77,235)
Administrative and other operating expenses		<u>(15,367)</u>	<u>(231,880)</u>
Profit/(Loss) from operations		6,168	(23,794)
Finance costs	9	<u>(63,135)</u>	<u>(13,521)</u>
Loss before tax	9	(56,967)	(37,315)
Tax	10	<u>(1,954)</u>	<u>(49,815)</u>
Loss for the year		(58,921)	(87,130)
Other comprehensive income:			
Exchange differences on translating foreign operations		<u>13,090</u>	<u>–</u>
Total comprehensive income for the year		<u><u>(45,831)</u></u>	<u><u>(87,130)</u></u>
Loss for the year attributable to:			
– Owners of the Company		(59,239)	(97,162)
– Non-controlling interests		<u>318</u>	<u>10,032</u>
		<u><u>(58,921)</u></u>	<u><u>(87,130)</u></u>
Total comprehensive income for the year attributable to:			
– Owners of the Company		(46,149)	(97,162)
– Non-controlling interests		<u>318</u>	<u>10,032</u>
		<u><u>(45,831)</u></u>	<u><u>(87,130)</u></u>
Basic loss per share	13	<u><u>(2.68 cents)</u></u>	<u><u>(4.41 cents)</u></u>

**Consolidated Statement of Financial Position***As at 31 March 2010**(Amounts expressed in Hong Kong dollars)*

	<i>Notes</i>	<b>2010</b> \$'000	<b>2009</b> \$'000
<b>Non-current assets</b>			
Property, plant and equipment	<i>15</i>	3,282	6,503
<b>Current assets</b>			
Inventories	<i>18</i>	7,830	15,210
Trade and other receivables	<i>19</i>	28,273	36,264
Escrow money	<i>17</i>	352	6,332
Cash and cash equivalents		12,687	1,878
		<u>49,142</u>	<u>59,684</u>
<b>Current liabilities</b>			
Trade and other payables	<i>20</i>	80,692	111,025
Provision for bank loan guarantees for subsidiaries	<i>21</i>	846,121	822,523
Other borrowings	<i>21</i>	52,390	90,500
Convertible bonds	<i>22</i>	121,557	119,396
Loans from the Investor	<i>23</i>	36,400	16,400
Amount due to deconsolidated subsidiaries	<i>25</i>	209,956	157,157
Tax payable		1,954	–
		<u>1,349,070</u>	<u>1,317,001</u>
<b>Net current liabilities</b>		<u>(1,299,928)</u>	<u>(1,257,317)</u>
<b>NET LIABILITIES</b>		<u><u>(1,296,646)</u></u>	<u><u>(1,250,814)</u></u>
<b>EQUITY</b>			
<b>EQUITY ATTRIBUTABLE TO</b>			
<b>EQUITY HOLDERS OF THE COMPANY</b>			
Share capital	<i>26</i>	221,261	221,261
Deficiency	<i>26</i>	(1,563,065)	(1,516,915)
		(1,341,804)	(1,295,654)
Non-controlling interests		45,158	44,840
		<u><u>(1,296,646)</u></u>	<u><u>(1,250,814)</u></u>

**Statement of Financial Position***As at 31 March 2010**(Amounts expressed in Hong Kong dollars)*

	<i>Notes</i>	<b>2010</b> \$'000	<b>2009</b> \$'000
<b>Non-current assets</b>			
Interests in subsidiaries	<i>16</i>	—	—
<b>Current assets</b>			
Amount due from subsidiaries	<i>24</i>	558	—
Escrow money	<i>17</i>	352	6,332
Other receivables		709	252
Cash and cash equivalents		2	634
		<u>1,621</u>	<u>7,218</u>
<b>Current liabilities</b>			
Trade and other payables	<i>20</i>	31,631	8,193
Provision for bank loan guarantees for subsidiaries	<i>21</i>	846,121	822,523
Other borrowings	<i>21</i>	52,390	90,500
Convertible bonds	<i>22</i>	121,557	119,396
Loans from the Investor	<i>23</i>	36,400	16,400
Amount due to deconsolidated subsidiaries	<i>25</i>	52,800	—
		<u>1,140,899</u>	<u>1,057,012</u>
<b>Net current liabilities</b>		<u>(1,139,278)</u>	<u>(1,049,794)</u>
<b>NET LIABILITIES</b>		<u><u>(1,139,278)</u></u>	<u><u>(1,049,794)</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>26</i>	221,261	221,261
Deficiency	<i>26</i>	(1,360,539)	(1,271,055)
		<u>(1,139,278)</u>	<u>(1,049,794)</u>

**Consolidated Statement of Changes In Equity***For the year ended 31 March 2010**(Amounts expressed in Hong Kong dollars)*

	<b>2010</b>		<b>2009</b>	
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Total deficiency at 1 April		(1,250,814)		(968,851)
Net income recognised directly in equity				
Capital reserve	(31,751)		(233,641)	
Net loss for the year	<u>(59,239)</u>		<u>(97,162)</u>	
<b>Total recognised income and expenses for the year</b>		<u>(90,990)</u>		<u>(330,803)</u>
<b>Movements in equity arising from capital transactions</b>				
Shares issued under share option scheme		<u>—</u>		<u>4,000</u>
<b>Total deficiency attributable to shareholders of the Company</b>		(1,341,804)		(1,295,654)
Non-controlling interests		<u>45,158</u>		<u>44,840</u>
		<u><u>(1,296,646)</u></u>		<u><u>(1,250,814)</u></u>

**Consolidated Statement of Cash Flows***For the year ended 31 March 2010**(Amounts expressed in Hong Kong dollars)*

	<b>2010</b> \$'000
<b>Operating Activities</b>	
Loss before taxation	(56,967)
Adjustments for:	
Interest income	(4)
Interest expenses on borrowings wholly repayable within five years	57,259
Interest expenses on convertible bonds	4,592
Other borrowing costs	1,280
Depreciation of property, plant and equipment	1,734
Loss on disposal of property, plant and equipment	1,548
Write down of inventories	8,613
Deposit written off	506
Allowance for doubtful debts	4,545
Exchange difference	(152)
Reversal of excess provision in PRC value-added tax payable	(44,737)
Sundry expenses	3,655
	<u>          </u>
Operating cash outflow before movements in working capital	(18,128)
Trade and other receivables	(716)
Escrow money	5,980
Inventories	(1,233)
Trade and other payables	5,366
	<u>          </u>
<b>Net cash used in operating activities</b>	<b><u>(8,731)</u></b>
<b>Investing Activities</b>	
Purchase of property, plant and equipment	(63)
Interest received	4
	<u>          </u>
<b>Net cash used in investing activities</b>	<b><u>(59)</u></b>
<b>Financing Activities</b>	
Proceeds from Investor's loan	20,000
	<u>          </u>
<b>Net cash generated from financing activities</b>	<b><u>20,000</u></b>
<b>Net increase in cash and cash equivalents</b>	<b>11,210</b>
<b>Analysis of cash and cash equivalents</b>	
Cash and cash equivalents at 1 April 2009	1,878
Effect of foreign exchange rates changes	(401)
	<u>          </u>
<b>Cash and cash equivalents at 31 March 2010</b>	<b><u><u>12,687</u></u></b>

**Notes to Financial Statements***For the year ended 31 March 2010***1 ORGANISATION AND OPERATIONS**

Tack Fat Group International Limited (Provisional Liquidators Appointed) was incorporated in the Cayman Islands on 12 March 2001. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business is 14th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong. The shares of the Company were listed on the Stock Exchange on 29 April 2002 and have been suspended from trading since 30 July 2008.

The Company is principally engaged in investment holding. The Group is principally engaged in apparel retailing business in the PRC.

The Company's functional currency is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars as the Hong Kong dollars is considered the most appropriate presentation currency in view of the Company's past practice.

These financial statements are presented in Hong Kong dollars and all values are rounded to nearest thousand (\$'000) except otherwise indicated.

**2 BASIS OF PRESENTATION****Going concern**

As at 31 March 2010, the Group had consolidated net current liabilities of approximately HK\$1,299.93 million (2009: approximately HK\$1,257.32 million) and consolidated net liabilities of approximately HK\$1,296.65 million (2009: approximately HK\$1,250.81 million). The Group had a net loss for the year ended 31 March 2010 of approximately HK\$58.92 million (2009: approximately HK\$87.13 million).

On 11 September 2008, pursuant to a court order, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of Ferrier Hodgson Limited, were appointed as the Provisional Liquidators as a result of the Company's self petition for winding up and Bank of America N.A.'s application to support the winding up petition against the Company. Upon the appointment of the Provisional Liquidators, the powers of the Directors were suspended with regard to the affairs and business of the Company.

The Company was in the first stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules as at 31 March 2010, the date of the financial statements.

The restructuring proposal submitted by the Investor dated 2 December 2008 has been accepted by the Provisional Liquidators and, in principle, by the major creditors of the Group. On 12 January 2009, an exclusivity and escrow agreement was entered into amongst the Provisional Liquidators, Ferrier Hodgson Limited (as the escrow agent) and the Investor. Pursuant to the exclusivity and escrow agreement, the Provisional Liquidators granted the Investor an exclusive right up to 11 July 2009 to negotiate a legally binding agreement for the implementation of the restructuring proposal. As a result, the Investor provided (i) a sum of HK\$10 million as working capital loan to the Group to meet its working capital requirements; and (ii) a sum of HK\$6.4 million to the Group as professional fees in relation to the Group's restructuring. On 8 July 2009, the Provisional Liquidators and the Investor entered into a side letter to extend the exclusivity period by a 6-month period to 12 January 2010. On 11 August 2009, the Investor and the Provisional Liquidators entered into a revolving loan facility agreement, pursuant to which, the Investor consented to provide an additional working capital loan for the Group's retail operating entity in the PRC for an aggregate amount equal to HK\$15 million.

The Provisional Liquidators have appointed Asian Capital (Corporate Finance) Limited (“Asian Capital”) as financial adviser to the Company with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange. The Company on 20 July 2009 submitted a resumption proposal (the “Resumption Proposal”) to the Stock Exchange.

On 9 April 2010, the Company was informed by the Stock Exchange in a letter that trading in the Shares will be resumed subject to the satisfaction of the following conditions by 8 October 2010:

1. complete the open offer, subscription of convertible bonds and all other transactions in the Resumption Proposal;
2. publish a circular containing (i) detailed disclosure of the Resumption Proposal comparable to prospectus standard; (ii) profit forecast for each of the two years ending 31 March 2012 which should be prepared by the Directors (including proposed Directors) after due and careful enquiry; and (iii) pro forma statement of financial position upon completion of the Resumption Proposal;
3. provide comfort letter from the auditors or the financial advisor relating to working capital sufficiency for the next 12 months from the latest practicable date before expected resumption date; and
4. undertake to (i) appoint an independent professional advisor to conduct follow-up reviews on the internal control procedures within 6 months from resumption date; and (ii) disclose the review results in subsequent financial reports.

The Stock Exchange may modify the resumption conditions if the Company’s situation changes.

The Company, the Provisional Liquidators and the Investor are now taking appropriate steps to implement the transactions contemplated in the Resumption Proposal and fulfill the above conditions as set out by the Stock Exchange.

The financial statements have been prepared on a going concern basis on the basis that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the future.

In the opinion of the Provisional Liquidators, the financial statements for the year ended 31 March 2010, which have been prepared on the going concern basis, present fairly the results and state of affairs of the Group.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

On 7 June 2010, the Company announced that a formal agreement for the proposed restructuring of the Group, involving capital reorganisation, debt restructuring, subscription of convertible bonds and offer of new shares, was entered into on 26 May 2010 among the Company, the Provisional Liquidators, the Investor and Ferrier Hodgson Limited (the “Escrow Agent”) (the said agreement as the “Restructuring Agreement”). The principal elements of the restructuring proposal are as follows:

*a) Capital Restructuring*

The Company will undergo capital restructuring, involving share consolidation, capital reduction and authorised share capital change.

*b) Subscription*

Pursuant to the Restructuring Agreement upon the capital restructuring, the Investor will subscribe the convertible bond issued by the Company with principal amount of HK\$100 million and tenure of three years bearing no interest and convertible into new shares at the option of the bondholders at a conversion price of HK\$0.01 per share (the "Investor Convertible Bonds").

*c) Open offer of new shares*

Pursuant to the Restructuring Agreement, the Company will take necessary steps to implement the offer of a total of 15,001,474,104 new shares on the basis of 339 offer shares for every 5 new shares upon the capital restructuring held on the record date by the qualifying shareholders in order to raise approximately HK\$150 million.

*d) Debt Restructuring*

Pursuant to the Restructuring Agreement, the Company will apply to the High Court of Hong Kong and the Grand Court of the Cayman Islands for orders convening the creditors' meetings to consider the Hong Kong and the Cayman scheme of arrangement (collectively as the "Schemes") between the Company and the creditors in order to effect the debt restructuring pursuant to which (a) the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised, discharged and settled; (b) the creditors of the Company (the "Scheme Creditors"), other than creditors which held a preferential claim against the Company, will receive a pro rata distribution of five sevenths of the convertible bonds to be issued by the Company with principal amount of HK\$20 million and tenure of one year bearing an interest rate of 2% per annum and convertible into new shares of the Company at the option of the bondholders at a conversion price of HK\$0.01 per share; and (c) the Company will transfer or procure the transfer to the scheme administrators of the Schemes for distribution to the Scheme Creditors of the follows:

- (i) five sevenths of the cash consideration of HK\$50 million, which is funded by the Company out of the gross proceeds from the subscription of the Investor Convertible Bonds;
- (ii) any cash held by or for the account of the Company at completion of the restructuring; and
- (iii) all rights, title and interest in the companies transferred to Key Winner by Ever Century on or about 29 May 2009, and any other assets in the Group other than the assets which will remain for continuing operation of the Group.

**Loss of books and records and effect on the corresponding figures for the financial year ended 31 March 2009**

The Provisional Liquidators have used their best endeavors to locate all the books and records of the Group since their appointment but were unable to obtain sufficient books and records to enable them to satisfactorily accept various opening account balances of the Group for the following reasons:

- Most of the books and records of the Group were lost prior to the appointment of the Provisional Liquidators and books and records recovered from the office of the Company and its subsidiaries were minimal;

- According to some former staff of the Group, some of the relevant books and records may have been shipped overseas shortly prior to the appointment of the Provisional Liquidators. However, the Provisional Liquidators are unable to verify the validity of this information; and
- Former accounting personnel of the Group had left and the Provisional Liquidators have been unable to get their cooperation in connection with updating the accounts.

The consolidated financial statements of the Group for the financial year ended 31 March 2009 have been prepared based on the available books and records. Accordingly, the Provisional Liquidators are unable to ascertain that the figures of the Group for the financial year ended 31 March 2009 have been properly reflected.

#### **Deconsolidation of subsidiaries and subsequent impairment of respective book values**

The financial statements have been prepared based on the books and records recovered by the Provisional Liquidators since their appointment. The Provisional Liquidators consider that control of the Company over certain subsidiaries has been lost subsequent to the year ended 31 March 2008. Details are set out as follows:

- The Directors resolved to appoint an independent reporting accountant Borrelli Walsh Limited on 30 July 2008 to investigate into the matters giving rise to the Company's failure to report its results for the year ended 31 March 2008;
- On 9 September 2009, Borrelli Walsh Limited resigned, citing that it was unable to obtain sufficient information to properly discharge its engagement, and raised concern that the board of directors was unable to control the assets of the Group after 23 June 2008;
- Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of Ferrier Hodgson Limited, were appointed as provisional liquidators to Tack Fat Swimwear Manufacturing Limited ("Tack Fat Swimwear") and liquidators to Tack Fat Manufacturing Factory Limited ("Tack Fat Manufacturing") on 6 October 2008 and 4 September 2009 respectively;
- Tack Fat International and Chiu Wing were placed into creditors' voluntary liquidation on 23 April 2009;
- Lantern Services Limited, Potter Industries Limited and Sino Profit Limited, all directly wholly owned subsidiaries of Ever Century were transferred to a special purpose vehicle controlled by the Provisional Liquidators on 29 May 2009 for realisation for the benefit of the creditors of the Company and to facilitate the restructuring as proposed by the Investor; and
- According to the investigation by the Provisional Liquidators, the Company does not have any legal ownership over Masswin International Limited ("Masswin") and accordingly, Masswin is no longer deemed as a subsidiary of the Company. Moreover, Masswin was struck off from the British Virgin Islands (the "BVI") Registrar on 1 May 2009.

The Provisional Liquidators are of the view that the results and assets and liabilities of the said subsidiaries should not be consolidated to the financial statements of the Company. The Provisional Liquidators also feel that it would be appropriate to fully impair their book value on the Group's financial statements to zero, due to (i) the adverse financial positions of Tack Fat Swimwear, Tack Fat Manufacturing, Tack Fat International and Chiu Wing; and (ii) The Group's control over the operations of Lantern Services Limited, Potter Industries Limited, Sino Profit Limited and Masswin being lost before the appointment of the Provisional Liquidators.

Among the assets, the values of which the Provisional Liquidators consider should be fully impaired are the trademarks related to the brands "XXEZZ" and "MUDD®" and the receivables of approximately HK\$300 million recorded under Global Far East (Macao Commercial Offshore) Limited ("GFE (Macao)"), a wholly owned subsidiary of Sino Profit Limited.

Pursuant to the Company's announcement dated 29 May 2007, the Company acquired the "XXEZZ" business in June 2007 by acquiring 90% interest in Best Favour Investments Limited, which was principally engaged in fashion design and management of its "XXEZZ" brand of smart casual wear. Investigations conducted by the Provisional Liquidators show that the brand "XXEZZ" does not belong to the Group. Thus, any value that has been previously attributed to the goodwill relating to the "XXEZZ" brand should be fully impaired. However, Best Favour Investments Limited has always been managing the brand of "XXEZZ" pursuant to a written authority.

In respect of the "MUDD®" trademark, it is owned by Wingar Limited, an indirect subsidiary of Tack Fat Swimwear. Since the Provisional Liquidators have been appointed to Tack Fat Swimwear, which is deconsolidated from the Group, the goodwill related to the "MUDD®" trademark, if any, should not be accounted for by the Group. Furthermore, the "MUDD®" retail business has been loss making since the year ended 31 March 2008 and accordingly, the Provisional Liquidators consider that any value that has been attributed to the goodwill previously should be fully impaired.

The Provisional Liquidators are aware that the Company had disclosed in its announcement on 15 July 2008 that the Company was going to assign the receivables of GFE (Macao) for HK\$300 million to the vendor for the acquisition of 40% shareholding interest in Global Agricultural Development Limited. The Provisional Liquidators are unable to obtain any supporting documents from available records to identify the debtor(s) and determine whether the HK\$300 million receivable ever existed. GFE (Macao) is a directly owned subsidiary of Sino Profit Limited, which has been transferred to a special purpose vehicle controlled by the Provisional Liquidators on 29 May 2009 for realisation of the benefit of the creditors of the Company and to facilitate the restructuring as proposed by the Investor.

Any adjustment as a result of the abovementioned action may have a significant effect to the Group's financial statements for the year ended 31 March 2009 and the relevant disclosures.

### 3 APPLICATION OF NEW AND REVISED HKFRSS

In the current year, the Group has applied the following new amendments and interpretations ("new HKFRSS") issued by the HKICPA, which are or have become effective.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The principal effects of adopting these new and revised HKFRSs are as follows:

**(a) HKAS 1 (Revised) *Presentation of Financial Statements***

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

**(b) HKFRS 1 and HKAS 27 (Amendments) *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

The HKAS 27 (Amendment) requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The adoption of this amendment has no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

**(c) HKFRS 2 (Amendment) *Vesting Conditions and Cancellations***

The HKFRS 2 (Amendment) clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the adoption of the amendments has no significant implication on its accounting for share-based payments.

**(d) HKFRS 7 (Amendment) *Improving Disclosures about Financial Instruments***

HKFRS 7 (Amendment) requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurement is now required, as well as significant transfer between level 1 and level 2 fair value measurements. The amendments also clarify the requirement for liquidity risk disclosures.

**(e) HKFRS 8 *Operating Segments***

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group.

The Amendment to HKFRS 8 issued in Improvements to HKFRSs 2009 which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>5</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>6</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>5</sup>
HKFRS3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>3</sup>
HK (IFRIC) – Int 17	Distribution of Non-cash Assets to Owners <sup>1</sup>
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be account for as equity transactions. The Provisional Liquidators anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

#### 4 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for the conversion option derivative of conversion loan notes, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

**(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**(b) Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

**(c) Property, Plant and Equipment**

- (i) All property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.
- (ii) Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Depreciation is calculated to write off the cost of each assets over its estimated useful life on a straight line method at an annual rate of 20%.
- (iv) Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

- (v) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

**(d) Leased Assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*Operating Lease Charges as the lessee*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred. The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

**(e) Impairment of Financial Assets**

*(i) Impairment of financial assets*

Financial assets, other than investments held for trading, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all loans and receivables and available-for-sale debt investment, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as debtors, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale debt investments, impairment losses are subsequently reversed to profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

**(ii) Impairment of non-financial assets other than goodwill**

Where an indication of impairment exists, or when annual impairment testing for an asset is required other than financial assets, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the statement of comprehensive income in the period in which it arises.

**(f) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any writedown of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(g) Trade and Other Receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

**(h) Convertible Bonds**

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

**(i) Interest-Bearing Borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(j) Trade and Other Payables**

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(k) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

**(l) Employee Benefits****(i) Short-term Employee Benefits and Contributions to Defined Contribution Retirement Plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

**(ii) Share-Based Payments**

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using applicable option-pricing models, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to the retained profits).

**(iii) Termination Benefits**

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminating employment or to providing benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(m) Income Tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(n) Financial Guarantees Issued, Provisions and Contingent Liabilities**

**(i) Financial guarantees issued**

Financial guarantees are contracts that require the issuer (i.e. guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

**(ii) Provisions and contingent liabilities**

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(o) Revenue Recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

**(i) Sales of Goods**

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

Retail sales are usually paid in cash or by credit/debit cards. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in operating expenses.

**(ii) Interest Income**

Interest income is recognised as it accrues using the effective interest method.

**(p) Foreign Currency Translation**

**(i) Functional and presentation currency**

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is RMB. The consolidated financial statements are presented in Hong Kong dollars, which is the Company's presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the fair value reserve in equity.

**(iii) Group companies**

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follow:

- (1) assets and liabilities for each end of the period presented are translated at the closing rate at the date of the end of the period;
- (2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

**(q) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

**(r) Related Parties**

For the purpose of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or had joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group. Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**(s) Segment Reporting**

Geographical segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the geographical segments, has been identified as the Provisional Liquidators that make strategic decisions.

## **5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***i) Impairment on interests in subsidiaries***

The Group carries out assessment on the recoverability of its interests in subsidiaries, by reference to the financial situation and the operation of the subsidiaries. This requires the use of judgement and estimates. When the actual result is different from the original estimate, such difference will impact the carrying value of the interests in subsidiaries and impairment expense or reversal of impairment for the year.

***ii) Allowance for doubtful debts***

The Group performs ongoing credit evaluations of its debtors and adjusts credit limits based on payment history and the debtor's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its debtors and maintains a provision for estimated credit losses based upon its historical experience and any specific debtors collection issues that it has been identified. The Group will continue to monitor the collections from debtors and maintain an appropriate level of estimate credit losses.

***iii) Assessment of impairment of non-current assets***

The Group conducts impairment reviews of non-current assets that are subject to depreciation and amortisation whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Provisional Liquidators assess the recoverable amount of each non-current asset based on its value in use or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the assets. These calculations require the use of judgments and estimates.

**iv) Depreciation**

Property, plant and equipment are depreciated on a straight line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets. The depreciation for future periods is adjusted if there are material changes from previous estimates.

**v) Net realisable value of inventories**

Net realisable value of inventories is the estimated selling prices in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in economic conditions in places where the Group operates and changes in customer taste and competitor actions in response to changes in market conditions. The Provisional Liquidators reassess these estimates at each end of the reporting period.

**vi) Allowance for inventories**

The Provisional Liquidators reviews an aging analysis at each end of the period, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The Provisional Liquidators estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each end of the reporting period and makes allowances for obsolete items.

**6 FINANCIAL RISK MANAGEMENT**

Exposures to credit, liquidity, interest rate, foreign currency risks arise in the normal course of the Group's business. The Group's financial management policies and practices are described below.

**(a) Credit Risk**

The Group's credit risk is primarily attributable to bank deposits, trade and other receivables. The Group maintains a defined credit policy and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group does not have exposure limit to any single financial institution. Given their sound credit ratings, the Directors and the Provisional Liquidators do not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts to minimise exposure to credit risk. For trade and other receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. Adequate provisions have been made for estimated irrecoverable amounts.

The Group has no concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk is represented by the carrying amount of trade and other receivables in the consolidated statement of financial position. Except for the guarantees given by the Group as disclosed in note 21 to the financial statements, the Group does not provide any other guarantees which expose the Group to credit risk.

**(b) Liquidity Risk**

The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from certain parties to meet its liquidity requirements in the short and longer term.

**(c) Interest Rate Risk**

The Group is exposed to interest rate risk through the impact of rates changes on interest-bearing borrowings which predominantly bear floating interest rates and fixed interest rates. As at the date of this report, the interest-bearing borrowings of the Group includes amount classified as “Provision for bank loan guarantees for subsidiaries”, “Other borrowings” and “Convertible bonds” as set out in notes 21 and 22 to the consolidated financial statements (collectively as the “Borrowings”) that were entered prior to the appointment of the Provisional Liquidators by the Company. Pursuant to the proposed Restructuring Agreement, the Company’s commitments to the borrowings will be compromised, discharged and settled through the proposed Schemes. Upon the effect of the Schemes, ceteris paribus, the Group’s exposure to interest rate risks is minimal as the Group does not have other material interest-bearing borrowings which bear floating interest rates.

**(d) Foreign Currency Risk**

The Group’s revenues and costs are mainly derived from subsidiaries in PRC. For subsidiaries in the PRC, most of the sales and purchases are denominated in RMB, the exposure to foreign currency risk is expected to be minimal.

The Group currently does not have a foreign currency hedging policy in respect of its foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging foreign currency exposure if necessary.

**7 TURNOVER**

The principal activity of the Group is the retail and concessionaire sales 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.

**8 OTHER REVENUE**

	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
Interest income	4	15
Reversal of excess impairment and written off ( <i>Note</i> )	–	245,511
Exchange gain	154	–
Reversal of excess provision in current tax payable	44,737	–
Rental income	1,688	3,059
Others	518	961
	<u>47,101</u>	<u>249,546</u>

*Note:* These amounts represent certain impairments recognised in the “Prepayment, deposits and other receivables” and “Amounts due to deconsolidated subsidiaries” written-off in the accounts of New Profit Garment (Luo Ding) Company Limited (“Luo Ding”) in 2008 due to incomplete books and records. As a result of further investigation by the Provisional Liquidators and the auditors, such impairments and write-off were considered excessive. Accordingly, the Provisional Liquidators have made adjustments for the reversal of these figures last year. However, without reliable accounting information for these figures, the auditors provided qualified opinion in 2009 on the transactions.

**9 LOSS BEFORE TAX**

Results before taxation is arrived at after charging the following:

**(a) Finance Costs**

	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
Interest on bank advances and other borrowings wholly repayable within five years	57,259	12,037
Interest on convertible bonds	4,592	–
Bank charges	4	7
Other borrowing costs	1,280	1,477
	<u>63,135</u>	<u>13,521</u>

**(b) Other Items**

	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
Cost of inventories sold ( <i>Note 18</i> )	37,846	71,909
Depreciation	1,734	2,779
Auditor's remuneration	755	485
Bad debts written off	–	1,348
Allowance for doubtful debts		
– Trade receivables	4,545	–
– Deconsolidated subsidiaries	–	7,025
Disposal of property, plant and equipment	1,548	–
Deposit written off	506	–
Operating lease rental on premises	15,762	28,793
Retirement benefit scheme contributions	1,014	1,669
Staff costs, excluding directors' remuneration	11,342	20,616
	<u>113,442</u>	<u>130,805</u>

**10 TAX**

	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
PRC Enterprise Income Tax		
– Current year	1,954	–
PRC Value-added tax		
– Under-provision in previous years ( <i>Note</i> )	–	49,815
	<u>1,954</u>	<u>49,815</u>

*Note:* The tax provision for the year ended 31 March 2009 represented full provision of value-added tax incurred in periods prior to the appointment of the Provisional Liquidators.

No Hong Kong Profits Tax was provided as there was no assessable profit for both years.

The Group's subsidiaries in the PRC are subject to PRC Enterprise Income Tax at the rate of 25% (2009: 25%) on taxable income determined in accordance with the relevant laws and regulations in the PRC.

No provision for deferred taxation has been made as, in the opinion of the Provisional Liquidators, the effect of all the temporary differences would not be significant or the temporary differences are not expected to crystallise in the foreseeable future.

The tax charge for the year can be reconciled to the loss per the consolidated statement of comprehensive income as follows:

	2010 \$'000	2009 \$'000
Loss before tax	(56,967)	(37,315)
Tax at the Hong Kong Profits Tax rate of 16.5% (2009: 16.5%)	(9,400)	(6,157)
Tax effect of expenses not deductible for tax purpose	22,819	70,533
Tax effect of income not taxable for tax purpose	(12,121)	(64,376)
Effect of different tax rates of subsidiaries operated in other jurisdiction	656	-
Income tax charge for the year	<u>1,954</u>	<u>-</u>

## 11 DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) The directors' remuneration

The remuneration of every director for the year ended 31 March 2010 is set out below:

	<i>Notes</i>	Fees \$'000	Basic salaries, allowances and other benefit \$'000	Contributions to retirement benefit schemes \$'000	Bonus \$'000	Total \$'000
<i>Executive directors</i>						
Mr. Kwok Wing	<i>(a)</i>	-	-	-	-	-
Mr. Chan Chak Kai, Kenneth	<i>(a)</i>	-	-	-	-	-
<i>Non-executive director</i>						
Mr. James McMullen		-	-	-	-	-
<i>Independent non-executive directors</i>						
Mr. Pau Chin Hung, Andy	<i>(b)</i>	90	-	-	-	90
Mr. Choong Khuat Leok	<i>(b)</i>	90	-	-	-	90
Mr. Kooi Tock Chian	<i>(b)</i>	90	-	-	-	90
Total		<u>270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270</u>

Notes:

- (a) Retired on 6 October 2009.
- (b) Appointed on 7 October 2009.

There is no sufficient information to ascertain the remuneration of the Directors for the year ended 31 March 2009.

**(b) Five highest paid individuals**

For the year ended 31 March 2010, the five highest paid individuals in the Group included no directors. Details of the remuneration of these five highest paid individuals are as follows:

	<b>2010</b>
	<i>\$'000</i>
Salaries and other benefits	918
Pension scheme contributions	43
	<hr/>
	961
	<hr/> <hr/>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	<b>Number of employees 2010</b>
Nil to HK\$1,000,000	5
	<hr/> <hr/>

There is no sufficient information to ascertain details of staff costs, including the remuneration of the five highest paid individuals, for the year ended 31 March 2009.

**12 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$89.48 million (2009: approximately HK\$279.28 million).

**13 LOSS PER SHARE****(a) Basic Loss Per Share**

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately HK\$59.24 million (2009: approximately HK\$97.16 million) and the weighted average of 2,212,606,800 (2009: 2,205,175,106) ordinary shares in issue during the year, calculated as follows:

	<b>2010</b>	<b>2009</b>
	<b>Number of</b>	<b>Number of</b>
	<b>shares</b>	<b>shares</b>
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at 1 April	2,212,606	2,172,607
Effect of share options exercised	—	32,568
	<u>2,212,606</u>	<u>2,205,175</u>
Weighted average number of ordinary shares at 31 March	<u>2,212,606</u>	<u>2,205,175</u>

**(b) Diluted Loss Per Share**

Diluted loss per share for the year ended 31 March 2010 is the same as the basic loss per share as the Company did not have any dilutive potential ordinary shares during the year.

As the exercise of the Group's outstanding convertible bonds and the impact of the exercise of the share options for the year ended 31 March 2009 would be anti-dilutive, diluted loss per share was the same as the basic loss per share for the year ended 31 March 2009.

**14 SEGMENT INFORMATION**

For the years ended 31 March 2010 and 2009, the Group has been predominately operating in one geographical segment, i.e. the PRC, and principally engaged in the retail and concessionaire sales of garments with the results set out in the financial statements on pages 18 to 22.

For the year ended 31 March 2010, there was no transaction with a single external customer that amount to 10% or more of the Group's revenue (2009: Nil).

## 15 PROPERTY, PLANT AND EQUIPMENT

## Group

	<b>Furniture, fixtures and office equipment</b> \$'000
<b>Cost</b>	
At 1 April 2008	14,391
Exchange adjustments	967
Additions	81
	<hr/>
At 31 March 2009	15,439
	<hr style="border-top: 1px dashed black;"/>
At 1 April 2009	15,439
Additions	63
Disposals	(5,720)
Exchange adjustments	(6)
	<hr/>
At 31 March 2010	9,776
	<hr style="border-top: 1px dashed black;"/>
<b>Accumulated depreciation and impairment</b>	
At 1 April 2008	5,907
Charge for the year	2,779
Exchange adjustments	250
	<hr/>
At 31 March 2009	8,936
	<hr style="border-top: 1px dashed black;"/>
At 1 April 2009	8,936
Charge for the year	1,734
Disposal	(4,172)
Exchange adjustments	(4)
	<hr/>
At 31 March 2010	6,494
	<hr style="border-top: 1px dashed black;"/>
<b>Net book value</b>	
At 31 March 2010	3,282
	<hr style="border-top: 3px double black;"/>
At 31 March 2009	6,503
	<hr style="border-top: 3px double black;"/>

## 16 INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	\$'000	\$'000
Unlisted shares, at cost	228,300	228,300
Less: Impairment loss	<u>(228,300)</u>	<u>(228,300)</u>
	<u>—</u>	<u>—</u>

Subsidiaries remain in the Group as at 31 March 2010 are as follows:

Name of Company	Place of incorporation/ operation	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity held by the Company		Principal activities
			Direct	Indirect	
			%	%	
Ever Century Holdings Limited	BVI/Hong Kong	700 ordinary shares of US\$1 each	100	—	Investment holding
Anway Limited	BVI	1 ordinary shares of US\$1 each	—	100	Investment holding
Best Favour Investments Limited	BVI	10 ordinary shares of US\$1 each	—	90	Investment holding
New Profit Holdings Limited	Hong Kong	1 ordinary shares of HK\$1 each	—	90	Investment holding
Real Victor Limited	Hong Kong	1 ordinary shares of HK\$1 each	—	100	Investment holding
New Profit Garment (Luo Ding) Company Limited	PRC	HK\$19,000,075	—	90	Retail and concessionaire sales of garments
Shenzhen XXEZZ Clothing Company Limited	PRC	RMB410,333	—	100	Wholesale of garments

Both Luo Ding and Shenzhen XXEZZ Clothing Company Limited are wholly-owned foreign enterprises established in the PRC.

## 17 ESCROW MONEY

	Group/Company	
	2010	2009
	\$'000	\$'000
Professional fees	123	3,184
Working Capital	229	3,148
	<u>352</u>	<u>6,332</u>

## 18 INVENTORIES

- (a) Inventories in the consolidated statement of financial position, net of allowance for obsolete inventories, as follows:

	Group	
	2010	2009
	\$'000	\$'000
Finished goods	<u>7,830</u>	<u>15,210</u>

- (b) The analysis of the amount of inventories recognised as an expense is as follows:

	Group	
	2010	2009
	\$'000	\$'000
Carrying amount of inventories sold	29,233	36,290
Write-down of inventories	<u>8,613</u>	<u>35,619</u>
	<u>37,846</u>	<u>71,909</u>

## 19 TRADE AND OTHER RECEIVABLES

	Group	
	2010	2009
	\$'000	\$'000
Trade receivables	22,387	22,486
Less: Allowance for doubtful debts	<u>(4,545)</u>	<u>-</u>
	17,842	22,486
Other receivables and prepayments	<u>10,431</u>	<u>13,778</u>
	<u>28,273</u>	<u>36,264</u>

**(a) Aging analysis**

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
0 – 90 days	15,888	10,670
91 – 180 days	298	2,000
181 – 365 days	1,656	7,186
Over 365 days	—	2,630
	<u>17,842</u>	<u>22,486</u>

The Group's concessionaire sales through department stores are generally collectible within 30 days to 60 days from the invoice date.

**(b) Trade receivable that are not impaired**

The ageing analysis of trade receivable that are neither individually nor collectively considered to be impaired are as follows:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
Neither past due nor impaired	14,657	6,188
Less than one year past due	3,185	12,447
More than one year past due	—	3,851
	<u>17,842</u>	<u>22,486</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

**(c) Allowance for doubtful debts**

Movement in the allowance for doubtful debts for trade receivables:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
At 1 April	–	–
Impairment losses recognised on receivables	4,545	–
	<u>4,545</u>	<u>–</u>
At 31 March	<u><u>4,545</u></u>	<u><u>–</u></u>

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

**20 TRADE AND OTHER PAYABLES**

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
Trade payables	38,482	40,532
Accruals and other payables	42,210	70,493
	<u>80,692</u>	<u>111,025</u>
	<u><u>80,692</u></u>	<u><u>111,025</u></u>

The credit periods granted by suppliers are generally ranged from 60 days to 90 days. At 31 March 2010, the aged analysis of the trade payable is as follows:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
0 – 90 days	3,014	24,191
91 – 180 days	1,119	–
181 – 365 days	4,524	10,682
Over 365 days	29,825	5,659
	<u>38,482</u>	<u>40,532</u>
	<u><u>38,482</u></u>	<u><u>40,532</u></u>

All the trade and other payables are expected to be settled within one year. All the trade payables are denominated in Renminbi and all accruals and other payables are denominated in RMB and Hong Kong dollars.

	Company	
	2010	2009
	\$'000	\$'000
Accruals and other payables	<u>31,631</u>	<u>8,193</u>

All accruals and other payables are expected to be settled within one year and denominated in Hong Kong dollars.

## 21 PROVISION FOR BANK LOAN GUARANTEES FOR SUBSIDIARIES AND OTHER BORROWINGS

The banking facilities of the Group were secured by corporate guarantees issued by the Company. The banking facilities granted to the subsidiaries of the Company were secured by the Company's interest in some of its subsidiaries and guaranteed by the Company. Details of the abovementioned items are set out as follows:

### (i) Provision for bank loan guarantees for subsidiaries

	Group/Company	
	2010	2009
	\$'000	\$'000
Secured	141,947	133,018
Unsecured	<u>704,174</u>	<u>689,505</u>
	<u>846,121</u>	<u>822,523</u>

All bank loan guarantees for subsidiaries are repayable within 1 year or on demand.

### (ii) Other borrowings

	Group/Company	
	2010	2009
	\$'000	\$'000
Secured	10,718	45,000
Unsecured	<u>41,672</u>	<u>45,500</u>
	<u>52,390</u>	<u>90,500</u>

All other borrowings are repayable within 1 year or on demand.

The effective interest rate for the year ended 31 March 2010 for other borrowings were 4% per month and 8%-11% per annum (2009: 2% per month and 6% per annum).

**22 CONVERTIBLE BONDS**

Pursuant to a bond placement agreement dated 13 September 2004, the Company issued US\$30 million (approximately HK\$234 million) convertible bonds bearing interest at 1% per annum payable in quarters to independent investors on 11 October 2004. The convertible bonds has matured on 12 October 2009 (the "Date of Maturity"). Up to the date of this report, the Provisional Liquidators have not received any formal demand letter from the bondholders. The bonds are convertible into the Company's shares at the conversion price of HK\$1.0 after three months from 11 October 2004 provided that up to a maximum of 50% of the bonds may be converted within the first 12 months from the date of issue. Each bondholder has a put option such that the Company shall redeem the bonds upon exercise of the option by the relevant bondholder under the following circumstances: (i) on the third and fifth anniversaries from the date of bond issue; or (ii) if the Company's shares are de-listed or suspended from trading on the Stock Exchange for more than 14 consecutive trading days; or (iii) if there is a change in control of the Company.

The interest charged for the year ended 31 March 2010 for convertible bonds are calculated with reference to the terms of convertible bonds and taking into consideration that the convertible bonds were matured on the Date of Maturity.

As the convertible bonds were matured on the Date of Maturity, the rights for conversion into the Company's shares lapsed with immediate effect on the same date. For the period from 1 April 2009 to the Date of Maturity, no convertible bonds were converted into ordinary shares.

**23 LOANS FROM THE INVESTOR**

	<b>Group/Company</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
At 1 April	16,400	–
Addition	<u>20,000</u>	<u>16,400</u>
At 31 March	<u><u>36,400</u></u>	<u><u>16,400</u></u>

On 11 August 2009, the Investor and the Provisional Liquidators entered into a revolving loan facility agreement, pursuant to which, the Investor consented to provide additional working capital loan for the Group's retail business operating entity in the PRC of an aggregate amount equal to HK\$15 million till 31 December 2009 or any date to be extended by written agreement between the Investor and the Provisional Liquidators. On 20 January 2010, a further sum of HK\$5 million is provided by the Investor to meet the funding requirement of the PRC business.

**24 AMOUNT DUE FROM SUBSIDIARIES**

	<b>Company</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
Amount due from subsidiaries	28,779	6,850
Provision for impairment	<u>(28,221)</u>	<u>(6,850)</u>
	<u><u>558</u></u>	<u><u>–</u></u>

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

The movements in the provision for impairment on amounts due from subsidiaries are as follows:

	Company	
	2010	2009
	\$'000	\$'000
Provision for impairment at 1 April	6,850	–
Provision for impairment during the year	21,371	6,850
	<u>28,221</u>	<u>6,850</u>
Provision for impairment at 31 March	<u>28,221</u>	<u>6,850</u>

## 25 AMOUNT DUE TO DECONSOLIDATED SUBSIDIARIES

The amount due to a deconsolidated subsidiary is unsecured, interest-free and has no fixed repayment terms. The Provisional Liquidators considered that the carrying amount of amount due to a deconsolidated company approximates its fair value.

## 26 EQUITY

### (i) Authorised and Issued Share Capital

	2010		2009	
	No. of shares	Amount \$'000	No. of shares	Amount \$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.1 each	4,000,000,000	400,000	4,000,000,000	400,000
<i>Issued and fully paid:</i>				
At 1 April	2,212,606,800	221,261	2,172,606,800	217,261
Exercise of share options ( <i>Note</i> )	–	–	40,000,000	4,000
	<u>2,212,606,800</u>	<u>221,261</u>	<u>2,212,606,800</u>	<u>221,261</u>

*Note:* In June 2008, 40,000,000 share options were exercised at the exercise price of HK\$0.65 per share to subscribe for 40,000,000 ordinary shares in the Company.

No movement in issued share capital were noted subsequent to the year end date.

### (ii) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

## (iii) Company

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Accumulated losses \$'000	Total \$'000
At 1 April 2008	217,261	638,127	193,780	(1,819,679)	(770,511)
Exercise of share options	4,000	22,000	–	–	26,000
Transfer	–	–	(26,000)	–	(26,000)
Total comprehensive income for the year	–	–	–	(279,283)	(279,283)
<b>At 31 March 2009</b>	<b>221,261</b>	<b>660,127</b>	<b>167,780</b>	<b>(2,098,962)</b>	<b>(1,049,794)</b>
At 1 April 2009	221,261	660,127	167,780	(2,098,962)	(1,049,794)
Total comprehensive income for the year	–	–	–	(89,484)	(89,484)
<b>At 31 March 2010</b>	<b>221,261</b>	<b>660,127</b>	<b>167,780</b>	<b>(2,188,446)</b>	<b>(1,139,278)</b>

## (iv) Capital risk management

As at 31 March 2010, the Group did not maintain sufficient liquid funds and had net current liabilities of approximately HK\$1,299.93 million (2009: approximately HK\$1,257.32 million). The net current liabilities as at 31 March 2010 include bank and cash balances and escrow money of approximately HK\$13,039 million (2009: approximately HK\$8.21 million). The escrow money balance as at 31 March 2010 was approximately HK\$ 352,000 (2009: HK\$6,332,000) money provided by the Investor for the purposes of settling the Group's restructuring expenses to be incurred subsequent to the end of the reporting period.

As at 31 March 2010, the Group's total provision for bank loan guarantees for subsidiaries, other borrowings and loans from the Investor amounted to approximately HK\$934.91 million (2009: approximately HK\$929.42 million).

## 27 SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme approved by way of written resolution on 11 April 2002 (the "Share Option Scheme") under which the Directors may invite any full-time employees, directors (including executive directors, non-executive directors and independent non-executive directors) and part-time employees of the Group with weekly working hours of 10 hours and above, any advisers (professional or otherwise) or consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers to the Group from time to time to take up options to subscribe for shares of the Company.

The exercise price is determined by the board of directors at its absolute discretion and notified to each option holder but which shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant. The options may be exercised in accordance with the terms of the share option scheme at any time during a period to be notified by the board of directors to each option holder but may not be exercised after the expiry of ten years from the date of grant.

The share options granted to the employees under the Share Option Scheme lapsed immediately upon their cessation of employment with the Group. To the best knowledge of the Provisional Liquidators, no person who also holds a share option is being employed by the Company or the Group nor there are any share options outstanding under the Share Option Scheme as at the financial years ended 31 March 2010 and 31 March 2009.

During the year ended 31 March 2010, no share option has been granted.

## 28 NON CASH TRANSACTIONS

Pursuant to the legal charge entered into between Hansom and Forefront with Chiu Wing both on 12 June 2008, Hansom and Forefront have taken possession over the charged assets owned by Chiu Wing, a deconsolidated subsidiary of the Company. Accordingly, the Company has made full settlement of the loan from Forefront and partial settlement of the loans from Hansom and CW Financing Limited, formerly known as Willie Financing Limited, from the proceeds of the realisation of the charged assets of Chiu Wing.

Details of the information in relation to the amount due to Chiu Wing are set out in note 25 to the financial statements.

## 29 LEASE COMMITMENTS

At 31 March 2010, the total future minimum lease payments under non-cancellable operating leases are repayable as follows:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>\$'000</i>	<i>\$'000</i>
Within 1 year	5,560	2,130
After 1 year but within 5 years	4,151	14,091
Total commitment	9,711	16,221

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated.

## 30 CONTINGENT LIABILITIES

The Provisional Liquidators are not aware of any significant contingent liabilities of the Group and the Company as at 31 March 2010 and 31 March 2009.

## 31 RELATED PARTY DISCLOSURES

Apart from the remuneration paid to the Directors (being the key management personnel) and the non-cash transactions as disclosed in note 11 and note 28 respectively, there were no other significant related party transactions entered into by the Group.

## 32 EVENTS AFTER THE REPORTING PERIOD

On 9 April 2010, the Company was informed by the Stock Exchange in a letter that trading in the Shares will be resumed subject to the satisfaction of the following conditions by 8 October 2010:

1. complete the open offer, subscription of convertible bonds and all other transactions in the Resumption Proposal;
2. publish a circular containing (i) detailed disclosure of the Resumption Proposal comparable to prospectus standard; (ii) profit forecast for each of the two years ending 31 March 2012 which should be prepared by the Directors after due and careful enquiry; and (iii) pro forma statement of financial position upon completion of the Resumption Proposal;
3. provide comfort letter from the auditor or the financial advisor relating to working capital sufficiency for the next 12 months from the latest practicable date before expected resumption date; and
4. undertake to (i) appoint an independent professional advisor to conduct follow-up reviews on the internal control procedures within 6 months from resumption date; and (ii) disclose the review results in subsequent financial reports.

The Stock Exchange may modify the resumption conditions if the Company's situation changes.

The Company, the Provisional Liquidators and the Investor are now taking appropriate steps to implement the transactions contemplated in the Resumption Proposal and fulfill the above conditions as set out by the Stock Exchange.

On 9 April 2010, the Company, the Provisional Liquidators, Forefront, Merrier, Hansom and the Investor entered into the supplemental deed to the Settlement Deed (the "Supplemental Deed") pursuant to which Forefront and Hansom agreed to extend the period of not exercising their respective share charge over the Ever Century Shares from 12 months to 24 months from the date of the Settlement Deed.

By an order of the High Court dated 13 April 2010, the hearing for the winding up of the Company was further adjourned to 14 July 2010.

On 28 April 2010, the Company settled the obligations under the Working Capital Facility and the Additional Funding.

On 26 May 2010, the Company, the Provisional Liquidators, the Investor and Ferrier Hodgson Limited entered into the Restructuring Agreement which provided for, inter alia, a proposed capital reorganisation, a proposed open offer, a proposed subscription of convertible bonds by the Investor, a proposed debt restructuring and Schemes.

On 28 May 2010, New Profit Holdings Limited, an indirect 90% owned subsidiary of the Company, was placed into creditors' voluntary liquidation pursuant to the Companies Ordinance.

### **33 DIVIDENDS**

The Board does not recommend the payment of dividend for the year ended 31 March 2010 (2009: Nil).

### **34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY**

According to the latest available information to the Provisional Liquidators, the immediate parent and ultimate controlling party of the Group was Efulfilment Enterprises Limited, which was incorporated in the BVI and beneficially owned by Mr. Kwok Chiu and Mr. Kwok Wing, former executive director and chairman of the Company, in the proportion of 50:50, as at 31 March 2010. This entity does not produce financial statements available for public use.

**Five Year Financial Summary***(Amounts expressed in Hong Kong Dollars)*

	<b>For the year ended 31 March</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	\$'000	\$'000	\$'000	\$'000	\$'000
			(restated)		
<b>Results</b>					
Turnover	<u>1,655,166</u>	<u>1,942,545</u>	<u>259,175</u>	<u>107,684</u>	<u>55,648</u>
Profit/(Loss) from operations	262,346	279,084	(2,636,286)	(23,794)	6,168
Finance costs	(63,189)	(65,839)	(17,527)	(13,521)	(63,135)
Share of profits less losses of associates	<u>(35,752)</u>	<u>114,084</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit/(Loss) before tax	163,405	327,329	(2,653,813)	(37,315)	(56,967)
Tax	<u>(30,779)</u>	<u>(12,690)</u>	<u>(3,946)</u>	<u>(49,815)</u>	<u>(1,954)</u>
Profit/(Loss) for the year	<u>132,626</u>	<u>314,639</u>	<u>(2,657,759)</u>	<u>(87,130)</u>	<u>(58,921)</u>
Attributable to:					
Owners of the Company	132,626	314,639	(2,660,962)	(97,162)	(59,239)
Non-controlling interests	<u>—</u>	<u>—</u>	<u>3,203</u>	<u>10,032</u>	<u>318</u>
	<u>132,626</u>	<u>314,639</u>	<u>(2,657,759)</u>	<u>(87,130)</u>	<u>(58,921)</u>
<b>As at 31 March</b>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	\$'000	\$'000	\$'000	\$'000	\$'000
			(restated)		
<b>Assets and liabilities</b>					
Total assets	1,901,912	2,593,989	66,077	66,187	52,424
Total liabilities	<u>(1,063,712)</u>	<u>(1,018,117)</u>	<u>(1,034,928)</u>	<u>(1,317,001)</u>	<u>(1,349,070)</u>
<b>NET ASSETS/(LIABILITIES)</b>	<u>838,200</u>	<u>1,575,872</u>	<u>(968,851)</u>	<u>(1,250,814)</u>	<u>(1,296,646)</u>

**1. INDEBTEDNESS**

As the close of business on 31 July 2010, being the latest practicable date for the purposes of this statement of indebtedness, the Group had in aggregate outstanding borrowings of approximately HK\$1,207.93 million, which comprised of secured loan of approximately HK\$161.92 million.

Save as aforesaid and apart from intra-group liabilities, none of the entities of the Group had any debt securities which are issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, mortgage, charges, guarantees or other material contingent liabilities as at the close of business on 31 July 2010.

**2. WORKING CAPITAL**

The Investor, the Provisional Liquidators, the Directors and the proposed Directors are of the opinion that, the net proceeds from the Open Offer and the subscription of the Investor Convertible Bonds, the Group will have sufficient working capital for the twelve months from the date of this circular and from the date of resumption of trading in the shares of the Company.

**3. MATERIAL CHANGE**

As at the Latest Practicable Date, the Provisional Liquidators confirmed that there is no material change (for the avoidance of doubt, whether adverse or not) in the financial or trading position or outlook of the Group since 31 March 2010, the date to which the latest published financial statements of the Company were made up.

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF  
THE GROUP AS AT 31 MARCH 2010****A. Introduction to the Unaudited Pro Forma Statement of Financial Position of the Group**

The following is the unaudited pro forma statement of financial position of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the proposed restructuring of the Group pursuant to the Restructuring Agreement, involving the Capital Reorganisation, the Open Offer, the Investor Subscription Agreement, the Creditors Subscription Agreement, the Schemes and the New Profit Agreement.

The unaudited pro forma statement of financial position of the Group is based on the audited consolidated statement of financial position of the Group as at 31 March 2010 as extracted from the latest published annual report of the Company for the year ended 31 March 2010 set out in Appendix III to this circular, as if the Closing had taken place on 31 March 2010.

The unaudited pro forma statement of financial position of the Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma statement of financial position of the Group, it may not give a true picture of the actual financial position of the Group that would have been attained had the Closing actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma statement of financial position of the Group does not purport to predict the Group's future financial position.

The unaudited pro forma statement of financial position of the Group should be read in conjunction with the financial information of the Group as set out in Appendix III, "Financial Information of the Group", and other financial information included elsewhere in this circular.

**APPENDIX V**
**UNAUDITED PRO FORMA STATEMENT OF  
FINANCIAL POSITION OF THE GROUP**
**B. Unaudited Pro Forma Statement of Financial Position of the Group**

	audited consolidated statement of financial position of the Group as at 31 March 2010	Pro forma adjustments								Unaudited pro forma consolidated statement of financial position of the Group
		(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	(Note 7)	(Note 8)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Non-current assets</b>										
Property, plant and equipment	3,282	-	-	-	-	-	-	-	-	3,282
	<u>3,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,282</u>
<b>Current assets</b>										
Inventories	7,830	-	-	-	-	-	-	-	-	7,830
Trade and other receivables	28,273	-	-	-	-	-	-	-	-	28,273
Escrow fund	352	-	-	9,600	-	-	-	-	-	9,952
Cash and cash equivalents	12,687	-	150,015	-	100,000	(26,000)	-	(50,000)	(979)	185,723
	<u>49,142</u>	<u>-</u>	<u>150,015</u>	<u>9,600</u>	<u>100,000</u>	<u>(26,000)</u>	<u>-</u>	<u>(50,000)</u>	<u>(979)</u>	<u>231,778</u>
<b>Current liabilities</b>										
Trade and other payables	(80,692)	-	-	-	-	-	-	31,631	48,934	(127)
Provision for bank loan guarantee for subsidiaries	(846,121)	-	-	-	-	-	-	846,121	-	-
Other borrowings	(52,390)	-	-	-	-	-	-	52,390	-	-
Convertible bonds	(121,557)	-	-	-	-	-	-	121,557	-	-
Loan from the Investor	(36,400)	-	-	(9,600)	-	26,000	20,000	-	-	-
Amount due to deconsolidated subsidiaries	(209,956)	-	-	-	-	-	(20,000)	227,200	(35,920)	(38,676)
Tax payable	(1,954)	-	-	-	-	-	-	-	-	(1,954)
Creditors Convertible Bonds	-	-	-	-	-	-	-	(19,382)	-	(19,382)
	<u>(1,349,070)</u>	<u>-</u>	<u>-</u>	<u>(9,600)</u>	<u>-</u>	<u>26,000</u>	<u>-</u>	<u>1,259,517</u>	<u>13,014</u>	<u>(60,139)</u>
<b>Net current (liabilities)/assets</b>	<u>(1,299,928)</u>	<u>-</u>	<u>150,015</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>1,209,517</u>	<u>12,035</u>	<u>171,639</u>
<b>Total assets less current liabilities</b>	<u>(1,296,646)</u>	<u>-</u>	<u>150,015</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>1,209,517</u>	<u>12,035</u>	<u>174,921</u>
<b>Non-current liabilities</b>										
Investor Convertible Bonds	-	-	-	-	(85,770)	-	-	-	-	(85,770)
Deferred Tax Liability - Investor Convertible Bonds	-	-	-	-	(2,348)	-	-	-	-	(2,348)
Deferred Tax Liability - Creditors Convertible Bonds	-	-	-	-	-	-	-	(102)	-	(102)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(102)</u>	<u>-</u>	<u>(102)</u>
<b>Net (liabilities)/assets</b>	<u>(1,296,646)</u>	<u>-</u>	<u>150,015</u>	<u>-</u>	<u>11,882</u>	<u>-</u>	<u>-</u>	<u>1,209,415</u>	<u>12,035</u>	<u>86,701</u>
<b>Shareholders' equity</b>										
Share capital	221,261	(219,088)	150,015	-	-	-	-	-	-	152,188
(Deficiency)/Reserves	(1,563,065)	219,088	-	-	11,882	-	-	1,209,415	10,832	(111,848)
	<u>(1,341,804)</u>	<u>-</u>	<u>150,015</u>	<u>-</u>	<u>11,882</u>	<u>-</u>	<u>-</u>	<u>1,209,415</u>	<u>10,832</u>	<u>40,340</u>
Equity attributable to equity shareholders	45,158	-	-	-	-	-	-	-	1,203	46,361
Non-controlling interests										
<b>Total (deficiency)/equity</b>	<u>(1,296,646)</u>	<u>-</u>	<u>150,015</u>	<u>-</u>	<u>11,882</u>	<u>-</u>	<u>-</u>	<u>1,209,415</u>	<u>12,035</u>	<u>86,701</u>

**C. Notes to the Unaudited Pro Forma Statement of Financial Position of the Group**

1. This adjustment reflects the financial effect of the Capital Reorganisation that approximately HK\$219 million unissued share capital will be cancelled and ten adjusted shares will be consolidated into one New Share and the par value of each share of the Company will be reduced from HK\$0.10 to HK\$0.01.
2. This adjustment reflects the financial effect of the issue of 15,001,474,104 Offer Shares with a par value of HK\$0.01 each, which will result in the increase in the issued share capital of approximately HK\$150 million.
3. This adjustment reflects the financial effect of the last installment fees and costs in the amount of HK\$9.6 million provided by the Investor to the Company for the implementation of the restructuring of the Group, amongst which HK\$4.8 million has been received in April 2010 and the remaining HK\$4.8 million will be received upon Closing.
4. This adjustment reflects the issuance of Investor Convertible Bonds of HK\$100 million with a conversion price of HK\$0.01 each Conversion Share, with a tenure of 3 years and is interest free. Pursuant to HKAS 32 and 39, approximately HK\$2.35 million, HK\$85.77 million and HK\$11.88 million of the Investor Convertible Bonds are recognised as deferred tax liability, liability and equity respectively.
5. This adjustment reflects a total of HK\$26 million, comprising the working capital loan of HK\$10 million, which was provided by the Investor to the Company under the Exclusivity and Escrow Agreement, and the fees and costs of HK\$16 million incurred by the Company in negotiation, documentation and implementation of the restructuring of the Group, which is to be offset from the proceeds from the issue of the Investor Convertible Bonds.
6. This adjustment reflects the repayment of the HK\$20 million revolving working capital facility provided to the Investor by Potter Industries Limited (“**Potter**”) on behalf of the Company. Potter, a deconsolidated subsidiary of the Group, is owned by a special purpose vehicle which is controlled by the Provisional Liquidators, for the furtherance of the restructuring. The Company thus incurs a liability of HK\$20 million to Potter, and will repay Potter under the Schemes as described in Note 7.
7. This adjustment reflects the financial effect of the settlement with the Creditors and the New Profit Stakeholders by the Cash Consideration of HK\$50 million and the issuance of Creditors Convertible Bonds with a principal amount of HK\$20 million.

Pursuant to HKAS 32 and 39, approximately HK\$19.38 million, HK\$102,000 and HK\$516,000 of the HK\$20 million Creditors Convertible Bonds are recognised as liability, deferred tax liability and equity respectively.

Pursuant to the Schemes, all the liabilities of the Company, including the amount of other payables of approximately HK\$31.63 million, the Group's bank loan guarantee of approximately HK\$846.12 million, the other borrowings HK\$52.39 million, the existing convertible bonds of approximately HK\$121.56 million, and the amount due to Potter of HK\$20 million, will be discharged under the Schemes.

Pursuant to the New Profit Agreement, the entire amount due to deconsolidated subsidiaries of approximately HK\$207.20 million will be eliminated and settled.

8. This adjustment reflects the deconsolidation effect of New Profit and its wholly-owned subsidiary, New Profit Luo Ding (together, the “**New Profit Group**”) and the acquisition of the assets, other than cash of New Profit Luo Ding by the Newco.

In May 2010, New Profit, a former indirect 90%-wholly owned subsidiary of the Company, was voluntarily wound up and the Group can no longer exercise control over the New Profit Group. For the continuation of the Group's operation, the Newco will acquire all the assets of, other than cash held by, New Profit Luo Ding at the carrying value. As at 31 March 2010, the New Profit Group had consolidated cash and cash equivalent amounted to approximately HK\$979,000, trade and other payables amounted to approximately HK\$48.93 million which will be deconsolidated from the Group's accounts. The carrying amount of the assets of New Profit Luo Ding to be acquired by the Newco was approximately HK\$38.68 million as at 31 March 2010. After setting off the amount due to deconsolidated subsidiaries of approximately HK\$2.76 million contributed to the Group by the New Profit Group, the Group hence will recognise an amount due to deconsolidated subsidiaries of approximately HK\$35.92 million.

The net effect of the deconsolidation of the New Profit Group and the assets transfer to the Newco will be a reduction of the Group's net liabilities by approximately HK\$12.04 million and a net gain attributable to equity holders for approximately HK\$10.83 million.

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF FINANCIAL  
POSITION TO THE DIRECTORS

HOPKINS CPA LIMITED  
3/F, Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

31 August 2010

*The Provisional Liquidators*

**Tack Fat Group International Limited (Provisional Liquidators Appointed)**

c/o FTI Consulting (Hong Kong) Limited  
14th Floor, The Hong Kong Club Building  
3A Chater Road, Central  
Hong Kong

Dear Sirs,

**TO THE PROVISIONAL LIQUIDATORS OF TACK FAT GROUP INTERNATIONAL LIMITED  
(PROVISIONAL LIQUIDATORS APPOINTED)**

We report on the unaudited pro forma financial information of Tack Fat Group International Limited (Provisional Liquidators Appointed) (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), which has been prepared by the Provisional Liquidators, the Directors and the proposed Directors for illustrative purposes only, to provide information about how the proposed restructuring of the Company involving, inter alia, capital reorganisation, open offer of new shares and issue of convertible bonds, might have affected the financial information presented, for inclusion in Appendix V of the circular of the Company dated 31 August 2010 (the “**Circular**”). The basis of preparation of the unaudited pro forma statement of financial position is set out on pages 156 to 157 of the Circular.

**RESPECTIVE RESPONSIBILITIES OF THE PROVISIONAL LIQUIDATORS, THE  
DIRECTORS AND THE PROPOSED DIRECTORS OF THE COMPANY AND REPORTING  
ACCOUNTANTS**

It is the responsibility solely of the Provisional Liquidators, the Directors and the proposed Directors of the Company to prepare the unaudited pro forma statement of financial position in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of financial position beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial position with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of financial position with the Provisional Liquidators, the Directors and the proposed Directors of the Company. This engagement did not involve independent examination of any of the underlying financial position.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of financial position has been properly compiled by the Provisional Liquidators, the Directors and the proposed Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of financial position as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of financial position is for illustration purpose only, based on the judgments and assumptions of the Provisional Liquidators, the Directors and the proposed Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 March 2010 or any future date.

**OPINION**

In our opinion:

- a) the unaudited pro forma statement of financial position has been properly compiled by the Provisional Liquidators, the Directors and the proposed Directors of the Company on the basis stated;

- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of financial position as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Hopkins CPA Limited***Certified Public Accountants***Albert Man-Sum Lam**

Practising Certificate Number – P02080

Hong Kong

**(A) PROFIT FORECAST**

Forecast consolidated profit attributable to equity holders of the Company for the year ending 31 March 2011 ( <i>Note 1</i> )	Not less than HK\$1,195.55 million
Unaudited pro forma forecast earnings per New Share for the year ending 31 March 2011 ( <i>Note 2</i> )	Not less than HK\$0.04
Forecast consolidated profit attributable to equity holders of the Company for the year ending 31 March 2012 ( <i>Note 3</i> )	Not less than HK\$10.09 million
Unaudited pro forma forecast earnings per New Share for the year ending 31 March 2012 ( <i>Note 2</i> )	Not less than HK\$0.0004

*Notes:*

- (1) The bases and assumptions on which the above consolidated profit forecast for the year ending 31 March 2011 have been prepared are summarised in the section below. Should the effects of the Schemes, the New Profit Agreement and the deconsolidation of New Profit Group not be taken into account, the forecast consolidated loss attributable to equity holders of the Company for the year ending 31 March 2011 will then be approximately HK\$15.43 million. Such forecast loss for the year ending 31 March 2011 is mainly due to limited working capital for the Group to expand its operations and business and to account for the effect due to the deferral in implementation of the expansion plan of self-operating stores and authorised retailers as the expected date of the Closing and resumption of the trading in the Shares will be in December 2010. The business and product planning cycle for the retail business also normally lasts several months. Months before the sales can be recorded, expenses occur in various business activities such as product design, sampling, procurement for manufacturing, engaging/disengaging shops and sales staff, etc. For the forecast year ending 31 March 2011, the Company will only have revitalized working capital for a period of 3 to 4 months. Therefore, the profit forecast ending 31 March 2011 does not reflect a full business and product planning cycle and hence the profit generating ability for the financial year 2011.
- (2) The calculation of unaudited pro forma forecast earnings per New Share for each of the two years ending 31 March 2012 is based on the forecast consolidated profit attributable to equity holders of the Company in the relevant year and on the basis that 27,222,734,784 New Shares to be issued upon the completion of the Capital Reorganisation, the issue of the Offer Shares and the full conversion of the Convertible Bonds. The calculation takes no account of any New Shares which may fall to be issued upon the exercise of the share option scheme of the Company or any New Shares which may be allotted and issued or repurchased by the Company pursuant to the Issue Mandate and Repurchase Mandate as described in the sections headed "Proposed General Mandate to Issue New Shares" and "Proposed General Mandate to Repurchase Shares in this circular.
- (3) The bases and assumptions on which the above consolidated profit forecast for the year ending 31 March 2012 have been prepared are summarised in the section below. During the year ending 31 March 2012, the Company is expected to be operating in normal conditions.

**(B) BASES AND ASSUMPTIONS**

1. The Directors (and proposed Directors) have prepared the forecast consolidated profit attributable to equity holders of the Company for each of the two years ending 31 March 2012 based on the audited consolidated accounts of the Group for the year ended 31 March 2010. The forecast has been prepared based on the accounting policies consistent in all material respects with those presently adopted by the Group as set out in the audited annual report of the Company for the year ended 31 March 2010. It is assumed that revenue of the same store sales of the self-operating stores will grow at 7% for the year ending 31 March 2011 and 10% for the year ending 31 March 2012. It is further assumed that all the authorised retailers will remain with the Group and the revenue contributed by the authorised retailers will have an annual growth rate of 10% during the forecast period.
2. There will be no material changes in the Group's operation.
3. There will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC or Hong Kong in which the Group currently operates or which are otherwise material to the Group's business.
4. There will be no changes in legislation, regulations or rules in the PRC, Hong Kong or any other countries or territories in which the Group operates or with which the Group has arrangements or agreements, which may materially adversely affect the Group's business or operations.
5. There will be no material changes in inflation rates, interest rates or foreign exchange rates from those currently prevailing in the context of the Group's operations. Conversion of RMB to HK\$ is based on the approximate exchange rate of RMB0.88 to HK\$1.00 throughout the forecast period.
6. There will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies in the countries or territories in which the Group operates.
7. There will be no other unforeseen circumstances, including but not limited to the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents, beyond the control of the Group which will have a material adverse effect on the results of operations of the Group.
8. Due to the deconsolidation of the New Profit Group and the assets transfer to the Newco, as disclosed in Note 8 to Part C in Appendix V "Unaudited Pro Forma Statement of Financial Position of the Group", a total amount of approximately HK\$10.83 million (net of minority interest) will be recorded in gain on restructuring for the year ending 31 March 2011.

9. Under the Schemes and the New Profit Agreement, the Group is expected to record an accounting gain of approximately HK\$1,209.42 million for the year ending 31 March 2011.
  
10. Given the series of events required for completion of the restructuring of the Company, the trading in the shares of the Company is expected to be resumed in or around December 2010 in this forecast.

## LETTERS

## (1) LETTER FROM THE REPORTING ACCOUNTANT ON THE PROFIT FORECAST

*The following is the text of a letter received from Hopkins CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



HOPKINS CPA LIMITED  
3/F, Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

31 August 2010

**Mr. Fok Hei Yu and Mr. Roderick John Sutton**  
**Joint and Several Provisional Liquidators**

Tack Fat Group International Limited (Provisional Liquidators Appointed)  
14/F, The Hong Kong Club Building  
3A Chater Road, Central,  
Hong Kong

Dear Sirs,

We have performed the procedures agreed with the joint and several provisional liquidators (without personal liabilities) of the Company (the “**Provisional Liquidators**”) and the directors (including the proposed directors) of the Company (the “**Directors**”) and stated below with respect to the consolidated profit forecast of Tack Fat Group International Limited (Provisional Liquidators Appointed) (the “**Company**”) and its subsidiaries (collectively the “**Group**”) for the two financial years ending 31 March 2012 (the “**Profit Forecast**”) which is in accordance with the specific requirement in the Resumption Conditions and is set out in the Appendix VII “Profit Forecast for the Two Years Ending 31 March 2012” in the circular of the Company dated 31 August 2010 (the “**Circular**”). The Profit Forecast, for which the Provisional Liquidators and the Directors are solely responsible, has been prepared by the Provisional Liquidators and the Directors based on the consolidated audited accounts for the year ended 31 March 2010 and a forecast of the consolidated results of the Group for the 24 months ending 31 March 2012.

Our engagement was undertaken in accordance with the Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” and adopting the same procedures under Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as follows:

- a) Checked whether Profit Forecast under review was based on forecasts regularly prepared for the purpose of management purposes, or whether it has been separately and specifically prepared for immediate purpose;
- b) Checked whether Profit Forecast was regularly prepared for management purposes, the degree of accuracy and reliability previously achieved, and the frequency and thoroughness with which estimates were revised;

- c) Checked whether the Profit Forecast represented the management's best estimate of results which they reasonably believed can and will be achieved as distinct from targets which the management had set as desirable;
- d) Checked the extent to which Profit Forecast results for expired periods are supported by reliable interim accounts;
- e) Reviewed the details of procedures followed to generate the Profit Forecast and the extent to which it was built up from detailed Profit Forecast of activity and cash flow;
- f) Reviewed the extent to which profits were derived from activities having a proven and consistent trend and those of a more irregular, volatile or unproven nature;
- g) Checked how the Profit Forecast took account of any material extraordinary items and prior year adjustments, their nature, and how they were presented;
- h) Checked whether adequate provision was made for foreseeable losses and contingencies and how the Profit Forecast took account of factors which may cause it to be subject to a high degree of risk, or which may invalidate the assumptions;
- i) Checked whether working capital appears adequate for requirements; normally this would require the availability of properly prepared cash-flow forecasts; and where short-term or long-term finance is to be relied on, whether the necessary arrangements have been made and confirmed;
- j) Checked whether the forecasts have been prepared and presented on acceptable bases consistent with the accounting principles and practices adopted by the Company in previous years, and if not, whether the fact and effects of any material change of basis were made clear; and
- k) Checked the arithmetical accuracy of the Profit Forecast and the supporting information and whether forecast balance sheets and statements of changes in financial position have been prepared – these help to highlight arithmetical inaccuracies and inconsistent assumptions.

Based on information and documents made available to us and so far as the calculations and accounting policies are concerned, in our opinion, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Provisional Liquidators and the Directors as set forth in part (B) of Appendix VII to the Circular, and is prepared on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in Note 4 of section 5 "Audited Financial Information for the year ended 31 March 2010" in Appendix III – Financial Information of the Group to the Circular.

Yours faithfully,

**Hopkins CPA Limited**

*Certified Public Accountants*

**Albert Man-Sum Lam**

Practising Certificate Number – P02080

Hong Kong

**(2) LETTER FROM THE FINANCIAL ADVISOR**

*The following is the text of a letter, prepared for inclusion in this circular, received by the Provisional Liquidators/Board from Asian Capital (Corporate Finance) Limited in connection with the consolidated profit forecast of the Company and its subsidiaries for the two years ending 31 March 2012.*

31 August 2010

*The Provisional Liquidators/Board*

**Tack Fat Group International Limited (Provisional Liquidators Appointed)**

14/F, The Hong Kong Club Building

3A Chater Road, Central,

Hong Kong

Dear Sirs,

We refer to the consolidated profit forecast of Tack Fat Group International Limited (Provisional Liquidators Appointed) (the “**Company**”) and its subsidiaries (collectively as the “**Group**”) for the two financial years ending 31 March 2012 (the “**Profit Forecast**”) as set out in the Appendix VII “Profit Forecast For the Two Years Ending 31 March 2012” in the circular of the Company dated 31 August 2010 (the “**Circular**”).

The Profit Forecast, for which the provisional liquidators (without personal liabilities) of the Company (the “**Provisional Liquidators**”), and the directors (including the proposed directors) of the Company (the “**Directors**”) are solely responsible, has been prepared based on the consolidated audited accounts for the year ended 31 March 2010 and a forecast of the consolidated results of the Group for the 24 months ending 31 March 2012.

We have discussed with you the bases and assumptions, as set forth in part (B) of Appendix VII to the Circular, upon which the Profit Forecast has been made. We have also considered the letter dated 31 August 2010 addressed to yourselves from Hopkins CPA Limited regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by Hopkins CPA Limited, we are of the opinion that the Profit Forecast, for which the Provisional Liquidators and the Directors are solely responsible, has been made after due care and consideration.

Yours faithfully,

For and on behalf of

**Asian Capital (Corporate Finance) Limited**

**Larry Chan**

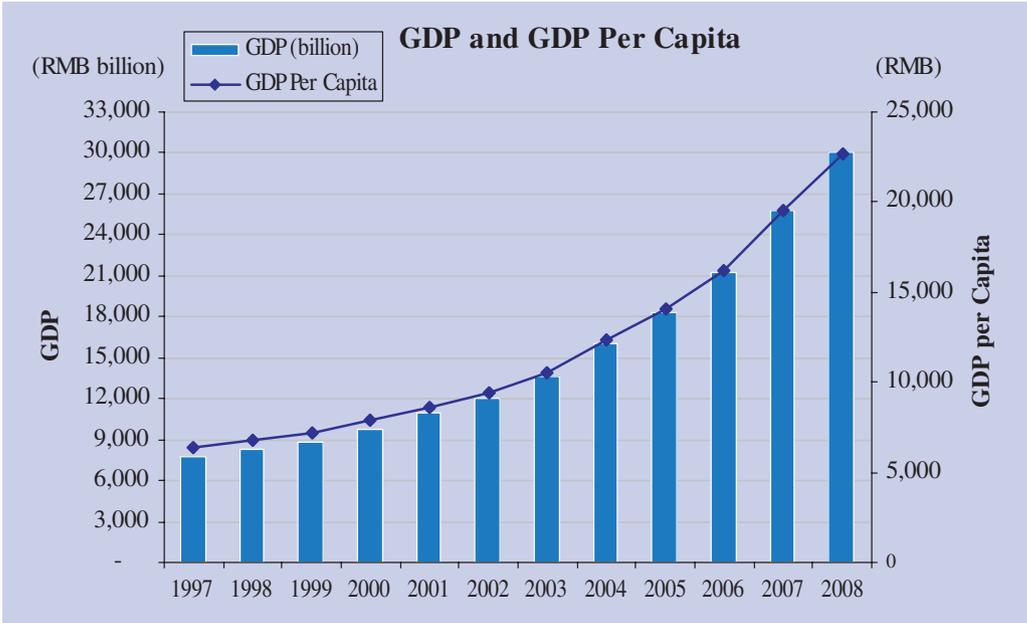
*Executive Director*

INDUSTRY OVERVIEW

The Group is principally engaged in apparel retailing business in the PRC. The performance of the PRC apparel retailing industry is primarily driven by the growth of the PRC economy, and among others, the increase in living expenditures and disposable income in the PRC population, as well as market acceptance of the designs of the apparels. In particular, the Group offers a diversified range of casual wear products. The rapid economic growth, urbanisation and increase of living expenditures, disposable income and changing consumption pattern can be compelling fundamental stimulates for the growth of the apparel industry.

The Domestic Economy

The overall PRC economy has shown a sustained growth over the past two decades. The PRC reported a gross domestic product (GDP) of RMB30,067 billion in 2008, representing a compound annual growth rage (CAGR) of 14.6% for the ten years spanning from 1999 to 2008, with figures obtained from the National Bureau of Statistics. The following diagram shows the GDP and the GDP per capita in the PRC from 1997 to 2008:



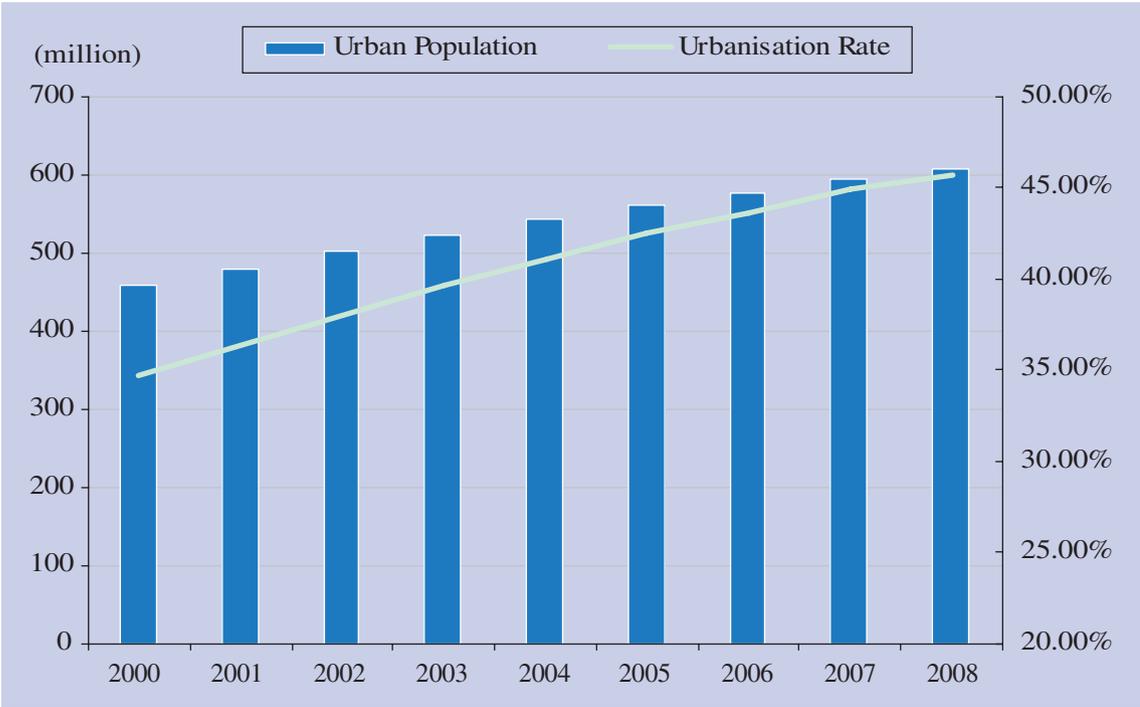
Source: China Statistical Yearbook

According to the statistics provided by the National Bureau of Statistics, with just over 1.3 billion people, the PRC is the most populated country in the world. This also laid a foundation for the PRC’s large consumer market, and there has been an accompanying increase in consumer purchasing power.

**Accelerating Urbanisation Trend**

Urbanisation has accelerated in the PRC as a result of the country’s rapid economic growth. Populations in large urban cities have increased with the influx of people from rural areas and less developed towns. During the period between 2000 and 2008, the total urban population in the PRC increased by approximately 147.9 million or approximately 29.4%. In 2008, the total urban population was approximately 607 million and accounted for around 45.7% of the total population. The following chart sets forth the urban population and urbanisation rate in the PRC for 2000 to 2008.

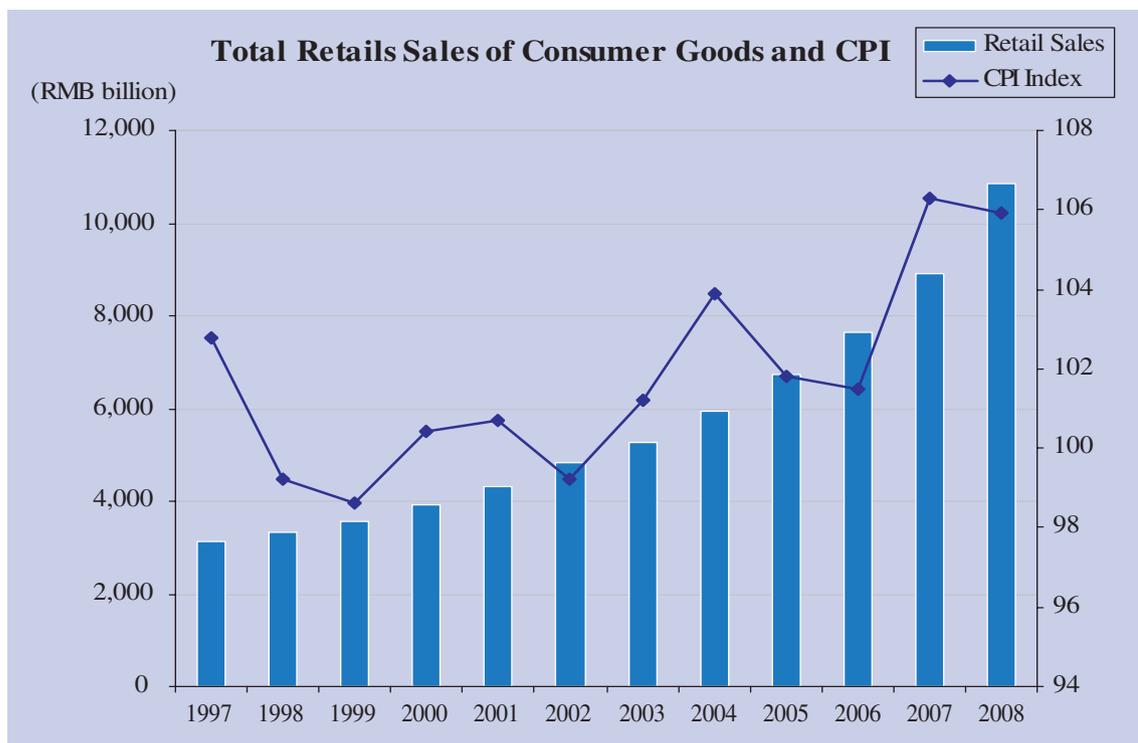
**Urban Population and Urbanisation Rate in the PRC**



Source: China Statistical Yearbook

### The Domestic Consumption and Inflation

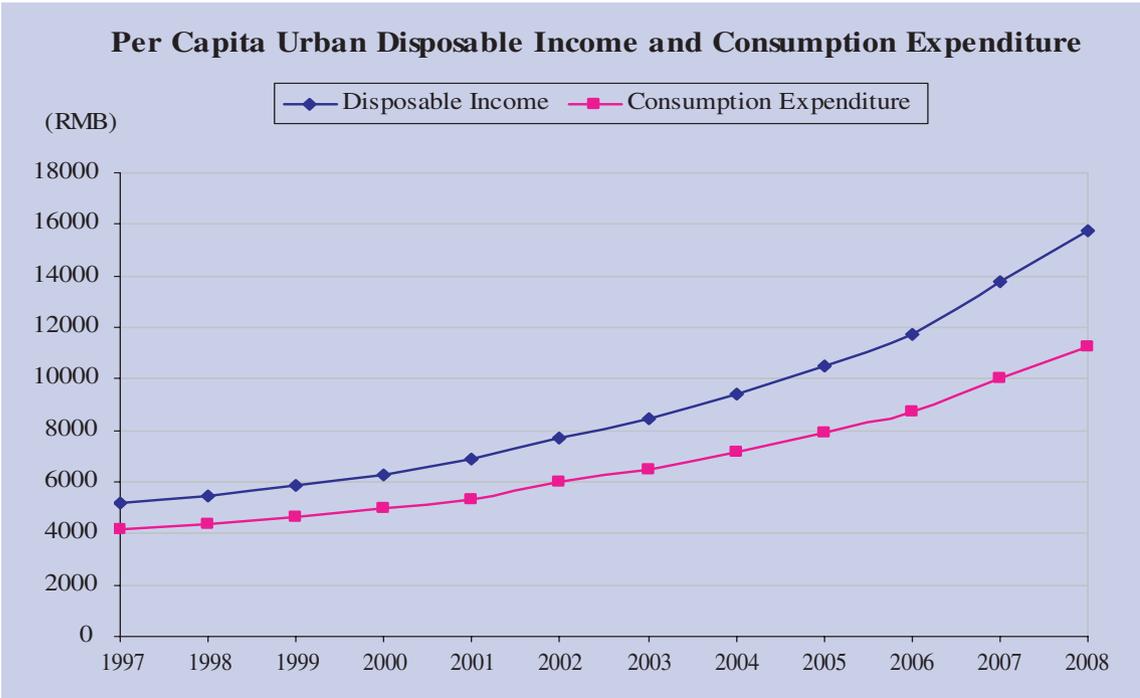
In 2008, the domestic economy delivered record high overall retail sales. According to the National Bureau of Statistics, the total retail sales of consumer goods reached RMB10,848 billion in 2008. This figure represents a year-on-year growth of 21.6% and is the highest growth between 1997 and 2008. The following diagram illustrates the total retail sales of consumer goods and the consumer price index (CPI) in the PRC from 1997 to 2008:



Source: China Statistical Yearbook

**Living Expenditures and Disposable Income**

According to the National Bureau of Statistics, the per capita annual disposal income of urban households in the PRC reached RMB15,781 in 2008, representing a CAGR of 11.65% for the ten years spanning from 1999 to 2008. The per capita annual consumption expenditures of urban households in the PRC has increased from RMB4,616 in 1999 to RMB11,243 in 2008, representing a CAGR of 9.31%. Over the period between 1999 and 2008, the difference between per capital urban annual disposable income and consumption expenditures of urban households was enlarging. The increased earnings mostly flowed to savings accounts or were reinvested. The chart below illustrates the growth trend of (i) per capita annual disposable income of urban households; and (ii) per capita annual consumption expenditures of urban households in the PRC from 1997 to 2008:

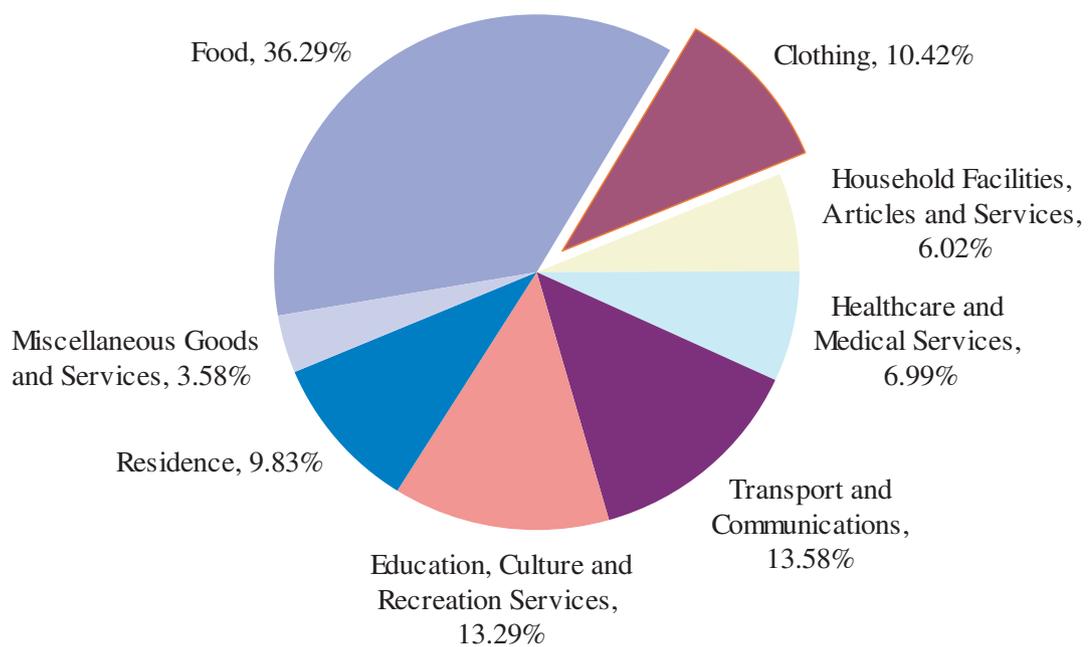


Source: China Statistical Yearbook

### The Consumption Pattern

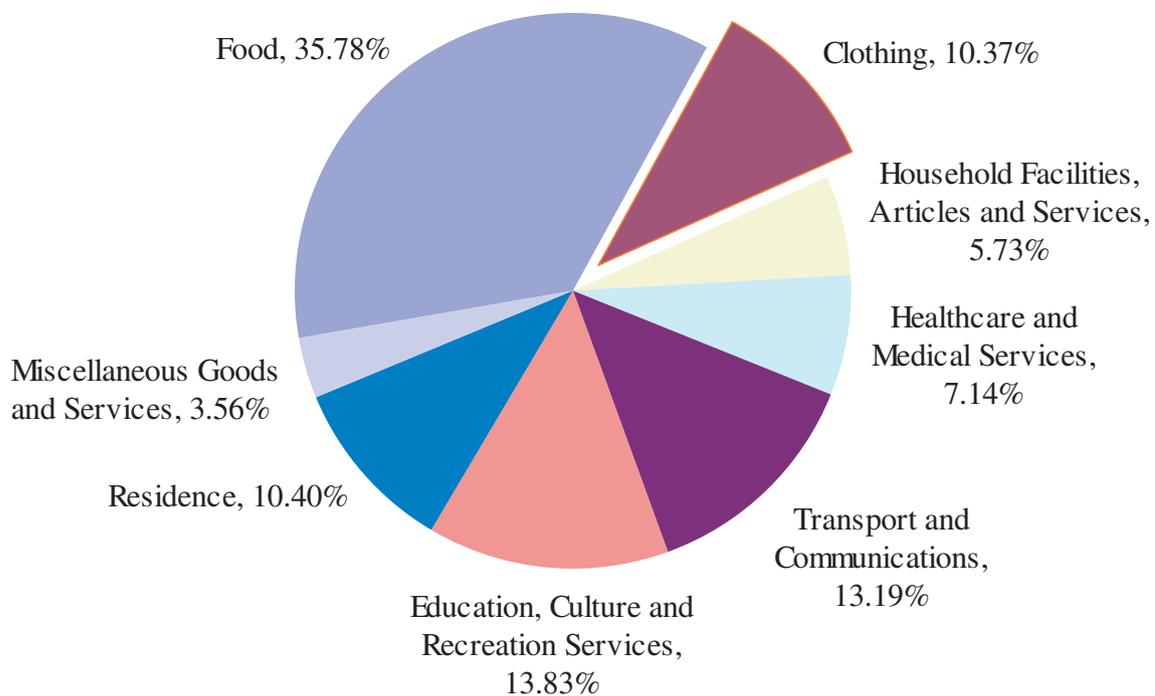
The following two pie charts compare the expenditure breakdown of per capita annual living expenditure of urban households in 2007 and 2006 respectively. Being one of the basic necessities, urban citizen spent more disposable income on clothing in 2007, which accounted for 10.42% of total annual living expenditures, an approximately 0.05 percentage point rise yearly.

#### Per Capita Annual Living Expenditure of Urban Households (2007)



Source: China Statistical Yearbook

### Per Capita Annual Living Expenditure of Urban Households (2006)



Source: China Statistical Yearbook

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information to the Shareholders with regard to the Group, among other things, the Open Offer, the Convertible Bonds and the Whitewash Waiver and the Special Deal.

All the Directors and the Provisional Liquidators jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

The sole director of the Investor, Mr. Chuang, accepts full responsibility for the accuracy of the information contained in this circular and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## 2. SHARE CAPITAL

The authorised issued share capital of the Company as at the Latest Practicable Date and immediately following (i) the Capital Reorganisation becoming effective; (ii) completion of the Open Offer; (iii) fully exercise of the Investor Convertible Bonds; and (iv) fully exercise of the Creditors Convertible Bonds.

*Authorised share capital:*

		<i>HK\$</i>
4,000,000,000	Shares as at the Latest Practicable Date	400,000,000.00
<u><u>4,000,000,000</u></u>		<u><u>400,000,000.00</u></u>

*Issued and fully paid or credited as fully paid:*

2,212,606,800	Shares in issue as at the Latest Practicable Date	212,260,680.00
221,260,680	New Shares in issue immediately after the Capital Reorganisation becoming effective	2,212,606.80
15,001,474,104	Offer Shares to be allotted and issued under the Open Offer	150,014,741.04
10,000,000,000	Conversion Shares to be issued upon exercise in full the conversion rights under the Investor Convertible Bonds	100,000,000.00
2,000,000,000	Conversion Shares to be issued upon exercise in full the conversion rights under the Creditors Convertible Bonds	20,000,000.00
<hr/>		<hr/>
<u>27,222,734,784</u>		<u>272,227,347.84</u>

All of the Shares, New Shares, Offer Shares, Conversion Shares in issue will rank *pari passu* in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other shares of the Company in issue on the date of issue.

As at the Latest Practicable Date, no share, option, warrant, conversion right or any equity or debt securities of the Company is outstanding or is proposed to be issued (save for any option may be issued pursuant to the share option scheme of the Company) for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the Open Offer and the Convertible Bonds.

The Company has not issued any new Shares since 31 March 2010, the end of last financial year.

The Shares are listed on the Main Board of the Stock Exchange. No part of the equity or debt securities of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

### 3. DISCLOSURE OF INTERESTS

#### (a) Interests of Directors

As at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under Section 352 of the SFO.

#### (b) Interests of Shareholders

As at the Latest Practicable Date, so far as is known to the Provisional Liquidators and the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

#### *Interest in the Shares and underlying Shares:*

##### *Long positions in the Shares*

<b>Name of substantial Shareholders</b>	<b>Capacity/Nature</b>	<b>No. of Shares held</b>	<b>Approximate percentage shareholding</b>
Fidelitycorp Limited	Interest in a controlled corporation	10,000,000,000	451.96%
Moon Light Investments Group Limited	Interest in a controlled corporation	10,000,000,000	451.96%
Radford Developments Limited	Beneficial owner	10,000,000,000	451.96%
Kwok Wing (Note 1)	Interest in a controlled corporation	762,424,000	34.46%
Wan Lai Ngan (Note 2)	Interest of spouse	762,424,000	34.46%

<b>Name of substantial Shareholders</b>	<b>Capacity/Nature</b>	<b>No. of Shares held</b>	<b>Approximate percentage shareholding</b>
Efulfilment Enterprises Limited ( <i>Note 3</i> )	Beneficial owner	652,800,000	29.50%
Kwok Chiu ( <i>Note 3</i> )	Interest in a controlled corporation	652,800,000	29.50%
Sansar Capital Management, LLC ( <i>Note 4</i> )	Investment Manager	434,636,000	19.64%
Citigroup Inc.	Interest in a controlled corporation	310,305,000	14.02%
	Custodian corporation/approved lending agent	5,276,500	0.24%
	Lending pool	5,276,500	0.24%
Sansar Capital Master Fund, LP ( <i>Note 4</i> )	Beneficial owner	262,275,900	11.85%
Jayhawk China Fund (Cayman) Limited ( <i>Note 5</i> )	Investment Manager	195,700,400	8.84%
Sansar Capital Special Opportunity Master Fund, LP ( <i>Note 4</i> )	Beneficial owner	152,396,400	6.89%

*Notes:*

1. 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.
2. Ms. Wan Lai Ngan is the spouse of Mr. Kwok Wing (the former chairman and executive director of the Company who retired on 6 October 2009) and is therefore deemed to be interested in the Shares held or deemed to be held by Mr. Kwok Wing under the SFO.

3. The issued share capital of Efulfilment is beneficially owned as to 50% by Mr. Kwok Chiu and 50% by Mr. Kwok Wing, the former chairman and executive Director. Mr. Kwok Chiu is therefore deemed to be interested in the Shares held by Efulfilment Enterprises Limited under the SFO.
4. These interests include the Shares held by Sansar Capital Master Fund, LP and Sansar Capital Special Opportunity Master Fund, LP.
5. 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 was owned 100% by McCarthy Kent C. According to information available to the Provisional Liquidators, Mr. McCarthy Kent C had ceased to be interested in at least 5% issued share capital of the Company since 17 November 2008.

#### 4. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last trading day on which dealings took place in each of the calendar months during the period commencing six months immediately preceding the date of the 1st Announcement and ending on the Latest Practicable Date; (ii) the Last Trading Date; and (iii) the Latest Practicable Date.

Date	Closing price of Shares (HK\$)
30 July 2008 (Last Trading Date)	0.40
31 August 2009	suspended
30 September 2009	suspended
30 October 2009	suspended
30 November 2009	suspended
31 December 2009	suspended
29 January 2010	suspended
26 February 2010	suspended
31 March 2010	suspended
30 April 2010	suspended
31 May 2010	suspended
30 June 2010	suspended
30 July 2010	suspended
Latest Practicable Date	suspended

Trading in the Shares has been suspended during this period and that the last closing price before the Suspension was HK\$0.40 on 30 July 2008.

**5. ADDITIONAL DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group;
- (b) none of the Directors was given any benefit as compensation for loss of office or otherwise in connection with the Open Offer, the Investor Subscription Agreement and/or the Whitewash Waiver;
- (c) none of the Directors has entered into any agreement or arrangement with any other persons which is conditional on or dependent upon the outcome of the Open Offer, the Investor Subscription Agreement and/or the Whitewash Waiver or otherwise with the Open Offer, the Investor Subscription Agreement and/or the Whitewash Waiver;
- (d) none of the Directors was materially interested in any contract or arrangement subsisting at the date of the circular which was significant to the business of the Group; and
- (e) no material contract was entered into by the Investor, its beneficial owner and/or parties acting in concert with any of them in which any Director has a material personal interest.

**6. SHAREHOLDINGS AND DEALINGS**

As at the Latest Practicable Date:

- (a) the Company and the Directors had no shareholdings in the Investor;
- (b) no Shares, convertible securities, warrants, options and derivatives in the Company were owned, controlled, borrowed or lent by the Directors. Therefore none of the Director had voting right in the Company;
- (c) no Shares, convertible securities, warrants, options and derivatives in the Company were owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by the Asian Capital or Access Capital or by any advisor to the Company as specified in class (2) of the definition of associate under the Takeovers Code;
- (d) no Shares, convertible securities, warrants, options and derivatives in the Company were owned or controlled by a person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate and neither the Company nor such person who is an associate of the Company have entered into such an arrangement; and

- (e) As at the Latest Practicable Date, no Shares, convertible securities, warrants, options or derivatives of the Company and the Investor were managed on a discretionary basis by fund managers connected with the Company.

During the period beginning six months prior to 7 June 2010, being the date of the 1st Announcement and up to the Latest Practicable Date:

- (a) none of the Company or the Directors had dealt for value in shares, convertible securities, warrants, options and derivatives of the Investor or the Company;
- (b) none of (i) the sole director of the Investor; (ii) the Investor; (ii) the beneficial owner of the Investor or parties acting in concert with any of them had dealt for value in the shares, convertible securities, warrants, options and derivatives of the Company; and
- (c) none of the Company, the Directors, the Investor and its beneficial owner and parties acting in concert with any of them has borrowed or lent any of the Shares.

## 7. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course) within the two years immediately preceding the date of the 1st Announcement and up to the Latest Practicable Date and are or may be material:

- (i) the Exclusivity and Escrow Agreement;
- (ii) the Settlement Deed;
- (iii) the sale and purchase agreement dated 29 May 2009 entered into among the Provisional Liquidators, Ever Century and Key Winner pursuant to which Key Winner agreed to acquire and the Provisional Liquidators (on behalf of the Company) agreed to sell Ever Century's entire interest in Lantern Services Limited, Potter Industries Limited and Sino Profit Limited at a nominal consideration of HK\$1;
- (iv) the side letter dated 8 July 2009 entered into by the Provisional Liquidators and the Investor pursuant to which the exclusivity period was extended by a 6-month period to 12 January 2010;
- (v) the side letter dated 8 January 2010 entered into by the Provisional Liquidators and the Investor pursuant to which the Investor agreed to extend the exclusivity period by a further 6-month period to 11 July 2010;
- (vi) the supplemental deed to the Settlement Deed dated 9 April 2010 pursuant to which Forefront and Hansom agreed to extend the period of not exercising their respective share charge over the Ever Century Shares from 12 months to 24 months from the date of the Settlement Deed;

- (vii) the Restructuring Agreement;
- (viii) the Investor Subscription Agreement;
- (ix) the Underwriting Agreement;
- (x) the Creditors Subscription Agreement;
- (xi) the New Profit Agreement; and
- (xii) the Supplemental Restructuring Side Letter.

## 8. CORPORATE INFORMATION

### **The Company**

#### ***Registered office***

Century Yard  
Cricket Square, Hutchins Drive  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

#### ***Head office and principal place of business***

c/o FTI Consulting (Hong Kong) Limited  
(formerly known as FS Asia Advisory Limited  
and Ferrier Hodgson Limited)  
14th Floor, The Hong Kong Club Building  
3A Chater Road, Central, Hong Kong

### **The Investor and principal members acting in acting with the Investor**

#### ***The Investor***

Registered office  
Radford Developments Limited  
Sea Medal House  
Blackburne Highway  
PO Box 116, Road Town, Tortola  
British Virgin Islands

Principal correspondence address  
c/o Room 1225, 12th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

***Moon Light Investments Group Limited***

Registered office  
TrustNet Chambers,  
P.O. Box 3444, Road Town, Tortola  
British Virgin Islands

Principal correspondence address  
c/o Room 1225, 12th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

***Moon Light Trust***

Registered office  
Portcullis TrustNet (Cook Islands) Limited,  
BCi House  
Avarua, Rarolonga  
Cook Islands

Principal correspondence address  
c/o Room 1225, 12th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

**Other parties*****Financial advisor and the  
Underwriter***

Asian Capital (Corporate Finance) Limited  
Suite 1006, Bank of America Tower  
12 Harcourt Road, Central, Hong Kong

***Independent financial advisor***

Access Capital Limited  
Suite 606, 6/F., Bank of America Tower  
12 Harcourt Road, Central, Hong Kong

***Auditor***

Hopkins CPA Limited  
3/F, Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

***Legal advisor as to  
Hong Kong laws  
(in relation to the Open Offer)***

Sidley Austin  
Level 39 Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

*Legal advisor as to Cayman  
Islands laws*

Walkers  
15th Floor, Alexandra House  
18 Chater Road, Central, Hong Kong

*Branch share registrar*

Tricor Tengis Limited  
26th Floor Tesbury Centre  
28 Queen's Road East  
Hong Kong

## 9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors (including the proposed Directors), had any existing or proposed service contract with the Company or any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation other than statutory compensation.

None of the Directors (including the proposed Directors) has a service contract with the Company or any of its subsidiaries or associated companies, which:

- (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the 1st Announcement;
- (ii) are continuous contracts with a notice period of 12 months or more; or
- (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 10. LITIGATION

Pursuant to an order of the Hong Kong Court dated 11 September 2008, Mr. Fok Hei Yu and Mr. Roderick John Sutton were appointed as Provisional Liquidators, following a winding-up petition presented by the Company itself with Bank of America N.A being the supporting Creditor.

Upon the appointment of Provisional Liquidators, no action or proceeding shall be proceeded with or commenced against the Company except by leave of the Hong Kong Court, and subject to such terms as the Hong Kong Court may impose. Claims and potential claims against the Company will be compromised under the Schemes to be implemented by the Company and sanctioned by the Hong Kong Court and the Cayman Islands Court.

Save as disclosed above, the Provisional Liquidators, also acting as directors of certain subsidiaries, are not aware of any existing or potential legal proceedings against the members of the Group as at the Latest Practicable Date.

**11. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or proposed Directors and his respective associates was considered to have an interest in a business which competes or is likely to complete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his associates were appointed to represent the interests of the Company and/or the Group.

**12. PARTICULARS OF DIRECTORS AND PROPOSED DIRECTORS****(a) Name and address of Directors***Non-executive Directors:*

Mr. James D. McMullen	14308 Beverly Overland Park KS66223 United states
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*Independent non-executive Directors:*

Mr. Pau Chin Hung, Andy	Room 1015, Shek Jing House Chun Shek Estate, Shatin New Territories, Hong Kong
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Mr. Choong Khuat Leok	Suite 4304 43/F China Resources Building 26 Harbour Road Wanchai, Hong Kong
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Mr. Kooi Tock Chian	4A, Block 6, Beacon Heights Kowloon, Hong Kong
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**(b) Name and address of proposed Directors***Proposed executive Directors:*

Mr. King, Phillip	32nd Floor, China United Centre 28 Marble Rod North Point, Hong Kong
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Mr. Ho Tak Fun, Josef	22nd Floor, China United Centre 28 Marble Rod North Point, Hong Kong
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Mr. Chiu Siu Po	2nd Floor, 15 Wang Chiu Road Kowloon Bay, Hong Kong
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**13. EXPERTS AND CONSENTS**

The following is the qualification of the experts who have given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Hopkins CPA Limited	Certified Public Accountants
Access Capital	a licensed corporation to carry out Types 1 (dealing in Securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
Asian Capital	a licensed corporation to carry out Types 1 (dealing in Securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO

Each of Hopkins CPA Limited, Access Capital and Asian Capital has given and has not withdrawn its consent to the issue of this circular with the inclusion of its report or letter, as the case may be, and reference to its names in the form and context in which it respectively appears.

As at the Latest Practicable Date, each of Hopkins CPA Limited and Access Capital was not beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which had been since 31 March 2010 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group. As at the Latest Practicable Date, Asian Capital was not beneficially interested in the share capital of any member of the Group. Save as the Underwriting Agreement and the Sub-underwriting Letter, pursuant to which Asian Capital has procured the Investor as the sub-underwriter to fully subscribe for the Untaken Shares with a maximum amount to approximately HK\$150 million under the Sub-underwriting Letter, Asian Capital did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which had been since 31 March 2010 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. at the principal office of business in Hong Kong of the Company at FTI Consulting (Hong Kong) Limited, 14/F, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong from the date of this circular up to and including the date of the EGM in accordance with Note 1 to Rule 8 of the Takeovers Code and will be displayed on the websites of the SFC ([www.sfc.hk](http://www.sfc.hk)) and on the Company's website ([www.tackfatgroup.com](http://www.tackfatgroup.com)):

- (i) Memorandum and the Articles of Association;
- (ii) Memorandum and the articles of association of the Investor;
- (iii) the annual reports of the Company for the three financial years ended 31 March 2008, 31 March 2009 and 31 March 2010;
- (iv) the report from Hopkins CPA Limited on unaudited pro forma financial information of the Group dated 31 August 2010, the text of which is set out in Appendix VI to this circular;
- (v) the letters in relation to the profit forecast for the two years ending 31 March 2012 issued by Hopkins CPA Limited and Asian Capital both on 31 August 2010, the texts of which are set out in Appendix VIII to this circular;
- (vi) the "Letter from Access Capital" as set out in this circular;
- (vii) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and
- (viii) all material contracts referred to in the paragraph headed "Material Contracts" in this appendix.

**15. GENERAL**

- (i) As at the date of this circular, the Company had no company secretary.
- (ii) The English version of this circular shall prevail over the Chinese text.

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## NOTICE OF EGM

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**TACK FAT GROUP INTERNATIONAL LIMITED**  
**(Provisional Liquidators Appointed)**  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 00928)

### NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Tack Fat Group International Limited (Provisional Liquidators Appointed) (the “**Company**”) will be held at Plaza 1-2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 15 September 2010, at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

#### ORDINARY RESOLUTIONS

##### IMPLEMENTATION OF THE COMPANY’S RESTRUCTURING PROPOSAL

1. “**THAT**, conditional upon (i) the proposed scheme of arrangement to be effected under section 166 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong being sanctioned by the High Court of Hong Kong Special Administrative Region; (ii) the proposed scheme of arrangement to be effected under section 86 of the Cayman Companies Law being sanctioned by the Grand Court of the Cayman Islands; and (iii) passing of the resolutions numbered 2 to 5 set out in this notice of EGM (the “**Notice**”),
  - (a) the entry by the Company into the restructuring agreement dated 26 May 2010 (as amended by a supplemental letter agreement dated 24 August 2010) entered into between, among others, the Company and its joint and several provisional liquidators (the “**Provisional Liquidators**”) in respect of the restructuring of the Company (the “**Restructuring Agreement**”, a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for identification purposes) and the transactions contemplated thereunder and the performance thereof by the Company, be and are hereby confirmed, ratified and approved; and
  - (b) the Provisional Liquidators and the directors of the Company (the “**Directors**”) be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing any of the foregoing.”

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## NOTICE OF EGM

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2. **“THAT**, conditional upon (i) the capital reduction, the capital cancellation, the share consolidation and the authorised share capital increase referred to in the resolution numbered 1 of the notice of the extraordinary general meeting dated 7 August 2010 (the **“Capital Reorganisation Resolution”**) becoming effective; (ii) passing of the resolutions numbered 1, 3 and 4 set out in this Notice; (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the **“Stock Exchange”**) granting its approval to the listing of, and permission to deal in the Investor Convertible Bonds Conversion Shares (as defined below); and (iv) the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (the **“Executive”**), or any delegate of the Executive to the Investor:
- (a) the entry by the Company into the subscription agreement dated 24 June 2010 entered into by Radford Developments Limited (the **“Investor”**), the Company and the Provisional Liquidators (the **“Investor Subscription Agreement”** a copy of which has been produced to the EGM marked “B” and signed by the chairman of the EGM for identification purposes) setting out the terms and conditions of the convertible bonds to be issued by the Company with principal amount of HK\$100,000,000 and a tenure of three years bearing no interest and convertible into New Shares at the option of the holders at a conversion price of HK\$0.01 per share of the Company (the **“Share”**) (the **“Investor Convertible Bonds”**) (the material terms of which are detailed in the circular of the Company dated 31 August 2010 (the **“Circular”**)), the transactions contemplated thereunder and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;
  - (b) the allotment and issue of 10,000,000,000 Shares (the **“Investor Convertible Bonds Conversion Shares”**) representing an aggregate nominal value of HK\$100,000,000 to the Investor, pursuant to the terms of the Investor Subscription Agreement be and is hereby approved;
  - (c) the Investor Convertible Bonds Conversion Shares shall rank *pari passu* with each other in all respects and with the issued Shares in the capital of the Company on the date of their issue and allotment;
  - (d) the Provisional Liquidators and the Directors be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to the terms of the Investor Subscription Agreement, including without limiting the foregoing, to complete the transactions contemplated under the Investor Subscription Agreement.”

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## NOTICE OF EGM

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3. **“THAT**, conditional upon (i) the Capital Reorganisation Resolution becoming effective; (ii) passing of the resolutions numbered 1 and 4 set out in this Notice; and (iii) the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in the Creditors Convertible Bonds Conversion Shares (as defined below):
- (a) the entry by the Company into the subscription agreement dated 6 July 2010 entered into by New Profit Holdings Limited (**“New Profit”**), Key Winner Holdings Limited (**“Key Winner”**), the Company and the Provisional Liquidators (the **“Creditors Subscription Agreement”**, a copy of which has been produced to the EGM marked “C” and signed by the chairman of the EGM for identification purposes) setting out the terms and conditions of the convertible bonds to be issued by the Company with principal amount of HK\$20,000,000 and a tenure of one year bearing an interest rate of 2% per annum and convertible into Shares at the option of the holders at a conversion price of HK\$0.01 per Share (the **“Creditors Convertible Bonds”**) (the material terms of which are detailed in the Circular), the transactions contemplated thereunder and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;
  - (b) the allotment and issue of 2,000,000,000 Shares (the **“Creditors Convertible Bonds Conversion Shares”**) representing an aggregate nominal value of HK\$20,000,000, to be allocated as to five sevenths pro rata to Key Winner for the benefit of a person to whom or which the Company owes a Claim (as defined in the Creditors Subscription Agreement) other than the Preferential Creditors (as defined in the Creditors Subscription Agreement) and as to two sevenths to New Profit for the benefit of the New Profit Stakeholders (as defined in the Creditors Subscription Agreement), pursuant to the terms of the Creditors Subscription Agreement be and is hereby approved;
  - (c) the Creditors Convertible Bonds Conversion Shares shall rank *pari passu* with each other in all respects and with the issued New Shares in the capital of the Company on the date of their issue and allotment;
  - (d) the Provisional Liquidators and the Directors be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to the terms of the Creditors Subscription Agreement, including without limiting the foregoing, to complete the transactions contemplated under the Creditors Subscription Agreement.”

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## NOTICE OF EGM

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### OPEN OFFER

4. “**THAT**, conditional upon (i) the Capital Reorganisation Resolution becoming effective; (ii) passing of the resolutions numbered 1, 2 and 3 set out in this Notice; (iii) the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in the Offer Shares (as defined below); (iv) the Restructuring Agreement becoming unconditional in all respects (save as the condition requiring the Open Offer (as defined below) becoming unconditional and/or the obligations of the Underwriter (as defined below) under the Underwriting Agreement (as defined below) not being terminated); (v) the obligations of the Underwriter in accordance with the terms thereof; and (vi) the granting of the Whitewash Waiver (as defined below) by the Executive, or any delegate of the Executive to the Investor:
- (a) the issue by way of an open offer (the “**Open Offer**”) of 15,001,474,104 Shares (the “**Offer Shares**”) at the subscription price of HK\$0.01 per Offer Share on the basis of 339 Offer Shares for every 5 Shares to be held by the shareholders of the Company (the “**Shareholders**”), other than certain Shareholders whose addresses as shown on the register of members of the Company on 6 October 2010 (the “**Record Date**”) are in places outside Hong Kong and otherwise on the terms of the Open Offer as set out in the Circular be and is hereby approved, and the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to and in accordance with the terms of the Open Offer;
  - (b) the entry by the Company into the underwriting agreement dated 27 July 2010 (the “**Underwriting Agreement**”) entered into between the Company and Asian Capital (Corporate Finance) Limited (the “**Underwriter**”), a copy of which has been produced to the EGM marked “D” and signed by the chairman of the EGM for identification purposes, the transactions contemplated thereunder and the performance thereof by the Company, be and are hereby confirmed, ratified and approved; and
  - (c) the Provisional Liquidators and the Directors be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to the terms of the Underwriting Agreement, including without limiting the foregoing, to complete the transactions contemplated under the Underwriting Agreement.”

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### WHITEWASH WAIVER

5. “**THAT**, the waiver (the “**Whitewash Waiver**”) granted or to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of the Investor and parties acting in concert with it, to make a general offer for all the Shares not already owned by it or agreed to be acquired upon completion of the Restructuring Agreement, be and is hereby approved and the Provisional Liquidators and the Directors be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to any matters relating to, or incidental to, the Whitewash Waiver.”

### SPECIAL DEAL

6. “**THAT** subject to the Executive, or any delegate of the Executive giving consent to the Special Deal (as defined in the Circular), (the “**Consent**”, a copy of which has been produced to the EGM marked “E” and signed by the chairman of the EGM for identification purposes) and the satisfaction of any condition attached to such consent, the Special Deal (as defined in the Circular) on terms and conditions as set out in the Circular be and is hereby approved.

### GENERAL MANDATE TO ALLOT, ISSUE AND DEAL WITH SHARES

7. “**THAT**, conditional upon closing having taken place under the Restructuring Agreement:
- (a) subject to paragraph (b) below, the Directors be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined below) all the powers of the Company to allot, issue and deal with additional Shares and to make or grant offers, agreements and options (including warrants, bonds and debenture, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares of the Company) which would or might require the exercise of any such powers during or after the end of the Relevant Period;
  - (b) the aggregate nominal amount of the Shares allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval of paragraph (a) above, other than pursuant to (i) a Rights Issue (as defined below); or (ii) an issue of ordinary shares of the Company upon the exercise of rights of subscription or conversion under the terms of any securities which are convertible into ordinary shares of the Company; or (iii) an issue of ordinary shares

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of the Company by way of scrip dividend pursuant to the articles of association of the Company from time to time; or (iv) the exercise of any option granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to eligible participants of the Company and/or its subsidiaries, of options to subscribe for, or rights to acquire, shares of the Company; shall not in total exceed 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Restructuring Agreement;

- (c) for the purpose of this resolution, “Relevant Period” means the period from completion of the Restructuring Agreement until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company after the closing under the Restructuring Agreement has taken place; or
  - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and

the expiration of the period within which the next annual general meeting of the Company after the closing under the Restructuring Agreement has taken place is required by the articles of association of the Company, or any applicable laws, to be held.”

“**Rights Issue**” means an offer of Shares for subscription open for a fixed period by the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

### GENERAL MANDATE TO PURCHASE SHARES

8. “**THAT**, conditional upon closing having taken place under the Restructuring Agreement:
- (a) the Directors be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined below) all the powers of the Company to purchase Shares in the capital of the Company, subject to and in accordance with applicable laws;

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## NOTICE OF EGM

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- (b) the aggregate nominal amount of the Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company in issue immediately following completion of all the transactions under the Restructuring Agreement;
- (c) for the purpose of this resolution, “Relevant Period” means the period from completion of the Restructuring Agreement until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company after the closing under the Restructuring Agreement has taken place; or
  - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and

the expiration of the period within which the next annual general meeting of the Company after the closing under the Restructuring Agreement has taken place is required by the articles of association of the Company, or any applicable laws, to be held.”

### EXTENSION MANDATE

- 9. “**THAT**, conditional upon the completion of the Restructuring Agreement and subject to the availability of unissued share capital and conditional upon the passing of resolutions numbered 7 and 8 as set out in the Notice, the aggregate nominal amount of New Shares which are purchased by the Company pursuant to and in accordance with resolution numbered 8 as set out in the Notice shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with resolution numbered 7 as set out in the Notice.”

### APPOINTMENT OF EXECUTIVE DIRECTORS

- 10. That conditional upon completion having taken place under the Restructuring Agreement and trading in the Shares on the Stock Exchange being resumed:
  - (a) Mr. King Phillip shall be appointed as an executive Director;
  - (b) Mr. Ho Tak Fun, Josef shall be appointed as an executive Director;

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## NOTICE OF EGM

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- (c) Mr. Chiu Siu Po shall be appointed as an executive Director; and
- (d) the Board shall be authorised to fix the remuneration of each of Mr. King Philip, Mr. Ho Tak Fun, Josef and Mr. Chiu Siu Po, and that the register of directors of the Company be amended to note such appointments of directors as set out above, and that the Cayman Islands Registrar of Companies be notified of the same.

For and on behalf of  
**TACK FAT GROUP INTERNATIONAL LIMITED**  
*(Provisional Liquidators Appointed)*

**FOK Hei Yu**  
**Roderick John Sutton**  
*Joint and Several Provisional Liquidators  
acting as agents without personal liability*

By order of the Board  
**TACK FAT GROUP INTERNATIONAL LIMITED**  
*(Provisional Liquidators Appointed)*

**Choong Khuat Leok**  
*Independent Non-executive Director*

Hong Kong, 31 August 2010

*As at the date of this notice, the board of Directors comprises one non-executive Director, Mr. James D McMullen; and three independent non-executive Directors, Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok, and Mr. Kooi Tock Chian.*

*Notes:*

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. In case of a recognised clearing house (or its nominees(s) and in each case, being a corporation), it may authorise such persons as it thinks fit to act as its representatives of the meeting and vote in its stead.
2. A form of proxy for use in connection with the EGM is enclosed with this circular. To be valid, the form of proxy, and (if required by the Board) the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority must be deposited at the branch share registrars of the Company, Tricor Tengis Limited, at 26th floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
3. In relation to resolutions numbered 7 and 9 above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment, issue and dealing with additional shares in the capital of the Company under the Listing Rules.
4. In relation to resolution numbered 8 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase shares in circumstance which they deem appropriate for the benefit of the shareholders of the Company.
5. Resolutions numbered 2 to 6 shall be voted by way of a poll of the Independent Shareholders (as defined in the Circular).