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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)
(STOCK CODE: 928)

DISCLOSEABLE TRANSACTION:

SUBSCRIPTION OF PREFERRED SHARES IN SINO LEGEND LIMITED

On 21 May 2004, the Group entered into the Subscription Agreement with Sino Legend in relation to subscription of the Subscription Shares for an aggregate subscription price of US\$3,333,320 (equivalent to approximately HK\$26 million). Sino Legend is an investment holding company incorporated in the British Virgin Islands with limited liability. Sino Legend, through its subsidiary, holds 72% of the membership units of Mudd (USA).

The Subscription constitutes a discloseable transaction on the part of the Company under Rule 14.06 of the Listing Rules.

A circular containing further details of the Subscription and information regarding the Group will be despatched to the shareholders of the Company within 21 days from the publication of this announcement.

SUBSCRIPTION AGREEMENT

Date: 21 May 2004

Parties: (1) Issuer: Sino Legend Limited

(2) Subscribers: (i) Newest Global Limited, a wholly owned subsidiary of the Company; and (ii) an independent third party not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates

Each of Sino Legend and its existing shareholder is an independent third party not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates.

Subscription:

Pursuant to the Subscription Agreement, Newest Global agreed to subscribe the Subscription Shares, representing approximately 6.94% of the voting rights in the general meeting of Sino Legend.

Holder of the Subscription Shares shall be entitled to (i) a dividend equal to 8% per annum of the issue price of US\$40 per Subscription Share out of the surplus of Sino Legend when declared by the board of directors of Sino Legend; (ii) convert at any time at its option into the ordinary shares of Sino Legend; (iii) the number of votes equal to the number of ordinary shares of Sino Legend into which such Subscription Shares may be converted; and (iv) any distribution of any surplus of Sino Legend in preference to the holders of the ordinary shares of Sino Legend in the event of any liquidation, dissolution or winding up.

Sino Legend is an investment holding company incorporated in the British Virgin Islands with limited liability. Sino Legend, through its subsidiary, holds 72% of the membership units of Mudd (USA). Each membership unit shall have one vote on all matters requiring the vote of the members.

Consideration:

The aggregate subscription price for the Subscription is US\$3,333,320 (equivalent to approximately HK\$26 million), which shall be paid to Sino Legend in cash upon Completion.

The subscription price for the Subscription was arrived at after arm's length negotiations between the parties to the Subscription Agreement with reference to the past earnings (before tax) of approximately US\$47.4 million and US\$33.7 million for the two years ended 31 December 2003 respectively, the international reputation of the "Mudd" brandname and the prospects of the business of MUDD (USA).

The Directors consider that the subscription price for the Subscription and the terms of the Subscription Agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Completion

Completion took place on 21 May 2004.

SOURCE OF FUNDING

The subscription price for the Subscription was financed by the Group's internal resources. The Directors confirm that the Subscription will not have any material adverse effect on the working capital position of the Group.

INFORMATION ON SINO LEGEND

Sino Legend is an investment holding company incorporated in the British Virgin Islands with limited liability. Sino Legend, through its subsidiary, holds 72% of the membership units of Mudd (USA). Each membership unit shall have one vote on all matters requiring the vote of the members. Upon Completion, the Group shall be entitled to have one representative, out of a total of five members, in the board of directors of Sino Legend.

INFORMATION ON MUDD (USA)

To the best knowledge of the Directors, Mudd (USA) is a newly formed company which was formed to acquire all the property and assets (except certain liabilities and the business under the Paper, Denim & Cloth brand) of Mudd, LLC (now known as Paper, Denim and Cloth, LLC), a New York limited liability company. Mudd, LLC was first established in 1996 as a designer and seller of girls and young women's jeans and licensor of its trademark to manufacturers and distributors of girls and women's clothing, shoes and accessories. Since then, Mudd, LLC has been one of the leaders in a group of brands offering consumers fast-turning fashion looks at prices below US\$30. Through licensing, the brand has been extended into 16 categories, including swimwear, accessories, sunglasses, shoes and outerwear. Immediately after the takeover, Mudd (USA) is principally engaged in the business of designing, manufacturing and selling denim jeans and other products as well as licensing other products through brands including the Mudd brand and the MM Couture brand. The primary customers of MUDD (USA) currently include department stores and specialty retailers across USA and Canada. Based on the condensed proforma financial statement of MUDD (USA), the net profits before taxation and extraordinary items of MUDD (USA) for the two years ended 31 December 2003 were approximately US\$47.4 million and US\$33.7 million respectively, and the net profits after taxation and extraordinary items of MUDD (USA) for the two years ended 31 December 2003 were estimated to be approximately US\$27.8 million and US\$19.7 million respectively. The unaudited net asset values of MUDD (USA) as at 31 December 2002 and 31 December 2003 were approximately US\$7.6 million and US\$7.6 million respectively.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the design and manufacture of jeans, pants, shorts, swimming apparel and sportswear for men, women and children on OEM and ODM basis.

According to the USA Department of Commerce, consumers in the USA spent about US\$324.3 billion on apparel, accessories and footwear in 2002. With an estimated USA population of 288 million, the 2002 expenditures equalled about US\$1,125 per person. Standard & Poor's estimates that in 2001, Americans spent about US\$1,100 per capita on apparel, accessories and footwear. With the overwhelming potential of the consumer market in USA, the Directors consider that the Subscription offers the Group a strategic opportunity to invest in garment manufacturing business in the USA.

The Directors wish to take this opportunity to announce that the Group has also entered into a manufacturing agreement with MUDD (USA) pursuant to which the Group shall provide exclusive manufacturing services to MUDD (USA), either through the Group's facilities or through other subcontractors to be sourced and recommended by a committee comprising representatives of the Group and MUDD (USA), in respect of the purchase orders placed by MUDD (USA) for denim products and other items required to be manufactured by or on behalf of MUDD (USA). The manufacturing agreement shall be for an initial fixed term of five years commencing from 21 May 2004 and shall continue in force thereafter unless and until terminated by either party giving to the other not less than six month's written notice.

In view of the turnover and reputation of Mudd, LLC including but not limited to its brand recognition in the USA, the Directors believe that the Subscription, together with the manufacturing agreement with MUDD (USA), will broaden the Group's income base and enhance the net asset value of the Group.

LISTING RULES IMPLICATION

The Subscription constitutes a discloseable transaction on the part of the Company under Rule 14.06 of the Listing Rules.

A circular containing further details of the Subscription and information regarding the Group will be despatched to the shareholders of the Company within 21 days from the publication of this announcement.

GENERAL

As at the date of this announcement, the Board comprised Mr. Kwok Wing, Mr. Lee Yuk Man, Mr. Ho Yik Kin, Norman, Mr. Kwok Kam Chuen, Mr. Leung Yiu Wing, Eric and Mr. Ching Kwok Ho, Samuel.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Company”	Tack Fat Group International Limited, a company incorporated in the Cayman Islands and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription pursuant to the terms and conditions of the Subscription Agreement
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“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

“Mudd (USA)”	Mudd (USA) LLC, a Delaware limited liability company
“Newest Global”	Newest Global Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company, one of the subscribers under the Subscription Agreement
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Sino Legend”	Sino Legend Limited, a company incorporated in the British Virgin Islands with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by the Group of the Subscription Shares subject to and upon the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the class A preferred share purchase agreement dated 21 May 2004 and entered into among Newest Global and Sino Legend
“Subscription Shares”	83,333 class A preferred shares of US\$0.01 each in the share capital of Sino Legend to be subscribed by Newest Global pursuant to the Subscription Agreement
“USA”	the United States of America
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the USA
“%”	per cent.

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

Hong Kong, 24 May 2004

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