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## **TACK FAT GROUP INTERNATIONAL LIMITED**

**德發集團國際有限公司**

*(incorporated in the Cayman Islands with limited liability)*

### **ISSUE OF UP TO US\$12,000,000 2.5 PER CENT.**

### **UNLISTED AND UNSECURED REDEEMABLE CONVERTIBLE BONDS DUE 2005**

On 19 December 2002, the Company and CSFB entered into the Subscription Agreement in relation to the subscription of Bonds.

Under the Subscription Agreement, among other things, (i) the Company agreed to issue and CSFB agreed to purchase the Original Tranche 1 Bonds; (ii) the Company granted to CSFB an option to require the Company to issue the Additional Tranche 1 Bonds on substantially the same terms as the Original Tranche 1 Bonds; (iii) CSFB granted to the Company an option after the conversion of the last Original Tranche 1 Bonds to issue and to require CSFB to subscribe and pay for the Tranche 2 Bonds on substantially the same terms as the Original Tranche 1 Bonds; and (iv) the Company has granted the First Allotment Option, the Additional Allotment Option and the Second Allotment Option to CSFB to subscribe for the Original Tranche 1 Share Allotment Amount, Additional Tranche 1 Share Allotment Amount, and Tranche 2 Share Allotment Amount respectively. The Bonds bear interest at the rate of 2.5 per cent. per annum and are due on 19 December 2005, being the Maturity Date.

Completion of the issue of the Bonds is subject to certain conditions which are set out in the paragraph headed "Conditions" below.

The Original Tranche 1 Bonds are convertible into Shares at a conversion price equal to, at the option of CSFB, either (i) the Fixed Conversion Price; or (ii) the Floating Conversion Price.

The terms of the Subscription Agreement were negotiated on an arm's length basis and the Directors believe that they are fair and reasonable so far as the Company is concerned.

Shares to be issued upon conversion of the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and upon exercise of the First Allotment Option and the Additional Allotment Option will be issued pursuant to the General Mandate.

### **SUBSCRIPTION AGREEMENT**

#### **Date**

19 December 2002

#### **Issuer**

The Company

## **Subscriber**

CSFB, an independent third party not connected with the directors, chief executive and substantial shareholders of the Company or its subsidiaries, or any of their respective associates (as defined in the Listing Rules).

## **Issue of the Bonds**

The Bonds will be issued in up to two tranches with the Original Tranche 1 Bonds being issued on the First Closing Date. Pursuant to the Subscription Agreement, the Company has granted to CSFB an option to require the Company to issue the Additional Tranche 1 Bonds, exercisable from the First Closing Date to the third anniversary of the First Closing Date. The Additional Tranche 1 Bonds will, if issued, be on substantially the same terms as the Original Tranche 1 Bonds set out below save for, among other things, the date of issue, the first interest payment date, the aggregate principal amount, the number of Additional Tranche 1 Bonds and the number of Shares to be issued upon conversion. CSFB has granted to the Company under the Subscription Agreement an option to issue and require CSFB to subscribe and pay for the Tranche 2 Bonds, exercisable by the Company within 60 calendar days from the date of conversion of the last of the Original Tranche 1 Bonds and subject to the satisfaction of certain conditions in relation to the trading price of the Shares, the trading volume of the Shares and the Company having obtained a mandate from the Shareholders, approving the issue of the maximum number of Shares which could be required to be issued under the Tranche 2 Bonds. The Tranche 2 Bonds will, if issued, be on substantially the same terms as the Original Tranche 1 Bonds set out below save for, among other things, the date of issue, the first interest payment date, the aggregate principal amount, the number of Tranche 2 Bonds, the number of Shares to be issued upon conversion and the Fixed Conversion Price. The Fixed Conversion Price for the Tranche 2 Bonds shall be determined by reference to the average closing prices of the Shares immediately prior to the Second Closing Date.

## **Principal amount**

Original Tranche 1 Bonds:	US\$4,000,000 (equivalent to approximately HK\$31,200,000).
Additional Tranche 1 Bonds:	not more than US\$4,000,000 (equivalent to approximately HK\$31,200,000) payable in cash by CSFB if the option to require the Company to issue the Additional Tranche 1 Bonds shall be exercised by CSFB
Tranche 2 Bonds:	not more than US\$4,000,000 (equivalent to approximately HK\$31,200,000) payable in cash by CSFB if the option to require CSFB to subscribe the Tranche 2 Bonds shall be exercised by the Company

## **First Closing Date**

19 December 2002

## **Principal terms of the Bonds**

### *Interest*

The Bonds bear interest from the First Closing Date in respect of the Original Tranche 1 Bonds, from the Additional Closing Date in respect of the Additional Tranche 1 Bonds and from the Second Closing Date in respect of the Tranche 2 Bonds at the rate of 2.5 per cent. per annum, payable semi-annually in arrears on 30 June and 30 December in each year, with the first interest payment date to fall on 30 December 2002 for the Original Tranche 1 Bonds. Each Bond will cease to bear interest on conversion or from the due date for redemption.

### *Maturity*

19 December 2005, upon which, the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the Tranche 2 Bonds will be redeemed at 100 per cent. of their principal amount unless previously redeemed, converted or purchased and cancelled.

### *Denomination*

US\$50,000 each

### *Transferability*

A Bondholder may not assign or transfer any of the Bonds to any third party other than a subsidiary or holding company or subsidiary of such a holding company without the prior written consent of the Company and, if so required, subject to the prior approval of the Stock Exchange.

### *Conversion right*

A Bondholder may convert the Bonds into new Shares at the option of the Bondholder at either (i) the Fixed Conversion Price or (ii) the Floating Conversion Price during the conversion period set out below. The Shares to be issued upon conversion will rank pari passu in all respects among themselves and with all other Shares in issue on the date of such issue.

### *Conversion price*

At the option of the Bondholder, the price at which each Share shall be issued upon conversion shall be either:

#### (i) Fixed Conversion Price

- (a) *for Original Tranche 1 Bonds and the Additional Tranche 1 Bonds:* being HK\$0.62, subject to adjustment for, among other matters, subdivision or consolidation of Share, bonus issues, rights issues and other dilutive events; or
- (b) *for Tranche 2 Bonds:* being 125 per cent. of the average of the closing prices per Share for the 45 consecutive business days immediately prior to the Second Closing Date, subject to adjustment for, among other matters, subdivision or consolidation of Share, bonus issues, rights issues and other dilutive events; or

#### (ii) Floating Conversion Price

93 per cent. of the average of any 5 consecutive closing prices per Share as selected by the converting Bondholder during the period of 30 consecutive business days immediately prior to the Conversion Date,

provided that the conversion price shall not be less than the par value of the Shares (currently HK\$0.10) on the Conversion Date unless permitted by law and in compliance with the Listing Rules.

The Fixed Conversion Price for the Tranche 1 Bonds will be HK\$0.62 which represents a premium of approximately 12.7 per cent. over the closing price of HK\$0.55 per Share as quoted on the Stock Exchange on 19 December 2002, being the last trading day prior to this announcement and a premium of approximately 11.7 per cent. over the average closing price of HK\$0.555 per Share as quoted on the Stock Exchange for the ten trading days immediately prior to and including 19 December 2002.

### *Conversion period*

A Bondholder may at any time from and including the date of the First Closing Date (or the Additional Closing Date or Second Closing Date, as the case may be, in respect of the Additional Tranche 1 Bonds and Tranche 2 Bonds respectively) up to the day falling one week prior to the Maturity Date (both days inclusive) to convert the principal amount of the relevant Bonds into new Shares at the conversion price set out above.

### *Right of first refusal, participation right and exchange right*

The Company or any subsidiaries of the Company shall be free to issue the Equity-Linked Securities provided that, Bondholders holding in aggregate not less than 50 per cent. of the aggregate principal amount of the Bonds then outstanding may exercise their right to subscribe for any privately placed Equity-Linked Securities prior to them being offered to other persons. If such right of first refusal is not exercised, Bondholders holding in aggregate not less than 50 per cent. of the aggregate principal amount of the Bonds then outstanding shall have a subsequent right to participate in such privately placed offering of Equity-Linked Securities, the proportion of such participation to be determined by the response of such Bondholder under the right to participate. Further, Bondholders of the outstanding Bonds are given the right to exchange the outstanding Bonds for the new issue of the Equity-Linked Securities up to an aggregate principal amount of their outstanding Bonds on the same terms of those Equity-Linked Securities save as to the maturity date which shall remain unchanged.

### *Downside redemption option*

If at any time during the conversion period of the Bonds, the closing price of the Shares is less than or equal to approximately HK\$0.303, being 60 per cent. of the average closing price per Share for the 45 consecutive business days immediately preceding the date of the Subscription Agreement for the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds (or the Second Closing Date for the Tranche 2 Bonds, as the case may be), then the Company may redeem the Bonds at a price equivalent to the aggregate of 100 per cent. of the principal amount of the Bonds to be redeemed and interest at a rate of 9 per cent. per annum.

### *Status of the Bonds*

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Company and shall rank equally among themselves and *pari passu* with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company except for obligations accorded preference by mandatory provisions of applicable law.

### **Option for allotment of additional Shares**

CSFB was also granted the rights under the Subscription Agreement upon exercise of the First Allotment Option, the Additional Allotment Option and the Second Allotment Option (which shall not lapse on any redemption, conversion or cancellation of the Bonds and so long as the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the Tranche 2 Bonds are issued respectively) to subscribe for:

- (i) from the First Closing Date to the Maturity Date (both days inclusive), an amount of Shares up to the Original Tranche 1 Share Allotment Amount at a subscription price (subject to adjustment) equal to HK\$0.531, being 105 per cent. of the average closing price per Share during the 45 consecutive business days immediately preceding the date of the Subscription Agreement;
- (ii) from the Additional Closing Date to the Maturity Date (both days inclusive), an amount of Shares up to the Additional Tranche 1 Share Allotment Amount at a subscription price (subject to adjustment) equal to HK\$0.531, being 105 per cent. of the average closing price per Share during the 45 consecutive business days immediately preceding the date of Subscription Agreement; and

- (iii) from the Second Closing Date to the Maturity Date (both days inclusive), an amount of Shares up to the Tranche 2 Share Allotment Amount at a subscription price (subject to adjustment) equal to 105 per cent. of the average closing price per Share during the 45 consecutive business days immediately prior to the Second Closing Date.

## **Conditions**

The subscription of the Original Tranche 1 Bonds, or as the case may be, the Additional Tranche 1 Bonds and the Tranche 2 Bonds, is conditional, among others, upon:

- (1) approval of the Shareholders and/or the Stock Exchange for the issue of the Bonds (if required) being obtained, or written confirmation from the Company that no such approval is required, in both cases not less than one business day prior to the First Closing Date, Additional Closing Date or the Second Closing Date (as the case may be); and
- (2) delivery by the Company to CSFB certain documents specified in the Subscription Agreement, including but not limited to, certain legal opinions and documents and the execution of the Escrow Agreement (as defined below) by the closing date for the relevant Bonds.

All of the conditions for the subscription of the Original Tranche 1 Bonds have been satisfied by the Company.

## **Escrow**

An escrow agreement (the “**Escrow Agreement**”) was made on 18 December 2002 between the Company, CSFB and Bermuda Trust (Hong Kong) Limited as escrow agent (the “**Escrow Agent**”) in connection with the subscription of the Original Tranche 1 Bonds.

CSFB will deposit any subscription funds required to an account of the Escrow Agent. The subscription funds will be released by the Escrow Agent to the Company subject to the terms and conditions set out in the Escrow Agreement.

The Company and CSFB have agreed that another escrow agreement will be entered into before the issue (if applicable) of the Additional Tranche 1 Bonds or the Tranche 2 Bonds on similar terms to the Escrow Agreement.

## **General mandate**

The maximum number of new Shares which may be issued upon conversion of the Original Tranche 1 Bonds based on the Fixed Conversion Price is 50,322,581, representing approximately 3.79 per cent. and approximately 3.65 per cent. of the existing issued share capital and the enlarged issued share capital of the Company respectively. Upon exercise of the First Allotment Option in full, 11,751,412 new Shares, representing approximately 0.88 per cent. and approximately 0.88 per cent. of the existing issued share capital and enlarged issued share capital respectively, will be issued by the Company. The total number of Shares which may be issued upon full conversion of the Original Tranche 1 Bonds based on the Fixed Conversion Price and the exercise in full of the First Allotment Option is 62,073,993 Shares, representing approximately 4.67 per cent. and approximately 4.47 per cent. of the existing issued share capital and the enlarged issued share capital of the Company respectively, which will be issued pursuant to the General Mandate.



The maximum number of new Shares which may be issued upon conversion of the Additional Tranche 1 Bonds based on the Fixed Conversion Price is 50,322,581 representing approximately 3.79 per cent. and approximately 3.49 per cent. of the existing issued share capital and the issued share capital of the Company as enlarged by the conversion of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds based on the Fixed Conversion Price and the exercise in full of the First Allotment Option respectively. Upon exercise of the Additional Allotment Option in full, 11,751,412 new Shares, representing approximately 0.88 per cent. and approximately 0.84 per cent. of the existing issued share capital and the issued share capital of the Company as enlarged by the conversion of the Original Tranche 1 Bonds based on the Fixed Conversion Price and the exercise in full of the First Allotment Option and the Additional Allotment Option respectively. The total number of Shares which may be issued upon full conversion of the Additional Tranche 1 Bonds based on the Fixed Conversion Price and the exercise in full of the Additional Allotment Option is 62,073,993 Shares, representing approximately 4.67 per cent. and approximately 4.27 per cent. of the existing issued share capital and the issued share capital of the Company as enlarged by the conversion of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds based on the Fixed Conversion Price and the exercise in full of the First Allotment Option and the Additional Allotment Option respectively, which will be issued pursuant to the General Mandate.

Under the General Mandate, a maximum of 265,600,000 new Shares may be issued as at the date of this announcement. If the Company exercises its option to require CSFB to subscribe for the Tranche 2 Bonds and the maximum number of Shares which may be issued upon full conversion of the Tranche 2 Bonds or upon exercise of the Second Allotment Option to be issued by the Company exceeds the limit under any then available general mandate granted to the Directors, the Company will be obliged to seek the Shareholders' approval of the issue of such Shares prior to the issue of the Tranche 2 Bonds and a separate announcement will be issued by the Company. If approval from the Shareholders are not required for the issue of such Shares, the Company will issue an announcement when it decides to exercise its option to issue the Tranche 2 Bonds. If the Company decides to issue the Tranche 2 Bonds, it will comply with all relevant Listing Rules and applicable laws in respect of such issue and of the issue of Share upon conversion of the Tranche 2 Bonds.

## **USE OF PROCEEDS**

The net proceeds of approximately HK\$28,570,000 received from the issue of the Original Tranche 1 Bonds, together with the maximum amount of HK\$6,240,000 which would be received subject to and upon exercise in full of the First Allotment Option (subject to adjustment as set out in the Subscription Agreement), will be used for general working capital purposes provided that such proceeds shall not be used to pay dividends to the Shareholders, for the purposes of or in relation to any repayment to or reduction of the debt of a related party or to repurchase Shares.

## **SHAREHOLDING STRUCTURE**

As at the date of this announcement, the total number of issued Shares is 1,328,000,000. As at the date of this announcement, the substantial shareholders of the Company are Efulfilment Enterprises Limited ("Efulfilment"), Wisehead Group Limited ("Wisehead") and Sharp Asset Holdings Limited ("Sharp Asset"). The approximate shareholdings of the substantial shareholders of the Company and CSFB immediately before and/or after the full conversion of the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds (both based on the Fixed Conversion Price), and the exercise of the First Allotment Option and the Additional Allotment Option in full, are as follows:

	Immediately before the full conversion of the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the exercise of the First Allotment Option and the Additional Allotment Option		Immediately after the full conversion of the Original Tranche 1 Bonds but before the conversion of the Additional Tranche 1 Bonds and the exercise of the First Allotment Option and the Additional Allotment Option		Immediately after the full conversion of the Original Tranche 1 Bonds and the exercise of the First Allotment Option Additional Tranche 1 Bonds and the exercise of the Additional Allotment Option		Immediately after the full conversion of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds and the exercise in full of the First Allotment Option but before the exercise of the Additional Allotment Option		Immediately after the full conversion of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds and the exercise in full of the First Allotment Option and the Additional Allotment Option	
	%	Number of Shares held	%	Number of Shares held	%	Number of Shares held	%	Number of Shares held	%	Number of Shares held
Efulfilment ( <i>Note</i> )	49.16	652,800,000	47.37	652,800,000	46.96	652,800,000	45.33	652,800,000	44.95	652,800,000
Wisehead ( <i>Note</i> )	11.57	153,600,000	11.14	153,600,000	11.05	153,600,000	10.66	153,600,000	10.58	153,600,000
Sharp Asset ( <i>Note</i> )	11.57	153,600,000	11.14	153,600,000	11.05	153,600,000	10.66	153,600,000	10.58	153,600,000
CSFB	–	–	3.65	50,322,581	4.47	62,073,993	7.80	112,396,574	8.55	124,147,968
Public	27.70	368,000,000	26.71	368,000,000	26.47	368,000,000	25.56	368,000,000	25.34	368,000,000

*Note:* The issued share capital of Efulfilment is beneficially owned by Mr Kwok Wing and Mr Kwok Chiu in equal proportion. The entire issued share capitals of Wisehead and Sharp Asset are beneficially owned respectively by Mr Kwok Chiu and Mr Kwok Wing.

## LISTING

No application will be made for the listing of, or permission to deal in, the Bonds and the Subscription Right on the Stock Exchange or any other stock exchange. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon conversion of the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds or upon exercise of the First Allotment Option or the Additional Allotment Option.

## GENERAL

The Company is principally engaged in investment holding with its subsidiaries principally engaged in the design and manufacture of jeans, pants, shorts, swimming apparels and sportswear for men, women and children on ODM and OEM basis.

The Additional Tranche 1 Bonds and the Tranche 2 Bonds may or may not be issued. The Company will issue a further announcement as required by the Listing Rules if any of the Additional Tranche 1 Bonds or the Tranche 2 Bonds are issued.

The terms of the Subscription Agreement were negotiated on an arm's length basis and the Directors believe that they are fair and reasonable so far as the Company is concerned.

Guotai Junan Capital Limited has been appointed as the financial adviser to the Company in respect of the issue of the Bonds.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the respective meanings ascribed opposite them:

“Additional Allotment Option” the option granted by the Company to CSFB for the subscription of new Shares up to the Additional Tranche 1 Share Allotment Amount from the Additional Closing Date to the Maturity Date;

“Additional Closing Date”	the date falling 10 business days after the date of the notice from CSFB to the Company notifying exercise of the option to issue the Additional Tranche 1 Bonds;
“Additional Tranche 1 Bonds”	2.5 per cent. convertible bonds due 2005 with an aggregate principal amount of up to US\$4,000,000 to be issued by the Company to CSFB upon exercise of the option granted by the Company to CSFB;
“Additional Tranche 1 Share Allotment Amount”	20 per cent. of the number of Shares which may fall to be issued by the Company pursuant to the exercise of the conversion rights attached to the Additional Tranche 1 Bonds at a conversion price equal to HK\$0.531, being 105 per cent. of the average closing price per Share for the 45 consecutive business days immediately prior to the date of the Subscription Agreement;
“Board”	the board of Directors;
“Bonds”	the Tranche 1 Bonds and the Tranche 2 Bonds;
“Bondholder(s)”	holder(s) of the Bonds for the time being;
“business day”	a day (which begins at 9:30 a.m. and ends at 4.30 p.m. (Hong Kong time)) on which the Stock Exchange is open for trading in Hong Kong;
“Company”	Tack Fat Group International Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange;
“Conversion Date”	the date on which the notice of conversion is delivered to the Company in Hong Kong in accordance with the terms of the Subscription Agreement for exercise of the conversion right attached to the Bonds;
“CSFB”	Credit Suisse First Boston (Hong Kong) Limited, the subscriber of the Subscription Agreement for the issue of the Bonds;
“Directors”	directors for the time being of the Company;
“Equity-Linked Securities”	any securities convertible into or exchangeable for securities of the same class as the issued Shares or securities substantially similar to the Bonds excluding: (i) Shares; (ii) warrants relating to Shares; (iii) convertible preference shares issued to shareholders of the Company without preference among the shareholders;
“First Allotment Option”	the option granted by the Company to CSFB for the subscription of new Shares up to the Original Tranche 1 Share Allotment Amount from the First Closing Date to the Maturity Date;
“First Closing Date”	19 December 2002;



“Fixed Conversion Price”	HK\$0.62 in respect of the Original Tranche 1 Bonds and Additional Tranche 1 Bonds, or the price being 125 per cent. of the average closing price per Share for the 45 consecutive business days immediately prior to the Second Closing Date in respect of the Tranche 2 Bonds, subject to adjustment;
“Floating Conversion Price”	the price being 93 per cent. of the average of any five consecutive closing prices per Share as selected by CSFB during the 30 consecutive business days immediately preceding the Conversion Date, subject to adjustment;
“General Mandate”	the general mandate to issue or deal with 20 per cent. of the issued Shares granted to the Directors at the annual general meeting of the Company held on 28 August 2002;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Maturity Date”	19 December 2005;
“Original Tranche 1 Bonds”	2.5 per cent. convertible bonds due 2005 with an aggregate principal amount of US\$4,000,000 to be issued by the Company to CSFB on the First Closing Date;
“Original Tranche 1 Share Allotment Amount”	20 per cent. of the number of Shares which may fall to be issued by the Company upon exercise of all conversion rights attached to the Original Tranche 1 Bonds at a conversion price equal to HK\$0.531, being 105 per cent. of the average closing price per Share for the 45 consecutive business days immediately prior to the date of the Subscription Agreement;
“Second Allotment Option”	the option granted by the Company to CSFB for the subscription of new Shares up to the Tranche 2 Share Allotment Amount from the Second Closing Date to the Maturity Date;
“Second Closing Date”	the date falling 10 business days after the date of the notice from the Company to CSFB notifying exercise of the option for the issue of the Tranche 2 Bonds;
“Shareholders”	holders of Shares of the Company;
“Share(s)”	Share(s) of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Agreement”	the subscription agreement dated 19 December 2002 entered into between the Company and CSFB in relation to the subscription of the Bonds;

“Tranche 2 Bonds”	2.5 per cent. convertible bonds due 2005 with an aggregate principal amount of up to US\$4,000,000 to be issued by the Company to CSFB upon exercise of the option granted by CSFB to the Company;
“Tranche 2 Share Allotment Amount”	20 per cent. of the number of Shares which may fall to be issued by the Company pursuant to the exercise of the conversion rights attached to the Tranche 2 Bonds at a conversion price equal to 105 per cent. of the average closing price of the Shares for the 45 consecutive business days immediately prior to the Second Closing Date;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“US\$”	United States of America dollars, the lawful currency of the United States of America.

By Order of the Board  
**Tack Fat Group International Limited**  
**Kwok Wing**  
*Chairman*

19 December 2002 , Hong Kong

Please also refer to the published version of this announcement in The Standard.