THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

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)

VERY SUBSTANTIAL ACQUISITION

Financial adviser to Tack Fat Group International Limited

SOMERLEY LIMITED

A letter from the board of directors of Tack Fat Group International Limited is set out on pages 4 to 11 of this circular.

A notice convening an Extraordinary General Meeting of Tack Fat Group International Limited to be held at 10:00 a.m. on Monday, 4th April, 2005 at Chater Room III, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong is set out on pages 122 to 123 of this circular. The form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the meeting, you are required to complete the accompanying form of proxy for use at the meeting in accordance with the terms printed thereon and return the same to the branch share registrar of Tack Fat Group International Limited in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, no later than 48 hours before the time appointed for the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending the meeting or any adjournment thereof in person if you so wish.

18th March, 2005

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares subject to and upon the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 26th July, 2004 entered into between Newest Global and Lung Investment in relation to the Acquisition, as supplemented by five supplemental agreements dated 7th October, 2004, 2nd November, 2004, 20th January, 2005, 22nd February, 2005 and 17th March, 2005
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day on which licensed banks in Hong Kong are generally open for business
"Circular"	the circular of the Company dated 14th June, 2004 in relation to the Subscription
"Company"	Tack Fat Group International Limited, a company incorporated in the Cayman Islands, the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the terms and conditions of the Agreement
"Directors"	directors of the Company
"Enlarged Group"	the Group and Sino Legend Group immediately after Completion
"Extraordinary General Meeting"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, to approve the Acquisition and the payment of the Option Premium
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	independent third party(ies) not connected with the directors, chief executive and substantial shareholders of the Company and its subsidiaries or any of their respective associates

"Latest Practicable Date"	17th March, 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lung Investment"	Lung Investment Holding, LLC, a company incorporated in the State of Delaware, USA as a limited liability company
"Mudd, LLC"	Mudd, LLC (now known as Paper, Denim and Cloth, LLC), a New York limited liability company and an Independent Third Party
"Mudd (USA)"	Mudd (USA) LLC, a Delaware limited liability company and an Independent Third Party
"Newest Global"	Newest Global Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company, being one of the subscribers under the subscription agreement dated 21st May, 2004 for the Subscription
"Notes"	the US$30,000,000 1% convertible bonds due 2009 issued by the Company on 11th October, 2004
"ODM"	original design manufacturing
"OEM"	original equipment manufacturing
"Option"	the option granted by Lung Investment to Newest Global to acquire the Option Shares pursuant to the Agreement
"Option Premium"	US$10 million to be paid by the Group at Completion to Lung Investment as premium for the Option
"Option Shares"	a further 250,000 Preferred Shares as may be acquired by Newest Global upon exercise of the Option
"Preferred Share(s)"	class A preferred shares of US$0.01 each in the share capital of Sino Legend, holder of which is entitled to, among other things, (i) a dividend equals to 8% per annum of the issue price of US$40 per preferred share out of the surplus of Sino Legend; (ii) convert at any time at its option into the shares of Sino Legend; (iii) the number of votes equal to the number of shares of Sino Legend into which such preferred shares may be converted; and (iv) any distribution of any surplus of Sino Legend in preference to the holders of the shares of Sino Legend in the event of any liquidation, dissolution or winding up

"Profit Guarantee"	the guarantee provided by Lung Investment under the Agreement that the aggregate audited consolidated/combined net profits before tax, charges for goodwill, minority interests and any extraordinary or exceptional items of the Sino Legend Group will not be less than US$108 million for the period commencing from 21st May, 2004 up to and including 31st March, 2007
"Sale Shares"	516,667 Preferred Shares to be acquired by Newest Global pursuant to the Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Sino Legend"	Sino Legend Limited, a company incorporated in the British Virgin Islands with limited liability
"Sino Legend Group"	Sino Legend and its subsidiaries
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription by Newest Global of 83,333 Preferred Shares pursuant to the subscription agreement dated 21st May, 2004 entered into between Newest Global and Sino Legend
"USA" or "US"	the United States of America
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	US dollars, the lawful currency of the USA
"%"	per cent.

The exchange rate used in this circular of US$1 to HK$7.8 is for illustration purpose only.

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

(incorporated in the Cayman Islands with limited liability)

Executive Directors:
Mr Kwok Wing *(Chairman)*
Mr Lee Yuk Man
Mr Ho Yik Kin, Norman
Mr Kwok Kam Chuen

Independent non-executive Directors:
Mr Leung Yiu Wing, Eric
Mr Ching Kwok Ho, Samuel
Mr Heng Kwoo Seng

Registered office:
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business in Hong Kong:
13th Floor
Roxy Industrial Centre
58-66 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

18th March, 2005

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

The Board announced on 30th July, 2004 that on 26th July, 2004, Newest Global, a wholly owned subsidiary of the Company, as a purchaser, entered into the Agreement with Lung Investment, as a vendor, in relation to the proposed acquisition of 516,667 Preferred Shares in Sino Legend for a cash consideration of US$53.0 million (equivalent to approximately HK$413.4 million). Lung Investment also granted to Newest Global the Option which entitles Newest Global to require Lung Investment to sell to Newest Global a further 250,000 Preferred Shares for a premium of US$10 million (equivalent to approximately HK$78 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 Acquisition together with the payment of the Option Premium constitute a very substantial acquisition of the Company under the Listing Rules and are subject to the Shareholders' approval under the Listing Rules.

The purposes of this circular are to provide you with further information on, among other things, the Acquisition, the Option, Sino Legend Group, Mudd (USA) and the notice of the Extraordinary General Meeting.

THE AGREEMENT

Parties

Purchaser	Newest Global Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company.
Vendor	Lung Investment Holding, LLC, an investment holding company incorporated in the State of Delaware, USA as a limited liability company. The Directors confirm that to the best of their knowledge, information and belief and after making all reasonable enquiries, Lung Investment and its beneficial owners are Independent Third Parties and do not hold any Shares.

Newest Global entered into a supplemental agreement dated 22nd February, 2005 with Lung Investment pursuant to which (i) the period covered by the Profit Guarantee from not less than US$36 million for the period commenced from 21st May, 2004 and ending 31st March, 2005 was amended to not less than US$108 million for the period commenced from 21st May, 2004 and ending 31st March, 2007; and (ii) the exercise period for the Option is revised to any time during the period commencing from 1st April, 2007 up to and including 30th September, 2007. Further Information on the Profit Guarantee and the exercise period of the Options is set out below under the paragraphs headed "Option and the Option Shares" and "Consideration for the Sale Shares" respectively.

Assets to be acquired

Sale Shares

516,667 Preferred Shares, representing 43.06% of the voting rights in the general meeting of Sino Legend. Sino Legend is a company incorporated in the British Virgin Islands with limited liability. The sole asset of Sino Legend is its indirect holding of 72% of the membership units of Mudd (USA). Further information on Sino Legend and Mudd (USA) is set out below under the sections headed "Information on Sino Legend" and "Information on Mudd (USA)" respectively.

Option and the Option Shares

Lung Investment granted to Newest Global the Option for a cash premium of US$10.0 million (equivalent to approximately HK$78.0 million) which entitles Newest Global to require Lung Investment to sell to Newest Global a further 250,000 Preferred Shares, representing approximately 20.8% of the voting rights in the general meeting of Sino Legend. The Option shall only be exercisable by Newest Global at any time during the period commencing from 1st April, 2007 up to and including 30th September, 2007 (or such later date as agreed between Newest Global and Lung Investment) unless if at any time after Completion but before 1st April, 2007, any of the following events occurs in which case the Option will become exercisable immediately:

– an application has been made by any member of the Sino Legend Group for the listing of the shares of any member of the Sino Legend Group on a recognised stock exchange and approval in principle for listing is granted by or obtained from the relevant regulatory authority; or

– a resolution has been passed by any member of the Sino Legend Group for amending the share capital structure of any member of the Sino Legend Group including but not limited to amending any rights, preferences, privileges or powers of, or imposing any restrictions over any classes of shares, authorising the creation or issue of shares of any class, or permitting the issue or grant of any option, warrant or other convertible securities with a right to acquire any shares or repurchase any shares.

Upon exercise of the Option, Newest Global will pay to Lung Investment a further US$15.65 million (equivalent to approximately HK$122.1 million) in cash upon completion of the acquisition of the Option Shares.

Principal terms of the Agreement

Consideration for the Sale Shares

The consideration for the Sale Shares is US$53.0 million (equivalent to approximately HK$413.4 million) and is payable in cash on Completion. It is the present intention of the Directors that the consideration will be funded as to approximately US$29.2 million (equivalent to approximately HK$228.0 million) by the net proceeds from the issue of the Notes and as to the remaining US$23.8 million (equivalent to approximately HK$185.4 million) by internal resources of the Group.

The consideration was arrived at after arm's length negotiations between the Group and Lung Investment with reference to the international reputation of the "Mudd" brandname, the prospects of the business of Mudd (USA) and the Profit Guarantee. Pursuant to the Agreement, Lung Investment has guaranteed that the aggregate audited consolidated/combined net profits before tax, charges for goodwill, minority interests and any extraordinary or exceptional items of the Sino Legend Group for the period commencing from 21st May, 2004 up to and including 31st March, 2007 will not be less than US$108 million (the "Guaranteed Profit"). The consideration for the Sale Shares would represent approximately 2.95 times the Guaranteed Profit attributable to the Sale Shares on an annualised basis. In view of the Guaranteed Profit, the prospects and potential of the consumer market in the USA for the apparel, accessories and footwear in future and in particular, the increase in purchase orders placed by Mudd (USA) since 21st May, 2004 (further details of which are set out under the section headed "Reasons for the Acquisition" below), the Directors consider that the consideration for the Sale Shares is fair and reasonable.

The Agreement also provides that if the aggregate audited consolidated/combined net profits before tax, charges for goodwill, minority interests and any extraordinary or exceptional items of the Sino Legend Group for the period ending 31st March, 2007 falls short of the Guaranteed Profit, Lung Investment shall compensate Newest Global by paying to Newest Global in cash an amount equals to 2.95 times of the annualised shortfall attributable to the Sale Shares within seven days after the delivery of the audited accounts of the Sino Legend Group for the period ending 31st March, 2007, which is expected to be available to the Company on or before 30th June, 2007.

Consideration for the Option and the Option Shares

On Completion, the Group shall pay a cash premium of US$10.0 million for the Option, which entitles Newest Global to require Lung Investment to sell to it a further 250,000 Preferred Shares for a total consideration of US$25.65 million (equivalent to approximately HK$200.1 million). If the Option is exercised, the Option Premium will be applied as part payment for the consideration for the Option Shares. The remaining US$15.65 million will be payable by the Group to Lung Investment in cash upon completion of the acquisition of the Option Shares. Should the Option not be exercised by the Group within the option period, the Option Premium will not be refunded to the Group. Payment for the Option Premium will be financed by internal resources of the Group.

Although the Option Premium is substantial, the Directors consider it reasonable as it enables the Group to secure the right to assume control in Mudd (USA) upon exercising the Option. In addition, after taking into account the exercise price for the Option Shares and the Option Premium, the price for each Option Share is the same as the price payable by the Group for each of the Sale Shares as it also represents approximately 2.95 times the Guaranteed Profit attributable to the Option Shares. On such basis, the Directors (including the independent non-executive Directors) consider that the Option Premium and the exercise price for the Option Shares are fair and reasonable.

Conditions

The Agreement is conditional upon:

1. the Group being satisfied at its sole and absolute discretion with the results of the due diligence review, to be conducted by the Group or its agent on the asset, liabilities, operations and affairs of Sino Legend Group;

2. the Shareholders passing the ordinary resolutions at the extraordinary general meeting(s) approving the Agreement and the transactions contemplated thereunder;

3. the warranties as described under the Agreement remaining true and accurate in all respects up to Completion;

4. all necessary approvals, consents, authorisations and licences in relation to the transactions contemplated under the Agreement having been obtained;

5. the Group having received a US legal opinion in form and substance satisfactory to the Group covering such matters of US laws in relation to, among other matters, the Agreement and the transactions contemplated thereunder; and

6. the issue of the Notes by the Company.

Except for items 2 and 3, all the above conditions have been fulfilled as at the Latest Practicable Date.

Completion

Completion will take place on the second Business Day after all the conditions set out above having been fulfilled or waived at or before 5:00 p.m. on 10th April, 2005 or such later date as the Group may agree, otherwise the Agreement shall cease and determine and neither party shall have any obligations and liabilities under the Agreement save for any antecedent breaches of the terms thereof.

Information on Sino Legend

Sino Legend is an investment holding company incorporated in the British Virgin Islands with limited liability on 8th January, 2004. Sino Legend Group had not carried out any business since its incorporation until it entered into subscription agreements with Lung Investment, Newest Global and Grandwell Investment Limited, an Independent Third Party, on 21st May, 2004 for acquisition of its present equity interest in Mudd (USA) for a consideration of US$40.0 million (equivalent to approximately HK$312.0 million). The principal asset of Sino Legend is its indirect holding of 72% of the membership units of Mudd (USA). As set out in Appendix III to this circular, the net asset value of Sino Legend Group as at 30th September, 2004 was approximately US$47.2 million. For the period commencing from 8th January, 2004, being the date of incorporation of Sino Legend, up to and including 30th September, 2004, Sino Legend Group recorded a turnover of approximately US$68.2 million and net profit of approximately US$7.2 million.

As at the Latest Practicable Date, Sino Legend is beneficially owned as to 90.25% by Lung Investment, as to 6.94% by Newest Global and as to approximately 2.81% by Grandwell Investment Limited. Upon Completion, Newest Global will be interested in 50.0% of voting rights in the general meeting of Sino Legend and will be entitled to appoint three representatives, out of a total of six members, to the board of directors of Sino Legend. No member of the board of directors of Sino Legend will have a casting or second vote. As the Group will not have majority control over Sino Legend, Sino Legend will not be accounted for as a subsidiary of the Company after Completion.

Upon exercise of the Option, the Group will be interested in approximately 70.8% of the voting rights in the general meeting of Sino Legend and will be entitled to appoint one additional representative to the board of directors of Sino Legend. The Option will not be exercisable until 1st April, 2007 (unless any of the events set out on page 6 occur). The Company confirms that upon exercise of the Option, the Company will comply with all the disclosure, reporting and shareholders' approval requirements under the Listing Rules then in effect.

Information on Mudd (USA)

Mudd (USA) was formed on 9th March, 2004 for the purpose of acquiring all the property and assets (except certain liabilities and the businesses under the Paper, Denim & Cloth brand) of Mudd, LLC (now known as Paper, Denim and Cloth, LLC). Mudd, LLC is a limited liability company established in New York, USA 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. The acquisition was completed on 21st May, 2004.

Since the completion of the aforesaid acquisition, Mudd (USA) has been principally engaged in the business of designing, manufacturing and selling of denim jeans and other apparel and accessories products as well as licensing related products through brands including the Mudd brand and the MM Couture brand. As at the Latest Practicable Date, Mudd (USA) was beneficially owned as to 72% by Sino Legend and as to 28% by Independent Third Parties. Interests in Mudd (USA) held by its holders are divided into and represented by membership units. Each membership unit held by Sino Legend is entitled to one vote on all matters requiring the vote of the unit holders.

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. In May 2004, the Group entered into a subscription agreement to subscribe for 83,333 Preferred Shares, which represents approximately 6.94% of the voting rights in the general meeting of Sino Legend for a consideration of US$3.3 million. As stated in the Circular, according to the USA Department of Commerce, consumer spending on apparel, accessories and footwear in the USA amounted to approximately US$324.3 billion in 2002. With an estimated population of the USA of approximately 288 million in 2002, the consumer spending on apparel, accessories and footwear was approximately US$1,125 per capita for that year. In view of the gradual recovery of the economy in the USA, the Directors believe that the prospects and potential of the consumer market in the USA for apparel, accessories and footwear industry will continue to grow.

Given the above and after further review of the operation and performance of Mudd (USA) subsequent to the Subscription, in particular, the increase in purchase orders placed by Mudd (USA) which amounted to approximately US$13.0 million (equivalent to approximately HK$101.4 million) during 21st May, 2004 to 30th June, 2004 as compared to approximately US$9.0 million (equivalent to approximately HK$70.2 million) for the corresponding period in 2003, the Directors believe that the acquisition of additional interests in Sino Legend is in the interests of the Group.

It was stated in the Circular that the Group entered into a manufacturing agreement with Mudd (USA) on 21st May, 2004 pursuant to which the Group shall provide exclusive manufacturing services to Mudd (USA), either through the Group's production 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 orders placed by Mudd (USA) for denim products and other items required to be manufactured by or on behalf of Mudd (USA) for an initial fixed term of five years commencing from 21st May, 2004. Based on the Group's existing production capacity, approximately 10%-15% of the Mudd (USA) total orders will be produced at the Group's production facilities with the remaining to be out-sourced to other manufacturers with a 5%-6% commission payable to the Company. It is the intention of the Group to invest approximately HK$100 million, which will be financed by internal resources of the Group, for expanding its production capacity in the near future in order to absorb as many orders as may be placed by Mudd (USA). The Acquisition enables the Group to become a major beneficial shareholder in Mudd (USA) and in turn to secure its position as the exclusive provider of manufacturing services to Mudd (USA).

In view of the above, the Directors believe that the Acquisition and the Option are beneficial to the Group and the Shareholders as a whole.

EFFECTS OF ACQUISITION ON THE GROUP

Net asset value

	As at 30th September, 2004	
	Group (unaudited) *HK$million*	**Enlarged Group (unaudited)** *HK$million*
Net asset value	587.1	581.1
Net tangible asset value	587.1	581.1

Based on the unaudited consolidated balance sheet of the Group as at 30th September, 2004 after giving effect to the pro forma adjustments relating to the Acquisition and the payment of the Option Premium, both the pro forma net asset value and the pro forma net tangible asset value of the Enlarged Group would slightly reduce upon Completion.

The pro forma net tangible asset value per Share of the Enlarged Group would be approximately HK$40.6 cents as at 30th September, 2004, representing a decrease of approximately 1% from the net tangible asset value per Share of the Group of approximately HK$41.0 cents as of the same date.

Earnings

Based on the unaudited pro forma consolidated income statement prepared to present the consolidated results of the Enlarged Group as if 50% equity interest in Sino Legend had been acquired by the Group on 8th January, 2004 (date of incorporation of Sino Legend), the profit from ordinary activities before taxation and taxation expense of the Enlarged Group for the six months ended 30th September, 2004 would be approximately HK$92.1 million and HK$16.4 million respectively. The increases in such amounts from the Group's unaudited profit from ordinary activities before taxation and taxation expense of approximately HK$66.0 million and HK$5.2 million respectively for the six months ended 30th September, 2004 are primarily due to the Enlarged Group's equity share in the profit before taxation and taxation expense of Sino Legend Group for the period from 8th January, 2004 to 30th September, 2004.

The above pro forma financial information is for information purpose only and should not be taken as an indication of the future financial performance of the Enlarged Group, as it has not taken into account the possible integration effects as may be brought by the Acquisition such as cost savings on purchases and production, etc.

EXTRAORDINARY GENERAL MEETING

The Acquisition and the payment of the Option Premium are subject to approval by the Shareholders at the Extraordinary General Meeting. Relevant resolutions to be proposed at the Extraordinary General Meeting for the Shareholders to consider and, if thought fit, to approve the Acquisition and the payment of the Option Premium are set out in the notice of the Extraordinary General Meeting on pages 122 to 123 of this circular.

To the best knowledge, information and belief of the Directors and after making all reasonable enquiries, as at the Latest Practicable Date, no Shareholder has any material interest in the Acquisition therefore no shareholder is required to abstain from voting at the Extraordinary General Meeting.

A form of proxy for use by the Shareholders at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the Extraordinary General Meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

PROCEDURE FOR DEMANDING A POLL

At the Extraordinary General Meeting, the ordinary resolutions put to vote at the Extraordinary General Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

(i) by the chairman of the Extraordinary General Meeting; or

(ii) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the Extraordinary General Meeting; or

(iii) by any Shareholder or members present in person or by proxy and representing not less than one tenth of the total voting rights of all the Shareholders having the right to vote at the Extraordinary General Meeting; or

(iv) by a Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

The Directors consider the Acquisition and the payment of the Option Premium are in the interest of the Company and the Shareholders as a whole and the terms and conditions of the Agreement are fair and reasonable. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting which are set out in the notice of the Extraordinary General Meeting on pages 122 to 123 of this circular.

GENERAL

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
for and on behalf of the Board
Tack Fat Group International Limited
Kwok Wing
Chairman

A. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated income statement of the Group for each of the three years ended 31st March, 2004 extracted from the relevant annual reports of the Company:

	2002	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	710,489	885,031	989,413
Profit from operations	113,967	133,444	147,436
Finance costs	(23,296)	(19,695)	(18,001)
Profit from ordinary activities before taxation	90,671	113,749	129,435
Income tax	(8,392)	(9,636)	(8,386)
Profit attributable to shareholders	82,279	104,113	121,049
Earnings per share			
– Basic *(note 2)*	8.04 cents	8.00 cents	8.77 cents
– Diluted	–	7.87 cents	8.32 cents
Assets and liabilities			
Fixed assets	259,797	273,065	328,731
Other non-current assets	10,892	5,973	18,742
Net current assets	89,611	222,294	644,615
Total assets less current liabilities	360,300	501,332	992,088
Non-current liabilities	(123,700)	(82,626)	(449,091)
Net assets	236,600	418,706	542,997
Share capital	6,600	133,557	141,058
Reserves	230,000	285,149	401,939
	236,600	418,706	542,997

Notes:

(1) The Group's results and assets and liabilities for each of the three years ended 31st March, 2004 are prepared on the basis as set out in note 2(b) on the financial statements of the Group for the year ended 31st March, 2004.

(2) The calculation of earnings per Share for the year ended 31st March, 2002 is based on the profit attributable to Shareholders and on the assumption that 1,024,000,000 Shares were in issue, comprising those Shares issued as part of the reorganisation of the Group, as referred to in note 1 to the financial statements of the Group for the year ended 31st March, 2004.

(3) Statement of Standard Accounting Practice 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1st January, 2003. In order to comply with this revised statement, the Group adopted a new accounting policy for deferred taxation in 2004. Figures for the year 2003 have been adjusted. However, it is not practicable to restate earlier years for comparison purposes.

(4) In order to comply with Statement of Standard Accounting Practice 34 "Employee benefits", the Group adopted a new accounting policy for employees' benefits in 2003. Figures for the year ended 31st March, 2002 have been adjusted.

B. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

The following is the reproduction of the unaudited consolidated financial statements of the Group contained in pages 2 to 15 of the Company's 2004/05 interim report:

"CONSOLIDATED INCOME STATEMENT
For the six months ended 30th September, 2004
(Expressed in Hong Kong dollars)

		Six months ended 30th September,	
		2004	2003
	Note	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*2*	746,948	442,682
Cost of sales		(565,618)	(299,137)
		181,330	143,545
Other revenue		3,595	1,564
Selling expenses		(86,099)	(71,293)
Administrative expenses		(19,248)	(17,381)
Profit from operations		79,578	56,435
Finance costs		(13,587)	(8,644)
Profit from ordinary activities before taxation	*3*	65,991	47,791
Taxation	*4*	(5,223)	(4,670)
Profit attributable to shareholders		60,768	43,121
Dividend attributable to shareholders	*5(a)*		
Interim dividend declared after the balance sheet date		18,134	12,562
Earnings per share	*6*		
Basic		4.30 cents	3.19 cents
Diluted		4.11 cents	3.02 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th September, 2004
(Expressed in Hong Kong dollars)

		Six months ended 30th September,	
		2004	2003
	Note	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Total equity as at 1st April, as previously reported		–	422,486
Change in accounting policy with respect to deferred taxation	*11*	–	(3,780)
Total equity as at 1st April, (2003: as restated)		542,997	418,706
Net profit for the period		60,768	43,121
Dividends	*5(b)*	(28,545)	(27,460)
Movements in share capital:			
– Shares issued on conversion of convertible bonds	*10*	1,469	4,484
– Issue of new shares	*10*	621	1,174
– Net share premium received	*11*	9,781	27,046
		11,871	32,704
Total equity as at 30th September,		587,091	467,071

CONSOLIDATED BALANCE SHEET
At 30th September, 2004
(Expressed in Hong Kong dollars)

	Note	At 30th September, 2004 $'000 (Unaudited)	At 31st March, 2004 $'000 (Audited)
Non-current assets			
Fixed assets	7	354,711	328,731
Other financial assets		42,402	16,400
Deferred tax assets		2,342	2,342
		399,455	347,473
Current assets			
Inventories		204,326	183,010
Trade and other receivables	8	249,828	295,763
Pledged bank deposits		–	27,745
Cash and cash equivalents		490,080	364,155
		944,234	870,673
Current liabilities			
Trade and other payables	9	75,777	64,635
Bank loans and overdrafts		152,225	141,067
Obligations under finance leases		17,341	17,193
Dividend payable		28,545	–
Current taxation		6,704	3,163
		280,592	226,058
Net current assets		663,642	644,615
Total assets less current liabilities carried forward		1,063,097	992,088
Total assets less current liabilities brought forward		1,063,097	992,088
Non-current liabilities			
Bank loans		410,000	370,000
Convertible bonds	10	11,700	20,280
Obligations under finance leases		39,668	44,173
Provision for long service payments		1,800	1,800
Deferred tax liabilities		12,838	12,838
		476,006	449,091
NET ASSETS		587,091	542,997
CAPITAL AND RESERVES			
Share capital	10	143,148	141,058
Reserves	11	443,943	401,939
		587,091	542,997

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2004 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30th September, 2004	2003
	$'000	*$'000*
	(Unaudited)	(Unaudited)
Cash generated from operations	70,282	59,790
Tax paid	(1,682)	(3,649)
Net cash from operating activities	68,600	56,141
Net cash generated from/(used in) investing activities	23,285	(28,027)
Net cash generated from/(used in) financing	34,561	(35,372)
Net increase/(decrease) in cash and cash equivalents	126,446	(7,258)
Cash and cash equivalents at 1st April,	363,611	66,468
Cash and cash equivalents at 30th September,	490,057	59,210
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	22,917	5,911
Deposits with banks	467,163	125,987
Cash and cash equivalents in the consolidated balance sheet	490,080	131,898
Less: Pledged deposits	–	(72,280)
Add: Bank overdraft	(23)	(408)
Cash and cash equivalents in the condensed consolidated cash flow statement	490,057	59,210

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICY

Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the board of directors is included on page 16.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKICPA.

The financial information relating to the financial year ended 31st March, 2004 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st March, 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26th July, 2004.

The same accounting policies adopted in the statutory financial statements for the financial year ended 31st March, 2004 have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the statutory financial statements for the financial year ended 31st March, 2004.

As disclosed in the statutory financial statements for the year ended 31st March, 2004, pursuant to a conditional sale and purchase agreement dated 26th July, 2004, the Group has proposed to acquire an additional 43.06% equity interest in Sino Legend Limited (equivalent to 31% effective interest in Mudd (USA) LLC) at a cash consideration of US$53,000,000 (equivalent to approximately $413,400,000). As of the date of approval of this interim financial report, the above proposed acquisition is not yet complete and its completion is subject to the fulfilment of certain prescribed conditions under the agreement, including receipt of approval of the Company's shareholders in an extraordinary general meeting to be convened.

2 SEGMENTAL INFORMATION

No business segment analysis of the Group is presented as the Group has been operating in a single business segment, i.e. the manufacturing and sale of garments. An analysis of the Group's turnover by geographical location of the customers is set out below:

	Group turnover Six months ended 30th September,	
	2004	**2003**
	$'000	*$'000*
North America	575,150	291,671
Europe	119,512	109,059
PRC, excluding Hong Kong	35,041	28,115
Other regions	17,245	13,837
	746,948	442,682

3 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30th September, 2004	2003
	$'000	*$'000*
(a) Finance costs:		
Interest on bank loans and overdrafts wholly repayable within five years	9,933	5,597
(b) Other items:		
Cost of goods sold	565,618	299,137
Depreciation	17,681	14,967
Amortisation of permanent textile quota entitlements	–	1,296

4 TAXATION

	Six months ended 30th September, 2004	2003
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the period	4,480	2,790
Provision for overseas tax	743	–
Deferred tax expense relating to the origination and reversal of temporary differences	–	1,880
	5,223	4,670

Provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

The Group's subsidiary in the People's Republic of China ("PRC"), Luoding Hua Tian Long Garment Ltd. is subject to PRC income tax at 33%.

The Group's subsidiaries in Cambodia are subject to Cambodia income tax at a rate of 9%. Pursuant to the tax exemption certificates dated 15th June, 2000 issued by the relevant tax authorities, Tack Fat Garment (Cambodia) Ltd. was exempted from Cambodia income tax for the period from 15th June, 2000 to 14th June, 2004 and Cambodia Sportswear Mfg. Ltd. was exempted from Cambodia income tax for the period from 15th June, 2000 to 14th June, 2003. Cambodia Sportswear Mfg. Ltd. and Tack Fat Garment (Cambodia) Ltd. are subject to Cambodia income tax at 9% starting from 15th June, 2003 and 15th June, 2004 respectively. The Group's newly established subsidiary in Cambodia, Supertex Limited is exempted from Cambodia income tax for the period from 8th July, 2004 to 7th July, 2008.

5 DIVIDENDS

(a) Dividends attributable to the period

	Six months ended 30th September, 2004	2003
	$'000	*$'000*
Interim dividend declared of 1.2 cents per share (2003: 0.9 cents)	18,134	12,562

The interim dividend of 1.2 cents per share or $18,134,000 in total proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	Six months ended 30th September, 2004	2003
	$'000	*$'000*
Final dividend in respect of the previous year, approved and accrued during the period of 2 cents per share (2003: 2 cents)	28,545	27,460

The amount of final dividend accrued during the period of $28,545,000 included an additional amount of $129,000 paid to holders of new shares issued before the closing date of the shareholders' register.

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the period ended 30th September, 2004 is based on the profit attributable to shareholders of $60,768,000 (2003: $43,121,000) and the weighted average number of ordinary shares of 1,412,843,000 shares (2003: 1,353,680,000 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30th September, 2004 is based on the adjusted profit attributable to shareholders of $60,999,000 (2003: $43,335,000) and the weighted average number of ordinary shares of 1,484,080,000 shares (2003: 1,435,883,000 shares) after adjusting for the effects of all dilutive potential ordinary shares.

7 FIXED ASSETS

Additions to fixed assets during the six months ended 30th September, 2004 comprise:

	$'000
Land and buildings	16,181
Plant and machinery	23,301
Furniture, fixtures and office equipment	3,898
Motor vehicles	281
	43,661

Land and buildings of the Group were revalued by professional valuers at 31st January, 2002. The directors of the Company, who are not qualified valuers, have reviewed the carrying value of the land and buildings as at 30th September, 2004 with reference to the relevant market indices. In their opinion, there have been no significant changes in the value of land and buildings since 31st March, 2004.

8 TRADE AND OTHER RECEIVABLES

	At 30th September, 2004 *$'000*	At 31st March, 2004 *$'000*
Trade receivables	201,627	149,882
Deposits with subcontractors for manufacturing of garments	34,306	57,121
Refundable acquisition deposit	–	58,804
Other prepayments and receivables	13,895	29,956
	249,828	295,763

Credit terms granted by the Group to customers generally range from one to three months. Included in trade receivables are balances (stated after provisions for doubtful debts) with the following ageing analysis:

	At 30th September, 2004 *$'000*	At 31st March, 2004 *$'000*
Within 3 months	201,627	149,882

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

9 TRADE AND OTHER PAYABLES

	At 30th September, 2004 *$'000*	At 31st March, 2004 *$'000*
Bills payable	14,446	12,822
Trade payables	45,043	38,099
Accrued expenses and other payables	16,288	13,714
	75,777	64,635

The credit terms obtained by the Group generally range from 30 days to 180 days. Included in trade payables are balances with the following ageing analysis:

	At 30th September, 2004 *$'000*	At 31st March, 2004 *$'000*
Due within 1 month or on demand	12,155	10,037
Due after 1 month but within 3 months	20,692	16,855
Due after 3 months but within 6 months	11,841	11,181
Due after 6 months but within 1 year	355	26
	45,043	38,099

All of the above balances are expected to be settled within one year.

10 SHARE CAPITAL

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

	Note	Number of ordinary shares of $0.1 each	Par value $'000
Authorised:			
At 31st March/30th September, 2004		2,000,000,000	200,000
Issued and fully paid:			
Total issued share capital as at 31st March, 2004		1,410,576,000	141,058
Conversion of convertible bonds	*(a)*	14,688,000	1,469
Issue of new shares	*(b)*	6,216,000	621
Total issued share capital as at 30th September, 2004		1,431,480,000	143,148

Notes:

(a) During the period, convertible bonds totalling US$1,100,000 (approximately $8,580,000) were converted into 14,688,000 ordinary shares of par value $0.1 each.

(b) During the period, 6,216,000 new ordinary shares of par value $0.1 each were issued at $0.531 each upon the exercise of the share subscription rights granted to the holders of the convertible bonds.

11 RESERVES

	Share premium $'000	Land and buildings revaluation reserve $'000	Contributed surplus $'000	PRC statutory reserve $'000	Retained earnings $'000	Total $'000
At 1st April, 2003						
– as previously reported	1,647	16,849	6,400	519	263,514	288,929
– prior period adjustments in respect of deferred tax *(note)*	–	(3,499)	–	–	(281)	(3,780)
– as restated	1,647	13,350	6,400	519	263,233	285,149
Dividends approved in respect of the previous year *(note 5)*	–	–	–	–	(27,461)	(27,461)
Share premium on conversion of convertible bonds	31,813	–	–	–	–	31,813
Share premium on exercise of share subscription rights	5,062	–	–	–	–	5,062
Share issue costs	(1,111)	–	–	–	–	(1,111)
Transfer on disposal of a subsidiary	–	–	–	(500)	500	–
Profit for the year	–	–	–	–	121,049	121,049
Dividends declared in respect of the current year *(note 5)*	–	–	–	–	(12,562)	(12,562)
At 31st March, 2004	37,411	13,350	6,400	19	344,759	401,939

Note: With effect from 1st January, 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax. As a result of the adoption of this accounting policy, the Group's net assets as at 31st March, 2003 were decreased by $3,780,000.

	Share premium *$'000*	Land and buildings revaluation reserve *$'000*	Contributed surplus *$'000*	PRC statutory reserve *$'000*	Retained earnings *$'000*	Total *$'000*
At 1st April, 2004	37,411	13,350	6,400	19	344,759	401,939
Dividends approved in respect of the previous year *(note 5)*	–	–	–	–	(28,545)	(28,545)
Share premium on conversion of convertible bonds	7,102	–	–	–	–	7,102
Share premium on exercise of share subscription rights	2,679	–	–	–	–	2,679
Profit for the period	–	–	–	–	60,768	60,768
At 30th September, 2004	47,192	13,350	6,400	19	376,982	443,943

12 CONTINGENT LIABILITIES

At 30th September, 2004, the Group had bills discounted with recourse with banks amounting to $38,698,000 (at 31st March, 2004: $15,049,000).

13 MATERIAL RELATED PARTY TRANSACTIONS

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

	Six months ended 30th September, 2004 *$'000*	2003 *$'000*
Expenses paid to related parties:		
Warehouse rentals	186	186
Directors' quarters rentals	816	816
Guangzhou office rentals	243	243

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

14 POST BALANCE SHEET EVENT

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

Subsequent to 30th September, 2004 and up to the date of approval of this report, an aggregate amount of US$1,500,000 (approximately $11,700,000) out of the convertible bonds outstanding at 30th September, 2004 were converted into 19,656,000 ordinary shares of the Company.

On 11th October, 2004, the Company issued US$30 million (approximately HK$234 million) new convertible bonds bearing interest at the rate of 1% p.a. to independent investors. The new convertible bonds will mature on 12th October, 2009. The bonds are convertible into the Company's shares at the conversion price of HK$1.00 after three months from 11th October, 2004 provided that up to a maximum of 50% of the bonds may be converted within the first 12 months. Furthermore, each bondholder has a put option such that the Company shall redeem the bonds upon exercise of the option by the relevant bondholder under certain conditions.

15 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the board of directors on 28th December, 2004."

C. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31ST MARCH, 2004

The following is the reproduction of the text of the audited consolidated financial statements of the Group contained in pages 24 to 74 of the Company's 2004 annual report:

"Consolidated Income Statement
For the year ended 31st March, 2004

	Note	**2004** *HK$'000*	**2003** *HK$'000* restated
Turnover	*3*	989,413	885,031
Cost of sales		(665,598)	(593,633)
		323,815	291,398
Other revenue	*4*	737	1,501
Other net income	*4*	626	48
Distribution costs		(132,228)	(121,626)
Administrative expenses		(45,514)	(37,877)
Profit from operations		147,436	133,444
Finance costs	*5(a)*	(18,001)	(19,695)
Profit from ordinary activities before taxation	*5*	129,435	113,749
Income tax	*6(a)*	(8,386)	(9,636)
Profit attributable to shareholders	*9*	121,049	104,113
Dividends attributable to the year			
Interim dividend declared and paid during the year		12,562	10,624
Final dividend proposed after the balance sheet date		28,416	27,393
		40,978	38,017
Earnings per share			
Basic	*11(a)*	8.77 cents	8.00 cents
Diluted	*11(b)*	8.32 cents	7.87 cents

Consolidated Balance Sheet
At 31st March, 2004

	Note	2004 HK$'000	2003 HK$'000 restated
Non-current assets			
Fixed assets	14	328,731	273,065
Intangible assets	15	–	1,296
Other financial assets	17	16,400	1,516
Deferred tax assets	29	2,342	3,161
		347,473	279,038
Current assets			
Inventories	18	183,010	167,718
Trade and other receivables	19	295,763	131,724
Pledged bank deposits	23	27,745	71,965
Cash and cash equivalents	21	364,155	66,911
		870,673	438,318
Current liabilities			
Trade and other payables	22	64,635	62,248
Bank loans and overdrafts	23	141,067	143,094
Obligations under finance leases	25	17,193	8,308
Current taxation	29	3,163	2,374
		226,058	216,024
Net current assets		644,615	222,294
Total assets less current liabilities		992,088	501,332
Non-current liabilities			
Bank loans	23	370,000	5,008
Convertible bonds	24	20,280	27,300
Obligations under finance leases	25	44,173	38,573
Provision for long service payments	26	1,800	1,800
Deferred tax liabilities	29	12,838	9,945
		449,091	82,626
NET ASSETS		542,997	418,706
CAPITAL AND RESERVES			
Share capital	30	141,058	133,557
Reserves	31	401,939	285,149
		542,997	418,706

Balance Sheet
At 31st March, 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Investments in subsidiaries	16	228,300	228,300
Current assets			
Trade and other receivables	19	4,962	–
Amounts due from subsidiaries	20	164,199	130,374
Cash and cash equivalents	21	82	10
		169,243	130,384
Current liabilities			
Trade and other payables	22	868	290
Amount due to subsidiary	20	781	781
		1,649	1,071
Net current assets		167,594	129,313
Total assets less current liabilities		395,894	357,613
Non-current liabilities			
Convertible bonds	24	20,280	27,300
NET ASSETS		375,614	330,313
CAPITAL AND RESERVES			
Share capital	30	141,058	133,557
Reserves	31	234,556	196,756
		375,614	330,313

Consolidated Statement of Changes in equity
For the year ended 31st March, 2004

	Note	**2004** *HK$'000*	**2003** *HK$'000* restated
Shareholders' equity at 1st April,			
As previously reported		422,486	236,600
Prior period adjustments arising from change in accounting policy for deferred tax	*12 & 31*	(3,780)	(3,767)
As restated		418,706	232,833
Net profit for the year			
As previously reported		–	104,126
Prior period adjustment arising from change in accounting policy for deferred tax	*12*	–	(13)
Net profit for the year (2003: as restated)	*31*	121,049	104,113
Dividends declared or paid during the year		(40,023)	(18,924)
Movements in shareholders' equity arising from capital transactions with shareholders:	*30 & 31*		
Net proceeds from public offer		–	98,280
Shares issued on conversion of convertible bonds and exercise of share subscription rights, net of issue expenses		43,265	2,404
		43,265	100,684
Shareholders' equity at 31st March,		542,997	418,706

Consolidated Cash Flow Statement
For the year ended 31st March, 2004

		2004		2003	
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities					
Profit from ordinary activities before taxation		129,435		113,749	
Adjustments for:					
– Depreciation of fixed assets		33,762		27,764	
– Amortisation of permanent textile quota		1,296		3,989	
– Interest income		(622)		(1,349)	
– Interest expense		10,600		12,755	
– Interest element of finance lease rentals paid		892		1,081	
Operating profit before changes in working capital		175,363		157,989	
Increase in inventories		(15,292)		(22,060)	
Increase in trade and other receivables		(108,416)		(15,238)	
Increase in trade and other payables		4,134		655	
Increase in provision for long service payment		–		600	
Cash generated from operations		55,789		121,946	
Tax paid					
– Hong Kong Profits Tax paid		(3,281)		(7,198)	
– Overseas tax paid		(604)		–	
Net cash from operating activities			51,904		114,748
Investing activities					
Withdrawal/(placement) of pledged bank deposits		44,220		(2,582)	
Payment for purchase of fixed assets		(60,866)		(32,712)	
Payment for purchase of investment securities		(15,000)		(300)	
Payment of refundable acquisition deposit	*19*	(58,804)		–	
Decrease in amount due from related company		–		63,797	
Cash inflow from disposal of subsidiaries	*32*	1,550		–	
Interest received		622		1,349	
Net cash (used in)/generated from investing activities			(88,278)		29,552

		2004		2003	
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financing activities					
Capital element of finance lease rentals paid		(14,077)		(12,351)	
Net increase/(decrease) in trust receipt loans and export loans		17,176		(65,258)	
Proceeds from new term loans		377,462		7,459	
Repayment of term loans and mortgaged property loan		(31,774)		(30,650)	
Decrease in amounts due to shareholders		–		(44,284)	
Interest element of finance lease rentals paid		(892)		(1,081)	
Interest paid		(10,600)		(12,755)	
Issue of shares for cash consideration		6,236		98,280	
Net proceeds from issue of convertible bonds		30,009		29,704	
Dividends paid		(40,023)		(18,924)	
Net cash generated from/ (used in) financing activities			333,517		(49,860)
Net increase in cash and cash equivalents			297,143		94,440
Cash and cash equivalents at 1st April,			66,468		(27,972)
Cash and cash equivalents at 31st March	*21*		363,611		66,468

Notes on the financial statements

1 BACKGROUND INFORMATION

Tack Fat Group International Limited (the "Company") was incorporated in the Cayman Islands on 12th March, 2001 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "reorganisation") to rationalise the structure of the Group in the preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited ("SEHK") in April, 2002, the Company became the holding company of the companies now comprising the Group on 11th April, 2002. This was accomplished by the Company acquiring the entire issued share capital of Ever Century Holdings Limited ("Ever Century"), the then holding company of the other companies comprising the Group at that date.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on SEHK. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings as set out in Note 2(e).

Pursuant to the reorganisation, the Company became the holding company of the other companies comprising the Group on 11th April, 2002. The Company and its subsidiaries resulting from the reorganisation have been regarded as a continuing group. Accordingly, the reorganisation has been accounted for on the basis of merger accounting, under which consolidated financial statements for the year ended 31st March, 2003 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st March, 2003, or since their respective dates of the incorporation or establishment, whichever is later.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 2(h)).

(d) Other investments in securities

The Group's policies for investments in securities other than investments in subsidiaries are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(e) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following bases:

– land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see Note 2(g)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

– plant and machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see Note 2(g)) and impairment losses (see Note 2(h)).

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset 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.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of land and buildings held for own use, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(f) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(h). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(h). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2(o)(iii).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(g) Amortisation and depreciation

(i) Depreciation is calculated on a straight-line basis to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Plant and machinery	5 years
Furniture, fixtures and office equipment	5 years
Motor vehicles and yacht	4 years

(ii) Leasehold land and land use rights are amortised on a straight-line basis over the terms of the respective leases/grants.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets and other long-lived assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Textile quota entitlements

Permanent textile quota entitlements are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)). Amortisation is provided on a straight-line basis over their estimated economic useful life of three years. Costs of temporary textile quota entitlements are charged to the income statement as incurred.

(j) Inventories

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

Cost is calculated using the first-in, first-out method of costing 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 write-down 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 write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) 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 cash flow statement.

(l) Employee benefits

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

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and defined contribution retirement scheme organised by the People's Republic of China ("the PRC") municipal government, are recognised as an expense in the income statement as incurred, except to the extent that they are included as part of the cost of inventories at the balance sheet date.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

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

(m) Income tax

(i) 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 the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) 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, negative goodwill treated as deferred income, 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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit 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 profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) 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, and only 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) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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 the income statement as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered 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, if any, and is after deduction of any trade discounts.

(ii) Trading of temporary textile quota

Revenue arising from trading of temporary textile quota is recognised when it becomes receivable upon the transfer of temporary textile quota to the buyers.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement 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 granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

With respect to subsidiaries outside Hong Kong, whose operations are dependent on the economic circumstances of the Group's reporting currency, the income and expenses of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates whereas the monetary assets and liabilities of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

(q) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

3 TURNOVER

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

Turnover represents the aggregate of the invoiced value of goods sold, after deducting goods returned, trade discounts and sales tax and proceeds from trading of temporary textile quota as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Revenue from sales of goods	988,083	884,219
Proceeds from trading of temporary textile quota	1,330	812
	989,413	885,031

4 OTHER REVENUE AND NET INCOME

	2004	**2003**
	HK$'000	*HK$'000*
Other revenue		
Interest income	622	1,349
Others	115	152
	737	1,501
Other net income		
Net exchange gain	626	48

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	2004	**2003**
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank loans and overdrafts wholly repayable within five years	10,600	12,755
Finance charges on obligations under finance leases	892	1,081
Bank charges	6,509	5,859
	18,001	19,695

(b) Staff costs #:

Salaries, wages and other benefits	123,223	97,990
Contributions to defined contribution retirement schemes	1,045	1,833
	124,268	99,823

(c) Other items:

Cost of inventories sold #	665,598	593,633
Subcontracting charges #	30,066	62,950
Depreciation #		
– owned assets	26,245	23,120
– assets held under finance leases	7,517	4,644
Amortisation of permanent textile quota entitlements	1,296	3,989
Purchase cost of temporary textile quota entitlements	11,234	5,212
Operating lease charges in respect of properties #	2,829	2,742
Auditors' remuneration – audit services	1,202	1,333
Provision for inventory obsolescence #	6,992	3,952

\# *Cost of inventories sold includes $157,808,000 (2003: $166,546,000) relating to subcontracting charges, staff costs, depreciation expenses, operating lease charges and provision for inventory obsolescence, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.*

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004	**2003**
	HK$'000	*HK$'000*
		restated
Current tax		
– Provision for Hong Kong Profits Tax for the year	6,303	5,746
– Over-provision in respect of prior years	(2,232)	(572)
	4,071	5,174
Provision for overseas tax for the year	603	–
	4,674	5,174
Deferred tax		
Origination and reversal of temporary differences	3,712	4,161
Effect of increase in tax rate on deferred tax balances at 1st April,	–	301
	3,712	4,462
	8,386	9,636

In March 2003, the Hong Kong Government announced an increase in the Hong Kong Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase has been taken into account in the preparation of the Group's 2004 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2004 has been calculated at 17.5% (2003: 16%) of the estimated assessable profits for the year. Deferred tax arising from the Group's operations in Hong Kong as at 31st March, 2003 and 2004 has been calculated at 17.5%.

The Group's subsidiary in the PRC, Luoding Hua Tian Long Garment Ltd. is subject to PRC income tax at 33%.

The Group's subsidiaries in Cambodia are subject to Cambodia income tax at a rate of 9%. Pursuant to the tax exemption certificates dated 15th June, 2000 issued by the relevant tax authorities, Tack Fat Garment (Cambodia) Ltd. was exempted from Cambodia income tax for the period from 15th June, 2000 to 14th June, 2004 and Cambodia Sportswear Mfg. Ltd. was exempted from Cambodia income tax for the period from 15th June, 2000 to 14th June, 2003. Cambodia Sportswear Mfg. Ltd. is subject to Cambodia income tax at 9% starting from 15th June, 2003. The Group's newly established subsidiary in Cambodia, Supertex Limited did not derive any profits for the year and accordingly, no provision for Cambodia income tax is required.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004	**2003**
	HK$'000	*HK$'000*
Profit before tax	129,435	113,749
Notional tax on profit before tax, calculated at Hong Kong Profits Tax rate of 17.5% (2003: 16%)	22,651	18,201
Non-taxable offshore income	(2,008)	(1,466)
Tax rate differential of overseas subsidiaries	(5,649)	(3,423)
Effect of tax holidays of overseas subsidiaries	(5,481)	(6,596)
Non-deductible expenses	1,105	3,191
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	301
Effect of over-provision in respect of prior years	(2,232)	(572)
Actual tax expense	8,386	9,636

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Fees	120	110
Salaries and other emoluments	4,554	4,500
Retirement scheme contributions	49	48
	4,723	4,658

Included in the directors' remuneration were fees of $120,000 (2003: $110,000) paid to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	Number of directors	
	2004	**2003**
$		
Nil – 1,000,000	5	5
1,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	1	1
	6	6

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2003: four) are directors whose emoluments are disclosed in Note 7 above. The aggregate of the emoluments in respect of the remaining two (2003: one) individuals are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Salaries and other emoluments	953	456
Retirement scheme contributions	24	12
	977	468

The emoluments of the two (2003: one) individuals with the highest emoluments are within the following band:

	Number of individuals	
	2004	**2003**
$		
Nil – 1,000,000	2	1

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $14,599,000 (2003: $11,953,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2004	**2003**
	HK$'000	*HK$'000*
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	14,599	11,953
Final dividends from subsidiaries attributable to profits of the previous financial year, approved and paid during the year	27,460	–
Company's profit for the year *(Note 31)*	42,059	11,953

10 DIVIDENDS

(a) Dividends attributable to the year

	2004	2003
	HK$'000	*HK$'000*
Interim dividend declared and paid of 0.9 cents (2003: 0.8 cents) per share	12,562	10,624
Final dividend proposed after the balance sheet date of 2 cents (2003: 2 cents) per share	28,416	27,393
	40,978	38,017

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2004	2003
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 2 cents (2003: 0.625 cents) per share *(Note)*	27,461	8,300

Note: The amount of final dividend paid during the year of $27,461,000 included an additional amount of $68,000 paid to holders of new shares issued on conversion of convertible bonds before the closing date of the shareholders' register.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $121,049,000 (2003 (restated): $104,113,000) and the weighted average of 1,379,729,000 (2003: 1,302,097,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to shareholders of $122,402,000 (2003 (restated): $104,275,000) and the weighted average of 1,470,460,000 (2003: 1,324,487,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2004	2003
	HK$'000	*HK$'000* restated
Profit attributable to shareholders	121,049	104,113
Increase in earnings arising from savings in interest cost, net of tax (assuming the convertible bonds had been converted into shares in the Company at the date of issue)	1,353	162
Adjusted profit attributable to shareholders	122,402	104,275

	2004 Number of shares *'000*	2003 Number of shares *'000*
Weighted average number of ordinary shares used in calculating basic earnings per share	1,379,729	1,302,097
Deemed issue of ordinary shares in relation to convertible bonds	37,983	15,316
Deemed issue of ordinary shares for no consideration in relation to share option scheme	52,748	7,074
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,470,460	1,324,487

12 CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st April, 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) "Income taxes" issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred taxation as set out in Note 2(m). As a result of the adoption of new accounting policy, the Group's profit for the year has been decreased by $13,000 (2003: $13,000) and the net assets as at the year end have been decreased by $3,793,000 (2003: $3,780,000).

The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

13 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

Throughout the year, the Group has been operating in one single business segment, i.e. the manufacturing and sale of garments.

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets and capital expenditures are based on the geographical location of the assets.

The Group's business is principally managed in Hong Kong and other parts of the PRC as well as in Cambodia while the principal markets for the Group's products are wholesalers and retailers in North America, Europe and other regions.

		2004 *HK$'000*	2003 *HK$'000*
(i)	*Segment revenue*		
	North America	656,970	578,297
	Europe	234,491	218,415
	Other regions	97,952	88,319
		989,413	885,031
(ii)	*Capital expenditures*		
	Hong Kong	1,592	971
	PRC, excluding Hong Kong	12,352	14,477
	Cambodia	75,484	25,584
		89,428	41,032
(iii)	*Segment assets*		
	Hong Kong	694,724	256,735
	PRC, excluding Hong Kong	94,144	95,608
	Cambodia	429,278	365,013
		1,218,146	717,356

14 FIXED ASSETS

(a)

	Land and buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles and yacht *HK$'000*	Total *HK$'000*
Cost or valuation:					
At 1st April, 2003	220,275	183,564	46,822	12,389	463,050
Additions	35,932	36,100	15,869	1,527	89,428
At 31st March, 2004	256,207	219,664	62,691	13,916	552,478
Representing:					
At cost	–	219,664	62,691	13,916	296,271
At valuation	256,207	–	–	–	256,207
	256,207	219,664	62,691	13,916	552,478
Accumulated depreciation:					
At 1st April, 2003	10,310	130,626	36,894	12,155	189,985
Charge for the year	4,993	22,963	5,466	340	33,762
At 31st March, 2004	15,303	153,589	42,360	12,495	223,747
Net book value:					
At 31st March, 2004	240,904	66,075	20,331	1,421	328,731
At 31st March, 2003	209,965	52,938	9,928	234	273,065

(b) An analysis of net book value of properties is as follows:

	2004	2003
	HK$'000	*HK$'000*
In Hong Kong		
– Medium-term leases #	13,518	13,831
In PRC, other than Hong Kong		
– Medium-term leases #	25,893	26,543
In Cambodia		
– Long term leases #	201,493	169,591
	240,904	209,965

\# *Medium-term leases represent leases with an unexpired period of less than 50 years but not less than 10 years. Long term leases represent leases with an unexpired period of not less than 50 years.*

Pursuant to certain non-cancellable long lease agreements, the Company's subsidiaries in Cambodia leased two parcels of land from the Government of Cambodia for a period of 70 years beginning in April and September 1994 respectively, in consideration of pre-determined fixed annual rents totalling approximately $55,057,000 plus contingent rents at 0.3% of the annual net profits of the subsidiaries. Pursuant to the lease agreements, the subsidiaries' title to fixtures erected on the relevant land will be surrendered to the Government of Cambodia upon expiry of the respective leases. The Group's interests in such land have been recognised as leased assets and its corresponding lease obligations have been recognised as liabilities based on the accounting policy set out in Note 2(f).

In addition, pursuant to the lease agreements dated 26th July, 2000, the Company's subsidiaries in Cambodia leased another two parcels of land in Cambodia from Tack Fat Investment Co., Ltd ("Tack Fat Investment"), for a period of 70 years beginning in July 2000 with an option to renew, at an aggregate consideration of $58,964,000. Such consideration was determined based on the purchase price borne by Tack Fat Investment which approximated the open market value.

In respect of the Group's properties in the PRC, other than Hong Kong, the Group has been granted the right to use the land by the relevant PRC authorities for a period of 50 years, which expires in April, 2044.

(c) The Group's land and buildings at 31st January, 2002 were revalued by American Appraisal Hongkong Limited, an independent firm of professional valuers in Hong Kong at their open market value. The revaluation surpluses of $16,849,000 were transferred to the land and buildings revaluation reserve of the Group (Note 31).

The carrying amount of the land and buildings held for own use of the Group at 31st March, 2004 would have been approximately $225,327,000 (2003: $193,701,000) had they been carried at cost less accumulated depreciation.

(d) The Group leases plant and machinery, office equipment and lands under finance leases expiring from one to seventy years. In accordance with the relevant lease agreements for plant and machinery and office equipment, the Group has the option to purchase the leased assets at a price deemed to be a bargain purchase option at the end of the lease term.

For the year ended 31st March, 2004, contingent rentals incurred by the Group in respect of the leases of land from the Government of Cambodia amounted to $201,000 (2003: $161,000). Except for these, none of the leases of the Group includes contingent rentals.

As at 31st March, 2004, the net book value of fixed assets held under finance leases were as follows:

	2004	2003
	HK$'000	*HK$'000*
Land and buildings	32,032	32,659
Plant and machinery	40,901	17,753
Furniture, fixtures and office equipment	47	933
	72,980	51,345

(e) Certain fixed assets of the Group were pledged to secure mortgaged loans and other banking facilities granted to the Group as follows:

	2004	2003
	HK$'000	*HK$'000*
Net book value of pledged fixed assets	–	13,831

15 INTANGIBLE ASSETS

	2004	2003
	HK$'000	*HK$'000*
Permanent textile quota		
Cost		
At 1st April,	13,648	13,648
Additions	–	–
At 31st March,	13,648	13,648
Accumulated amortisation		
At 1st April,	12,352	8,363
Charge for the year	1,296	3,989
At 31st March,	13,648	12,352
Net book value	–	1,296

16 INVESTMENTS IN SUBSIDIARIES

	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	228,300	228,300

All of these are subsidiaries as defined under Note 2(c) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a Subsidiary	Principal activities
Tack Fat Swimwear Manufacturing Limited	Hong Kong	1,000 non-voting deferred shares of $10,000 each 2 ordinary shares of $10,000 each	–	100	Manufacturing and sale of garments
Tack Fat Manufacturing Factory Limited	Hong Kong	2 ordinary shares of $10 each	–	100	Trading of fabric and other materials
Chiu Wing Enterprise Company Limited	Hong Kong	3,000 non-voting deferred shares of $1,000 each 2 ordinary shares of $1,000 each	–	100	Property holding
Luoding Hua Tian Long Garment Ltd. *(Note (i))*	PRC	US$2,466,782	–	100	Manufacturing of garments
Tack Fat Garment (Cambodia) Ltd. *(Note (ii))*	Cambodia	US$3,000,000	–	100	Manufacturing of garments
Cambodia Sportswear Mfg. Ltd. *(Note (ii))*	Cambodia	US$2,400,000	–	100	Manufacturing of garments
Supertex Limited *(Note (ii))*	Cambodia	US$250,000	–	100	Manufacturing of garments
Tack Fat International Holdings Limited	Hong Kong	10,000 non-voting deferred shares of $1 each 2 ordinary shares of $1 each	–	100	Investment holding
Lantern Services Limited	British Virgin Islands/ Hong Kong	2 ordinary shares of US$1 each	–	100	Investment holding

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a Subsidiary	Principal activities
Ever Century Holdings Limited	British Virgin Islands/ Hong Kong	700 ordinary shares of US$1 each	100	–	Investment holding
Potter Industries Limited	British Virgin Islands/ Hong Kong	2 ordinary shares of US$1 each	–	100	Trading of packing materials
Blue Cat Enterprises Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	–	100	Manufacturing of "Blue Cat" apparel
Newest Global Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	–	100	Investment holding

Notes:

(i) This entity is a wholly foreign owned enterprise established in the PRC.

(ii) These entities are wholly foreign owned limited companies incorporated pursuant to the Law on Investment in the Kingdom of Cambodia and the Law Bearing Upon Commercial Regulation and the Commercial Register.

17 OTHER FINANCIAL ASSETS

	2004	**2003**
	HK$'000	*HK$'000*
Investment securities – unlisted equity shares, at cost	15,300	300
Club debentures	1,100	1,216
	16,400	1,516

18 INVENTORIES

	2004	**2003**
	HK$'000	*HK$'000*
Raw materials	114,579	106,019
Work in progress	46,032	43,863
Finished goods	22,399	17,836
	183,010	167,718

None of the inventories is stated at net realisable value.

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	149,882	121,753	–	–
Deposits with subcontractors for manufacturing of garments	57,121	7,917	–	–
Refundable acquisition deposit	58,804	–	–	–
Other prepayments and receivables	29,956	2,054	4,962	–
	295,763	131,724	4,962	–

Credit terms granted by the Group to customers generally range from one to three months. Included in trade receivables are balances (stated after provisions for doubtful debts) with the following ageing analysis:

	2004	**2003**
	HK$'000	*HK$'000*
Within 3 months	149,882	121,753

As at 31st March, 2004, the Group placed a refundable deposit of $58,804,000 with Sino Legend Limited, an independent third party in connection with the proposed acquisition of an equity interest in Mudd (USA) LLC (Note 36(b)). In May 2004, the Group applied part of the deposit of approximately $26,000,000 in settlement of an equivalent amount of consideration payable to Sino Legend Limited in consummation of the acquisition. The remaining balance of such deposit has subsequently been refunded to the Group.

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

20 AMOUNTS DUE FROM/TO SUBSIDIARIES

An amount due from subsidiary of $160,200,000 (2003: $128,374,000) is unsecured, bears interest at 4% per annum and has no fixed terms of repayment. The remaining balance is unsecured, interest free and has no fixed terms of repayment.

The amount due to subsidiary is unsecured, interest free and has no fixed terms of repayment.

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits with banks	349,626	15,460	–	–
Cash at bank and in hand	14,529	51,451	82	10
Cash and cash equivalents in the balance sheet	364,155	66,911	82	10
Bank overdrafts *(Note 23)*	(544)	(443)		
Cash and cash equivalents in the cash flow statement	363,611	66,468		

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bills payable	12,822	11,283	–	–
Trade payables	38,099	38,589	–	–
Accrued expenses and other payables	13,714	12,376	868	290
	64,635	62,248	868	290

The credit terms obtained by the Group generally range from 30 days to 180 days. Included in trade payables are balances with the following ageing analysis:

	2004	**2003**
	HK$'000	*HK$'000*
Due within 1 month or on demand	10,037	10,520
Due after 1 month but within 3 months	16,855	12,104
Due after 3 months but within 6 months	11,181	12,959
Due after 6 months but within 1 year	26	3,006
	38,099	38,589

All of the above balances are expected to be settled within one year.

23 BANK LOANS AND OVERDRAFTS

At 31st March, 2004, the bank loans and overdrafts were repayable as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Within 1 year or on demand	141,067	143,094
After 1 year but within 2 years	125,500	5,008
After 2 years but within 5 years	244,500	–
	370,000	5,008
	511,067	148,102

The bank loans and overdrafts were secured as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Secured bank borrowings		
Bank overdrafts *(Note 21)*	544	443
Trust receipt loans	118,473	106,381
Export finance loans	18,075	12,991
Term loans	373,975	12,821
	511,067	132,636
Unsecured term loans	–	15,466
	511,067	148,102

The banking facilities of the Group were secured by the following:

(i) Pledge of bank deposits totalling $27,745,000 (2003: $71,965,000); and

(ii) Corporate guarantees issued by the Company.

Certain banking facilities included financial covenants and minimum shareholding requirements required to be complied by the Group and certain principal shareholders of the Company respectively.

24 CONVERTIBLE BONDS

	2004	**2003**
	HK$'000	*HK$'000*
Unlisted and unsecured redeemable convertible bonds	20,280	27,300

On 19th December, 2002, the Company entered into a subscription agreement (the "Subscription Agreement") with an independent third party under which the Company agreed to issue unlisted and unsecured redeemable convertible bonds ("the Bonds") up to an amount of US$12,000,000 (approximately $93,600,000). The Bonds bear interest at 2.5% per annum payable semi-annually in arrears. The Bonds are required to be redeemed at 100% of their principal amount on 19th December, 2005 unless previously redeemed, converted or purchased and cancelled. A bondholder may convert the Bonds into new shares of $0.10 each in the Company at such conversion prices to be determined in accordance with the terms of the Subscription Agreement during the conversion period, which ends one week immediately prior to 19th December, 2005. If the share price of the Company falls below certain predetermined amounts, the Company may redeem the Bonds at a price equivalent to the aggregate of 100% of the principal amount of the Bonds to be redeemed and interest at 9% per annum.

Pursuant to the Subscription Agreement, the Company issued the Original Tranche 1 Bonds of US$4,000,000 (approximately $31,200,000) and Additional Tranche 1 Bonds of US$4,000,000 (approximately $31,200,000) on 19th December, 2002 and 3rd October, 2003 respectively. Up to the date of approval of these financial statements, no further issue of the Bonds has been made by the Company.

Up to 31st March, 2004, an aggregate amount of US$3,900,000 (approximately $30,420,000) and US$1,500,000 (approximately $11,700,000) respectively out of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds were converted into 52,408,000 ordinary shares and 18,424,000 ordinary shares respectively of the Company (Note 30). Subsequent to 31st March, 2004 and up to the date of approval of these financial statements, an additional aggregate amount of US$300,000 (approximately $2,340,000) out of the Additional Tranche 1 Bonds was converted into 4,024,000 shares of the Company.

Furthermore, the holders of the Original Tranche 1 Bonds and Additional Tranche 1 Bonds were granted the rights to subscribe for a total of 23,488,000 new shares of the Company at a fixed price of $0.531 per share. On 5th June, 2003, 11,744,000 new shares of the Company were issued upon exercise of the share subscription rights granted to the bondholder for Original Tranche 1 Bonds (Note 30). Subsequent to 31st March, 2004 and up to the date of approval of these financial statements, 6,216,000 new shares of the Company were issued upon exercise of the share subscription rights granted to the bondholder for Additional Tranche 1 Bonds.

25 OBLIGATIONS UNDER FINANCE LEASES

At 31st March, 2004, the Group had obligations under finance leases repayable as follows:

	Present value of minimum lease payments *HK$'000*	Interest expense relating to future periods *HK$'000*	Total minimum lease payments *HK$'000*
As at 31st March, 2004			
Within 1 year	17,193	696	17,889
After 1 year but within 2 years	8,557	413	8,970
After 2 years but within 5 years	795	1,062	1,857
After 5 years	34,821	11,758	46,579
	44,173	13,233	57,406
	61,366	13,929	75,295
As at 31st March, 2003			
Within 1 year	8,308	659	8,967
After 1 year but within 2 years	2,672	387	3,059
After 2 years but within 5 years	798	1,070	1,868
After 5 years	35,103	12,109	47,212
	38,573	13,566	52,139
	46,881	14,225	61,106

As at 31st March, 2004, certain finance lease obligations were secured by corporate guarantees issued by the Company.

26 PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 31st March, 2003 and 2004	1,800

According to Part VB of the Employment Ordinance ("the Ordinance"), the Company is liable to make long service payments to the employees who have completed the required number of years of service on termination of their employment and where the termination of employment meets the required circumstances as specified in the Ordinance.

At 31st March, 2004, a provision of $1,800,000 (2003: $1,800,000) has been made by the Company based on the best estimate of the long service payments that are required to be made to employees in respect of their service to date, less any amounts that would be expected to be met out of the Company's mandatory provident fund contributions.

27 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the Group and its eligible employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

In addition, the Group's subsidiary in the PRC participates in a defined contribution retirement scheme organised by the PRC municipal government. The subsidiary is required to make contributions at 18% of the relevant PRC employees' salaries to the scheme.

The Group is not required to operate a retirement scheme for its employees in Cambodia.

Save as disclosed above, the Group has no other obligations to make payments in respect of retirement benefits of the employees.

28 EQUITY COMPENSATION BENEFITS

The Company has conditionally adopted a share option scheme approved by way of written resolution on 11th April, 2002 under which the directors of the Company 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 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 SEHK on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the SEHK 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 board of directors may provide restrictions on the exercise of an option during the period an option may be exercised. Each option gives the holder the right to subscribe for one share.

On 7th November, 2002, the Company has granted 132,800,000 options at a nominal consideration under the share option scheme to certain employees of the Group to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share of the Company at a subscription price of $0.465 with exercisable period from 7th November, 2002 to 6th November, 2004. None of the share options granted by the Company has been exercised during the year and up to the date of approval of these financial statements.

29 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	2004 *HK$'000*	2003 *HK$'000*
Provision for Hong Kong Profits Tax for the year	6,303	5,746
Provisional Profits Tax paid	(3,168)	(4,779)
	3,135	967
Balance of Profits Tax provision relating to prior years	–	1,379
Balance of PRC income tax provision relating to prior years	28	28
	3,163	2,374
Amount of taxation payable expected to be settled after more than 1 year	–	–

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Total
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax arising from:			
At 1st April, 2002			
– as previously reported	(1,445)	–	(1,445)
– prior period adjustments	268	3,499	3,767
– as restated	(1,177)	3,499	2,322
Charged to consolidated income statement	4,462	–	4,462
At 31st March, 2003 (restated)	3,285	3,499	6,784
At 1st April, 2003			
– as previously reported	3,004	–	3,004
– prior period adjustments	281	3,499	3,780
– as restated	3,285	3,499	6,784
Charged to consolidated income statement	3,712	–	3,712
At 31st March, 2004	6,997	3,499	10,496

	2004	2003
	HK$'000	*HK$'000* restated
Net deferred tax asset recognised on the balance sheet	(2,342)	(3,161)
Net deferred tax liability recognised on the balance sheet	12,838	9,945
	10,496	6,784

30 SHARE CAPITAL

	HK$'000
Authorised:	
2,000,000,000 ordinary shares of $0.1 each	200,000
Issued and fully paid:	
1,410,576,000 ordinary shares of $0.1 each	141,058

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

		2004		2003	
	Note	**Number of ordinary shares of $0.1 each**	*HK$'000*	**Number of ordinary shares of $0.1 each**	*HK$'000*
Authorised:					
At 1st April,	*(a)*	2,000,000,000	200,000	3,800,000	380
Increase in authorised share capital	*(c)*	–	–	1,996,200,000	199,620
At 31st March		2,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid:					
Ordinary shares issued on incorporation as part of the consideration for the acquisition of the entire issued share capital of Ever Century	*(b)*			1,000,000	100
Ordinary shares issued as the remaining consideration for the acquisition of the entire issued share capital of Ever Century	*(d)*			65,000,000	6,500
Share capital/proforma share capital at 1st April,		1,335,568,000	133,557	66,000,000	6,600
New issue on public offer and placing	*(e)*	–	–	256,000,000	25,600
Capitalisation of share premium account and retained earnings	*(f)*	–	–	958,000,000	95,800
Exercise of over-allotment option	*(g)*	–	–	48,000,000	4,800
Conversion of convertible bonds	*(h)*	63,264,000	6,327	7,568,000	757
Exercise of share option	*(i)*	11,744,000	1,174	–	–
Share capital at 31st March		1,410,576,000	141,058	1,335,568,000	133,557

During the period from 12th March, 2001 (date of incorporation) to 31st March, 2004, the following changes in the Company's authorised and issued share capital were recorded:

(a) On 12th March, 2001, the Company was incorporated with an authorised share capital of $380,000 divided into 3,800,000 ordinary shares of $0.1 each.

(b) On 26th March, 2001, one ordinary share was allotted and issued nil paid to the initial subscriber. On the same date, an additional 999,999 ordinary shares were allotted and issued nil paid.

(c) On 11th April, 2002, pursuant to written resolutions of all the shareholders of the Company, the authorised share capital of the Company was increased from $380,000 to $200,000,000 by the creation of 1,996,200,000 additional ordinary shares of $0.1 each, ranking pari passu in all respects with the existing ordinary shares of the Company.

(d) On 11th April, 2002, pursuant to the reorganisation described in Note 1 on the financial statements, the Company allotted and issued 65,000,000 ordinary shares of $0.1 each, credited as fully paid, and also credited as fully paid the 1,000,000 ordinary shares of $0.1 each issued as set out in (b) above, in consideration for the acquisition of the entire issued share capital of Ever Century.

(e) On 26th April, 2002, 256,000,000 ordinary shares of $0.1 each were issued to the public at $0.385 each for a total cash consideration of $98,560,000 before the related issue expenses.

(f) On 11th April, 2002, conditional on the share premium account of the Company being credited as a result of the issue of new ordinary shares to the public as mentioned in (e) above, a total of 958,000,000 ordinary shares of $0.1 each were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings by way of capitalisation of the sum of $67,880,000 and $27,920,000 standing to the credit of the share premium account and retained earnings account of the Group respectively.

(g) On 15th May, 2002, the over-allotment option granted by the Company referred to in the prospectus was exercised in full. An additional new 48,000,000 ordinary shares of $0.1 each were issued at $0.385 each to meet the over-allocations in the placing.

(h) During the year, convertible bonds under the Original Tranche 1 and Additional Tranche 1 totalling US$4,900,000 (approximately $38,220,000) (2003: US$500,000 (approximately $3,900,000)) were converted into 63,264,000 ordinary shares (2003: 7,568,000 ordinary shares) of $0.1 each (Note 24).

(i) On 5th June, 2003, 11,744,000 ordinary shares of par value of $0.10 each were issued at $0.531 upon exercise of the share subscription rights granted to the holders of the convertible bonds.

31 RESERVES

(a) The Group

	Share premium	Land and buildings revaluation reserve *(Note (i))*	Contributed surplus *(Note (ii))*	PRC statutory reserve *(Note (iii))*	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2002						
– as previously reported	–	16,849	6,400	19	206,732	230,000
– prior period adjustments in respect of deferred tax *(Note 12)*	–	(3,499)	–	–	(268)	(3,767)
– as restated	–	13,350	6,400	19	206,464	226,233
Dividend approved in respect of the previous year *(Note 10)*	–	–	–	–	(8,300)	(8,300)
New issue of shares on public offer and placement	86,640	–	–	–	–	86,640
Capitalisation issue	(67,880)	–	–	–	(27,920)	(95,800)
Share issue costs	(18,760)	–	–	–	–	(18,760)
Bonds issue costs	(1,491)	–	–	–	–	(1,491)
Shares issued on conversion of convertible bonds	3,138	–	–	–	–	3,138
Profit for the year	–	–	–	–	104,113	104,113
Profit appropriation to reserve funds	–	–	–	500	(500)	–
Dividend declared in respect of the current year *(Note 10)*	–	–	–	–	(10,624)	(10,624)
At 31st March, 2003	1,647	13,350	6,400	519	263,233	285,149

	Share premium	Land and buildings revaluation reserve *(Note (i))*	Contributed surplus *(Note (ii))*	PRC statutory reserve *(Note (iii))*	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2003						
– as previously reported	1,647	16,849	6,400	519	263,514	288,929
– prior period adjustments in respect of deferred tax *(Note 12)*	–	(3,499)	–	–	(281)	(3,780)
– as restated	1,647	13,350	6,400	519	263,233	285,149
Dividend approved in respect of the previous year *(Note 10)*	–	–	–	–	(27,461)	(27,461)
Share premium on conversion of convertible bonds *(Note 24)*	31,813	–	–	–	–	31,813
Share premium on exercise of share subscription rights	5,062	–	–	–	–	5,062
Share issue costs	(1,111)	–	–	-	–	(1,111)
Transfer on disposal of a subsidiary	–	–	–	(500)	500	–
Profit for the year	–	–	–	–	121,049	121,049
Dividend declared in respect of the current year *(Note 10)*	–	–	–	–	(12,562)	(12,562)
At 31st March, 2004	37,411	13,350	6,400	19	344,759	401,939

Notes:

(i) The land and buildings revaluation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for the revaluation of land and buildings held for own use (Note 2(e)).

(ii) The excess of the nominal value of shares of the subsidiaries acquired pursuant to the reorganisation over the nominal value of the shares of the Company issued in exchange is credited to the contributed surplus.

(iii) In accordance with the relevant PRC laws applicable to enterprises with foreign investment, the Company's subsidiary in the PRC is required to transfer at least 10% of its annual net profit determined under PRC accounting regulations to the general reserve. This reserve can be used to convert into paid-in capital and offset to reduce prior years' losses, if any.

(b) The Company

	Share premium *(Note (i))* *HK$'000*	Contributed surplus *(Note (ii))* *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1st April, 2002	–	–	–	–
Surplus arising on acquisition of the entire share capital of Ever Century	–	230,000	–	230,000
New issue of shares on public offer and placement	86,640	–	–	86,640
Capitalisation issue	(67,880)	(27,920)	–	(95,800)
Share issue costs	(18,760)	–	–	(18,760)
Dividends approved in respect of the previous year *(Note 10)*	–	(8,300)	–	(8,300)
Bonds issue costs	(1,491)	–	–	(1,491)
Shares issued on conversion of convertible bonds *(Note 24)*	3,138	–	–	3,138
Profit for the year	–	–	11,953	11,953
Dividend declared in respect of the current year *(Note 10)*	–	–	(10,624)	(10,624)
At 31st March, 2003	1,647	193,780	1,329	196,756
At 1st April, 2003	1,647	193,780	1,329	196,756
Dividend approved in respect of the previous year	–	–	(27,461)	(27,461)
Share premium on conversion of convertible bonds *(Note 24)*	31,813	–	–	31,813
Share premium on exercise of share subscription rights	5,062	–	–	5,062
Share issue costs	(1,111)	–	–	(1,111)
Profit for the year	–	–	42,059	42,059
Dividends declared in respect of the current year *(Note 10)*	–	–	(12,562)	(12,562)
At 31st March, 2004	37,411	193,780	3,365	234,556

Notes:

(i) In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(ii) The contributed surplus represents the difference between the combined net asset value of the subsidiaries acquired pursuant to the reorganisation, as set out in Note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor. The application of contributed surplus is the same as the share premium.

(iii) At 31st March, 2004, the aggregate amount of reserves available for distribution to shareholders of the Company was $234,556,000 (2003: $196,756,000). After the balance sheet date, the directors proposed a final dividend of 2 cents per share (2003: 2 cents per share), amounting to $28,416,000 (2003: $27,393,000). This dividend has not been recognised as a liability at the balance sheet date.

32 SUPPLEMENTARY INFORMATION FOR CASH FLOW STATEMENT

(a) Disposal of subsidiaries

In April, 2003, the Group disposed of two wholly-owned subsidiaries, Blue Cat Enterprises (HK) Limited and 藍貓製衣企業(羅定)有限公司, to an independent third party for an aggregate cash consideration of $11,068,000 which was determined based on the net assets value of the subsidiaries at the date of disposal. No material gains or losses were recorded by the Group in respect of the disposal of subsidiaries.

	HK$'000
Net assets disposed of:	
Cash and bank balances	9,518
Trade and other receivables	3,181
Trade and other payables	(1,631)
Net identifiable assets	11,068
Disposal proceeds	11,068
Less: Cash of subsidiaries disposed	(9,518)
Net cash inflow in respect of disposal of subsidiaries	1,550

(b) Significant non-cash transactions

	2004	**2003**
	HK$'000	*HK$'000*
Purchase of fixed assets under finance leases	28,562	8,320

33 COMMITMENTS

(a) Capital commitments outstanding at 31st March, 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Contracted for	841	5,535
Authorised but not contracted for	3,590	–
	4,431	5,535

(b) At 31st March, 2004, the total future minimum lease payments under non-cancellable operating leases relating to properties are repayable as follows:

	The Group	
	2004	**2003**
	HK$'000	*HK$'000*
Within 1 year	2,225	2,132

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

34 CONTINGENT LIABILITIES

(a) At 31st March, 2004, the Group had contingent liabilities in respect of the following:

	2004	2003
	HK$'000	*HK$'000*
Bills discounted with recourse	15,049	55,545

(b) A writ of summons dated 29th February, 2000 was filed by a supplier of the Group against Tack Fat Swimwear Manufacturing Limited, a wholly-owned subsidiary of the Company, claiming a sum of US$202,850 (equivalent to $1,582,000) for an alleged breach of the payment terms under certain purchase contracts. Based on the advice obtained from the legal advisers acting for Tack Fat Swimwear Manufacturing Limited, the directors of the Company are of the view that Tack Fat Swimwear Manufacturing Limited has a valid defence and counterclaim against the supplier. Consequently, no provision for such litigation or the associated legal costs has been included in the financial statements.

(c) As at 31st March, 2004, the Company issued letters of guarantee in respect of bank facilities totalling $852,068,000 (2003: $489,650,000) granted to a wholly-owned subsidiary of the Company.

35 RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties which in the opinion of the directors of the Company, were carried out on normal commercial terms and in the ordinary course of the business of the Group.

		2004	2003
	Note	*HK$'000*	*HK$'000*
Warehouse rentals	*(i)*	372	372
Directors' quarters rentals paid to	*(ii)*		
– Jumbo Team		816	816
– Granco		816	816
Guangzhou office rentals	*(iii)*	490	490
Sales of "Blue Cat" apparel	*(iv)*	25,907	23,124

Notes:

(i) The Group entered into lease arrangements with Mr Kwok Wing, a director of the Company, and his mother for leasing of a warehouse. The lease currently in force expires on 22nd October, 2004 and the monthly rental payable by the Group under such lease is $31,000, which was determined by reference to open market value.

(ii) The Group had a lease arrangement with Jumbo Team Development Limited ("Jumbo Team") and Granco Enterprises Limited ("Granco") for the provision of directors' quarters to the Group. Both Granco and Jumbo Team are jointly owned by Mr Kwok Wing and his brother. On 5th March, 2004, the leases with Granco and Jumbo Team were renewed for a period of one year beginning on 1st April, 2004. The monthly rental payable by the Group under each of the new leases is $68,000, which was determined by reference to open market value.

(iii) The Group had a lease arrangement with Guangzhou Tack Fat Construction Co., Ltd., a company which is controlled by Mr Kwok Wing and his brother for leasing of an office property in Guangzhou, the PRC. The lease currently in force expires on 26th October, 2004 and the monthly rental payable by the Group under such lease is approximately RMB43,000 which was determined by reference to open market value.

(iv) Pursuant to an exclusive manufacturing agreement dated 25th March, 2002 entered into between the Group and Blue Cat Development Limited ("Blue Cat Development") for manufacturing clothing and apparel accessories in relation to the Blue Cat cartoon characters, the Group sold "Blue Cat" apparel to Blue Cat Development totalling $25,907,000 during the year (2003: $23,124,000). The terms of last year's sales were similar to that provided by the Group to independent customers. Mr Kwok Wing has a 51% equity interest in Blue Cat Development.

36 POST BALANCE SHEET EVENTS

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 10.

(b) On 21st May, 2004, the Group entered into a subscription agreement with Sino Legend Limited, an independent third party to subscribe for 83,333 Class A Preferred Shares of US$0.1 each in the share capital of Sino Legend Limited, representing approximately a 6.94% equity interest in Sino Legend Limited at a cash consideration of US$3,333,320 (approximately $26,000,000). Sino Legend Limited holds a 72% interest in Mudd (USA) LLC ("Mudd") which is principally engaged in the business of designing, manufacturing and selling denim jeans and other products through brands in the United States of America and Canada. In addition, on the same date, the Group entered into an exclusive manufacturing and financing agreement with Mudd, under which the Group shall provide exclusive manufacturing services to Mudd, either through owned facilities or subcontractors for a period of five years.

(c) On 26th July, 2004, the Group entered into a conditional sale and purchase agreement with Lung Investment Holding, LLC under which the Group has proposed to acquire an additional 43.06% equity interest in Sino Legend Limited (equivalent to 31% effective interest in Mudd at a cash consideration of US$53,000,000 (approximately $413,400,000). Such acquisition which constitutes a very substantial acquisition under the Main Board Listing Rules of the SEHK is subject to, amongst other conditions, approval of shareholders of the Company in an extraordinary general meeting to be convened in due course. Upon completion of the proposed acquisition, the Group will hold 36% effective interest in Mudd, which will become an associated company of the Group. Further information about the proposed acquisition will be set out in a circular to be delivered to the Company's shareholders. In addition, on the same date, the Company entered into a heads of agreement with SinoPac Securities (Asia) Limited for the placing of 1% convertible notes due 2009 in the aggregate principle amount of US$30,000,000 (approximately $234,000,000).

37 COMPARATIVE FIGURES

Certain comparative figures have been adjusted, as a result of the change in accounting policy for deferred taxation, details of which are set out in Note 12."

D. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

China's manufacturing industry has demonstrated strong momentum for growth in the coming years together with the planned quota elimination at the beginning of 2005 will take the Group to even newer heights. The Group aims to expand through organic growth and acquisition growth applications.

Outsourcing has always been popular amongst global brands and the Group has proved to be a favoured partner with its unrivaled standing as a leading swimwear and casual wear manufacturer in Cambodia and China. The Group has always placed great importance in improving its production capacity. The Group aims to further enhance production capacity in Cambodia and China by improving operational efficiency and implying stringent cost controls and by ultimately achieving economies of scale.

In order to maintain growth in future, the Group will expand the production capacity as well as acquisition of Mudd (USA) principally engaged in design, manufacturing, sales and distribution and brand management. The acquisition of a well known brand will complement the Group's existing ODM/OEM business and offer multiple sources for enhancing long term profitability. The Group has commenced an exclusive manufacturing agreement with Mudd (USA) through the Group's own production or by sub-contracting for five years commencing 21st May, 2004. Mudd (USA) also has future growth prospects in the USA, Europe and Asia.

The expected quota elimination in early 2005 is expected to allow the Group to increase its exports to the existing client base worldwide. The Group will capture greater business opportunities, maximizing its tax and quota advantages. The second half of the fiscal year 2004/05 is considered as the peak season for the Group and its sales activities are expected to be higher than that in the first half of the year. It foresees the performance in the second half to be even better than in the beginning of the year. Highly regarded for its expertise in swimwear designs and scalable production capacity, the Group is aggressively consolidating its leading position in swimwear and casual wear manufacturing, with loyal customers and steady orders. The Group foresees the year 2004/05 to be a prosperous, productive and profitable.

A. ACCOUNTANTS' REPORT ON MUDD, LLC FOR THE THREE YEARS ENDED 31ST DECEMBER, 2001, 2002 AND 2003 AND FOR THE PERIOD FROM 1ST JANUARY, 2004 TO 20TH MAY, 2004

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants of Mudd, LLC, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

6/F, Wheelock House
20 Pedder Street
Central
Hong Kong

18 March, 2005

The Directors
Tack Fat Group International Limited
18/F Roxy Industrial Centre
58-66 Tai Lin Pai Road
Kwai Chung, New Territories
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Mudd, LLC for each of the three years ended 31st December, 2001, 2002 and 2003 and the period from 1st January, 2004 to 20th May, 2004 (the "Relevant Periods") prepared on the basis set out in Section 1 below, for inclusion in the circular of Tack Fat Group International Limited (the "Company") dated 18 March, 2005 (the "Circular").

Mudd, LLC (now known as Paper, Denim and Cloth, LLC) was established in 1996 as a New York limited liability company. Throughout the Relevant Periods and up to 20th May, 2004, its principal activities were acting 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 under two business divisions, namely, (i) the Mudd Business and (ii) the Paper, Denim and Cloth Business.

Mudd (USA) LLC ("Mudd (USA)") was formed on 9th March, 2004 as a Delaware limited liability company for the purpose of acquiring all the property and assets (except certain liabilities and the Paper, Denim & Cloth Business) of Mudd, LLC. Since completion of the aforesaid acquisition on 21st May, 2004, Mudd (USA) has been principally engaged in the Mudd Business, which comprises the designing, manufacturing and selling of denim jeans and other apparel and accessories products as well as licensing related products through brands including the Mudd brand and the MM Couture brand.

Throughout the Relevant Periods and up to 20th May, 2004, the Mudd Business and the Paper, Denim and Cloth Business were carried on by Mudd, LLC under common management from a number of significant aspects, such as operation, distribution, administration, asset management, accounting and finance. Therefore, certain historical financial information of the Mudd Business and the Paper, Denim and Cloth Business for the Relevant Periods could not be carved out from the financial statements of Mudd, LLC. The financial information relating to Mudd, LLC for the Relevant Periods included in this report includes the combined financial information of both the Mudd Business and the Paper, Denim and Cloth Business for the Relevant Periods. However, business division information is presented in respect of the Mudd Business and the Paper, Denim and Cloth Business in notes 2(e) and 3(j) to the financial information.

The financial statements of Mudd, LLC for the Relevant Periods for United States financial reporting purposes were prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP"). Anchin, Block & Anchin L.L.P., Certified Public Accountants registered in the United States of America and a member firm of HLB International, have audited the USGAAP financial statements of Mudd, LLC for the Relevant Periods.

For the purpose of this report, the directors of Mudd, LLC have also prepared the unaudited management accounts of Mudd, LLC for each of the Relevant Periods in accordance with accounting principles generally accepted in Hong Kong (the "HKGAAP Management Accounts") for which the directors of Mudd, LLC are solely responsible. The HKGAAP Management Accounts have been prepared based on the audited USGAAP financial statements of Mudd, LLC for the Relevant Periods.

The financial information of Mudd, LLC for the Relevant Periods as set out in this report has been prepared based on the HKGAAP Management Accounts and are prepared on the basis as set out in Section 1 below. No adjustment is considered necessary.

For the purpose of this report, we have examined the financial information of Mudd, LLC for the Relevant Periods and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The HKGAAP Management Accounts are the responsibility of the directors of Mudd, LLC. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information of Mudd, LLC set out in this report from the HKGAAP Management Accounts, to form an independent opinion on such financial information and to report our opinion to you.

In our opinion, the financial information together with the notes thereon gives, for the purpose of this report, a true and fair view of the results and cash flows of Mudd, LLC for the Relevant Periods and of the balance sheets of Mudd, LLC as at 31st December, 2001, 2002 and 2003 and 20th May, 2004.

The comparative income statement, cash flow statement, statement of changes in equity for the period from 1st January, 2003 to 31st May, 2003, together with the notes thereon (the "31st May, 2003 financial information") have been extracted from the financial statements of Mudd, LLC for the same period which was prepared solely for the purpose of this report. We have reviewed the 31st May, 2003 financial information in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by HKICPA. Our review consisted principally of making enquiries of group management and applying analytical procedures to the 31st May, 2003 financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 31st May, 2003 financial information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 31st May, 2003 financial information.

1. BASIS OF PRESENTATION

The financial information as set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial information set out in this report has been prepared under the historical cost convention and has been prepared in the United States dollars, being the reporting currency of Mudd, LLC.

2. PRINCIPAL ACCOUNTING POLICIES

Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses. Subsequent expenditure relating to a fixed asset 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 Mudd, LLC. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

Depreciation

Leasehold improvements are amortised over the lesser of the term of the lease or the estimated useful lives of the assets.

Depreciation on other fixed assets is computed by accelerated methods over the estimated useful lives of the assets.

Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets and other long-lived assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing 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 write-down 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 write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Income taxes

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 the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

Mudd, LLC is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of Mudd, LLC are domiciled and operate. The determination of current and deferred income tax was based on the enacted tax rates.

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.

Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Employee benefits

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

When Mudd, LLC grants employees options to acquire membership units of Mudd, LLC at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

Mudd, LLC maintains a defined contribution 401 (k) retirement plan covering all eligible employees. The plan provides for employee contributions and a discretionary matching contribution by Mudd, LLC. Mudd, LLC did not make any contributions to the plan between 1st January, 2001 and 20th May, 2004.

Operating lease charges

Where Mudd, LLC has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal installments 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Mudd, LLC 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.

Revenue recognition

Provided it is probable that the economic benefits will flow to Mudd, LLC and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Revenue from sale of goods is recognised when goods are delivered 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, if any, and is after deduction of any trade discounts.

(ii) Royalty income is recognised on an accrual basis.

Related parties

For the purposes of these financial statements, parties are considered to be related to Mudd, LLC if Mudd, LLC has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Mudd, LLC and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2. INCOME STATEMENTS

The following is a summary of the income statements of Mudd, LLC for the three years ended 31st December, 2001, 2002 and 2003 and for the period from 1st January, 2004 to 20th May, 2004 (the "Relevant Periods") together with the unaudited income statements of Mudd, LLC for the five months ended 31st May, 2003:

					Period from 1st January, 2004 to 20th May,	**Five months ended 31st May,**
		Year ended 31st December,				
		2001	**2002**	**2003**	**2004**	**2003**
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
						(unaudited)
Turnover	*(a)*	156,985	210,818	190,284	58,701	65,415
Cost of sales		(108,269)	(138,997)	(131,648)	(42,121)	(44,035)
Gross profit		48,716	71,821	58,636	16,580	21,380
Other revenue	*(a)*	6,108	11,534	12,359	3,493	3,349
Distribution costs		(21,323)	(26,978)	(28,150)	(9,828)	(10,429)
Administrative expenses		(7,467)	(8,030)	(8,516)	(3,954)	(3,407)
Profit from operations	*(b)*	26,034	48,347	34,329	6,291	10,893
Interest expenses, net	*(c)*	(2,017)	(905)	(618)	(274)	(381)
Profit from ordinary activities before taxation		24,017	47,442	33,711	6,017	10,512
Income tax (charge)/credit	*(d)*	(502)	(639)	(544)	24	(136)
Profit attributable to members		23,515	46,803	33,167	6,041	10,376
Distribution to members		22,765	46,803	33,167	6,041	10,376

Notes:

(a) Turnover and revenue

	Year ended 31st December, 2001	Year ended 31st December, 2002	Year ended 31st December, 2003	Period from 1st January, 2004 to 20th May, 2004	Five months ended 31st May, 2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)
Turnover					
Sale of products, net of returns, discounts and allowances	156,985	210,818	190,284	58,701	65,415
Other revenue					
Royalty income, net of licensing fees	6,108	11,534	12,359	3,493	3,349
Total revenue	163,093	222,352	202,643	62,194	68,764

No business segment information (primary segment information) has been disclosed for the years/periods presented as Mudd, LLC was acting 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 under two business divisions, namely, (i) the Mudd Business and (ii) the Paper, Denim and Cloth Business. Details of the results and assets and liabilities relating to these two business divisions are disclosed in notes 2(e) and 3(j). Substantially all of the Mudd, LLC's operations are located in the United States of America ("USA") and therefore no geographical segment information has been disclosed for the years/periods presented.

(b) Profit from operations

Profit from operations is arrived at after charging:

	Year ended 31st December, 2001	Year ended 31st December, 2002	Year ended 31st December, 2003	Period from 1st January, 2004 to 20th May, 2004	Five months ended 31st May, 2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)
Total staff costs					
– Salaries and allowances	11,214	14,240	16,594	6,123	6,205
Depreciation of owned assets	288	213	317	84	115
Loss on disposal of fixed assets	–	–	–	93	–
Operating lease rentals in respect of land and buildings	678	678	763	294	388
Auditors' remuneration	430	517	625	479	271
Cost of inventories expensed	108,269	138,997	131,648	42,121	44,035

(c) Interest expenses, net

	Year ended 31st December, 2001	Year ended 31st December, 2002	Year ended 31st December, 2003	Period from 1st January, 2004 to 20th May, 2004	Five months ended 31st May, 2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)
Interest on advances from factor	2,043	911	626	276	385
Interest income	(26)	(6)	(8)	(2)	(4)
	2,017	905	618	274	381

(d) Income tax

An analysis of the provision for tax in the income statements is as follows:

	Year ended 31st December, 2001	Year ended 31st December, 2002	Year ended 31st December, 2003	Period from 1st January, 2004 to 20th May, 2004	Five months ended 31st May, 2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)
Hong Kong profits tax:	–	–	–	–	–
Overseas income taxes:					
USA					
Current income tax:					
– New York City unincorporated business tax	502	639	544	(24)	136
Income tax charge/(credit)	502	639	544	(24)	136

Mudd, LLC is not liable to Hong Kong profits tax as it does not have assessable income currently sourced from Hong Kong.

Mudd, LLC is a limited liability company and does not pay federal or certain state income taxes on its taxable income. Instead, the members of Mudd, LLC report their proportionate share of taxable income on their personal income tax returns. Accordingly, no federal or state income taxes have been provided.

Income taxes payable amounted to approximately US$264,000, US$45,000 and US$10,000 as at 31st December, 2001, 2002 and 2003 respectively and income tax refundable amounted to approximately US$165,000 as at 20th May, 2004.

The following is a reconciliation of income taxes calculated at the applicable tax rates with income tax expenses:

	Year ended 31st December, 2001	2002	2003	Period from 1st January, 2004 to 20th May, 2004	Five months ended 31st May, 2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)
Accounting profit before taxation	24,017	47,442	33,711	6,017	10,512
Expected income tax at applicable tax rates	316	624	468	83	105
Tax effects of:					
– non-deductible items	48	44	50	22	21
– non-taxable items	(18)	(3)	(6)	22	(3)
– others	156	(26)	32	(151)	13
Income tax charge/(credit) reported in the income statements	502	639	544	(24)	136

(e) Business division results

Business division information is presented in respect of the two business divisions operated by Mudd, LLC, namely the Mudd Business and the Paper, Denim and Cloth Business. As the Paper, Denim and Cloth Business was only commenced in late 2001, the directors of Mudd, LLC consider that all the operations of Mudd, LLC for the year ended 31st December, 2001 are attributable to the Mudd Business.

Year ended 31st December, 2001	**Mudd Business** *US$'000*
Turnover	
Sale of products, net of returns, discounts and allowances	156,985
Cost of sales	(108,269)
Gross profit	48,716
Other revenue	
Royalty income, net of licensing fees	6,108
Distribution costs	(21,323)
Administrative expenses	(7,467)
Profit from operations	26,034
Interest expenses, net	(2,017)
Profit from ordinary activities before taxation	24,017
Income tax charge	(502)
Profit attributable to members	23,515

Year ended 31st December, 2002	Mudd Business US$'000	Paper, Denim and Cloth Business US$'000	Unallocated US$'000	Total US$'000
Turnover				
Sale of products, net of returns, discounts and allowances	196,587	14,231	–	210,818
Cost of sales	(129,924)	(9,073)	–	(138,997)
Gross profit	66,663	5,158	–	71,821
Other revenue				
Royalty income, net of licensing fees	11,534	–	–	11,534
Distribution costs	(9,846)	(1,760)	(15,372)	(26,978)
Administrative expenses	–	–	(8,030)	(8,030)
Profit from operations				48,347
Interest expenses, net				(905)
Profit from ordinary activities before taxation				47,442
Income tax charge				(639)
Profit attributable to members				46,803

Year ended 31st December, 2003	Mudd Business US$'000	Paper, Denim and Cloth Business US$'000	Total US$'000
Turnover			
Sale of products, net of returns, discounts and allowances	158,760	31,524	190,284
Cost of sales	(111,395)	(20,253)	(131,648)
Gross profit	47,365	11,271	58,636
Other revenue			
Royalty income, net of licensing fees	12,359	–	12,359
Distribution costs	(21,708)	(6,442)	(28,150)
Administrative expenses	(8,251)	(265)	(8,516)
Profit from operations	29,765	4,564	34,329
Interest expenses, net	(352)	(266)	(618)
Profit from ordinary activities before taxation	29,413	4,298	33,711
Income tax charge	(475)	(69)	(544)
Profit attributable to members	28,938	4,229	33,167

Period from 1st January, 2004 to 20th May, 2004	**Mudd Business** *US$'000*	**Paper, Denim and Cloth Business** *US$'000*	**Total** *US$'000*
Turnover			
Sale of products, net of returns, discounts and allowances	45,547	13,154	58,701
Cost of sales	(32,932)	(9,189)	(42,121)
Gross profit	12,615	3,965	16,580
Other revenue			
Royalty income, net of licensing fees	3,493	–	3,493
Distribution costs	(7,248)	(2,580)	(9,828)
Administrative expenses	(3,577)	(377)	(3,954)
Profit from operations	5,283	1,008	6,291
Interest expenses, net	(148)	(126)	(274)
Profit from ordinary activities before taxation	5,135	882	6,017
Income tax credit	21	3	24
Profit attributable to members	5,156	885	6,041

Period from 1st January, 2003 to 31st May, 2003 (unaudited)	**Mudd Business** *US$'000* (unaudited)	**Paper, Denim and Cloth Business** *US$'000* (unaudited)	**Total** *US$'000* (unaudited)
Turnover			
Sale of products, net of returns, discounts and allowances	52,877	12,538	65,415
Cost of sales	(37,608)	(6,427)	(44,035)
Gross profit	15,269	6,111	21,380
Other revenue			
Royalty income, net of licensing fees	3,349	–	3,349
Distribution costs	(8,253)	(2,176)	(10,429)
Administrative expenses	(2,933)	(474)	(3,407)
Profit from operations	7,432	3,461	10,893
Interest expenses, net	(228)	(153)	(381)
Profit from ordinary activities before taxation	7,204	3,308	10,512
Income tax charge	(93)	(43)	(136)
Profit attributable to members	7,111	3,265	10,376

3. BALANCE SHEETS

A summary of the balance sheets of Mudd, LLC as at the end of each of the Relevant Periods is set out below:

		31st December,			20th May,
		2001	**2002**	**2003**	**2004**
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
NON-CURRENT ASSETS					
Fixed assets	*(a)*	522	561	485	823
Other assets		60	80	87	162
		582	641	572	985
CURRENT ASSETS					
Inventories	*(b)*	4,173	11,712	15,385	23,916
Accounts receivable, net	*(c)*	21	272	777	1,340
Amounts due from licensees	*(d)*	1,881	1,892	3,029	1,232
Amount due from factor	*(e)*	4,581	10,500	756	–
Prepayments and other current assets		1,117	479	368	1,119
Income tax refundable		–	–	–	165
Cash and cash equivalents		196	1,144	491	106
		11,969	25,999	20,806	27,878
TOTAL ASSETS		12,551	26,640	21,378	28,863
LESS: CURRENT LIABILITIES					
Accounts payable and accrued expenses	*(f)*	2,446	7,374	10,044	12,128
Deferred royalty income		179	433	302	302
Amount due to factor	*(e)*	–	–	587	6,259
Income tax payable		264	45	10	–
Distributions payable to members of Mudd, LLC	*(g)*	2,018	11,144	2,791	2,530
		4,907	18,996	13,734	21,219
NET CURRENT ASSETS		7,062	7,003	7,072	6,659
NET ASSETS		7,644	7,644	7,644	7,644
Representing:					
MEMBERS' EQUITY (Section 4)		7,644	7,644	7,644	7,644

Notes:

(a) Fixed assets

	Furniture and fixtures	Leasehold improvements	Machinery and equipment	Computer equipment	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At cost:					
As at 1st January, 2001	82	203	334	544	1,163
Additions	9	44	15	99	167
As at 31st December, 2001 and as at 1st January, 2002	91	247	349	643	1,330
Additions	21	25	24	182	252
As at 31st December, 2002 and as at 1st January, 2003	112	272	373	825	1,582
Additions	10	96	32	103	241
As at 31st December, 2003 and as at 1st January, 2004	122	368	405	928	1,823
Additions	41	422	4	48	515
Disposals	–	(109)	–	–	(109)
As at 20th May, 2004	163	681	409	976	2,229
Accumulated depreciation:					
As at 1st January, 2001	33	35	177	275	520
Charge for the year	15	80	47	146	288
As at 31st December, 2001 and as at 1st January, 2002	48	115	224	421	808
Charge for the year	15	26	41	131	213
As at 31st December, 2002 and as at 1st January, 2003	63	141	265	552	1,021
Charge for the year	16	114	43	144	317
As at 31st December, 2003 and as at 1st January, 2004	79	255	308	696	1,338
Charge for the period	5	19	15	45	84
Released on disposals	–	(16)	–	–	(16)
As at 20th May, 2004	84	258	323	741	1,406
Net book value:					
As at 20th May, 2004	79	423	86	235	823
As at 31st December, 2003	43	113	97	232	485
As at 31st December, 2002	49	131	108	273	561
As at 31st December, 2001	43	132	125	222	522

(b) Inventories

	31st December, 2001	31st December, 2002	31st December, 2003	20th May, 2004
	US$'000	*US$'000*	*US$'000*	*US$'000*
Raw materials	727	2,146	1,513	3,260
Work-in-progress	62	848	1,504	1,937
Finished goods	3,384	8,718	12,368	18,719
	4,173	11,712	15,385	23,916

Included in inventories as at the end of each of the Relevant Periods were the following inventories which were stated at net realisable value:

	31st December, 2001	31st December, 2002	31st December, 2003	20th May, 2004
	US$'000	*US$'000*	*US$'000*	*US$'000*
Raw materials	1,693	731	1,286	1,984
Finished goods	422	1,239	2,178	2,736
	2,115	1,970	3,464	4,720

(c) Accounts receivable, net

The ageing analysis of accounts receivable is as follows:

	31st December, 2001	31st December, 2002	31st December, 2003	20th May, 2004
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within 30 days	21	271	650	633
31 – 60 days	–	30	177	757
61 – 90 days	–	6	4	6
Over 90 days	–	15	6	9
	21	322	837	1,405
Less: Provision for doubtful accounts	–	(50)	(60)	(65)
	21	272	777	1,340

Mudd, LLC's sales are usually settled on open account basis with credit terms ranging from 30 days to 90 days. During the Relevant Periods, Mudd, LLC, subject to the factor's credit approval, assigned and sold to the factor substantially all its accounts receivable without recourse. Further details of the factoring arrangement are disclosed in note (e) below. Normal credit terms offered to non-factored customers are usually 30 days.

(d) Amounts due from licensees

Mudd, LLC is the licensor under the terms of various royalty agreements and earns royalty income based on sales of the licensed products. The royalty agreements expire through 31st December, 2005. The minimum royalty income receivable by Mudd, LLC pursuant to the royalty agreements is as follows:

		31st December,		**20th May,**
	2001	**2002**	**2003**	**2004**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	2,313	2,787	3,832	881
In the second to fifth years inclusive	1,768	1,452	3,350	2,944
	4,081	4,239	7,182	3,825

(e) Amounts due from/(to) factor

Under a factoring agreement with GMAC Commercial Credit LLC (GMAC) through 31st December, 2001, Mudd LLC, subject to the factor's credit approval, assigned and sold to the factor substantially all its accounts receivable without recourse. In instances where the credit approval of the factor had not been received prior to shipment, the risk of collectibility was retained by Mudd, LLC; otherwise all accounts receivable were sold to the factor without recourse. The factor also advanced funds to Mudd, LLC which were secured by all of the accounts receivable, trademarks and finished goods inventory.

Mudd, LLC terminated its factoring agreement with GMAC and entered into a factoring agreement with HSBC Business Credit (USA) Inc dated 2nd January, 2002 and cancelable after 2nd January, 2004. Mudd, LLC, subject to the factor's credit approval, assigns and sells to the factor substantially all its accounts receivable without recourse. In instances where the credit approval of the factor has not been received prior to shipment, the risk of collectibility is retained by Mudd, LLC; otherwise all accounts receivable are sold to the factor without recourse. The factor also advances funds to Mudd, LLC which are secured by all of the accounts receivable, trademarks and finished goods inventory.

(f) Accounts payable and accrued expenses

The ageing analysis of accounts payable is as follows:

		31st December,		**20th May,**
	2001	**2002**	**2003**	**2004**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Accounts payable:				
Within 30 days	2,260	6,357	9,067	10,368
31 – 60 days	–	397	448	481
61 – 90 days	27	150	54	58
Over 90 days	22	–	9	–
Total accounts payable	2,309	6,904	9,578	10,907
Accrued expenses	137	470	466	1,221
	2,446	7,374	10,044	12,128

(g) Distributions payable to members of Mudd, LLC

Provision for distributions to members of Mudd, LLC amounted to approximately US$22,765,000, US$46,803,000, US$33,167,000 and US$6,041,000, for each of the Relevant Periods respectively. Included in provision for distribution to members of Mudd, LLC is the reimbursement for income taxes which the members of Mudd, LLC are obligated to pay. Distributions payable as at 31st December, 2001, 2002 and 2003 and 20th May, 2004, amounting to approximately US$2,018,000, US$11,144,000, US$2,791,000 and US$2,530,000 respectively, represent such provision less amounts paid during the respective years/period.

(h) Commitments

Mudd, LLC is obligated under operating leases expiring through November 2009, for showroom and office space in various premises located in New York City, and warehouse space in Georgia. As at the end of each of the Relevant Periods, Mudd, LLC had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

		31st December,		**20th May,**
	2001	**2002**	**2003**	**2004**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	431	592	752	1,801
In the second to fifth years inclusive	423	423	2,501	3,356
	854	1,015	3,253	5,157

(i) Contingent liabilities

There were no significant contingent liabilities as at the end of each of the Relevant Periods.

(j) Business division assets and liabilities

Business division information is presented in respect of the two business divisions operated by Mudd, LLC, namely the Mudd Business and the Paper, Denim and Cloth Business. As the Paper, Denim and Cloth Business was only commenced in late 2001, the directors of Mudd, LLC consider that all the operations of Mudd, LLC for the year ended 31st December, 2001 are attributable to the Mudd Business.

	Mudd Business
As at 31st December, 2001	*US$'000*
NON-CURRENT ASSETS	
Fixed assets	522
Other assets	60
	582
CURRENT ASSETS	
Inventories	4,173
Accounts receivable, net	21
Amounts due from licensees	1,881
Amount due from factor	4,581
Prepayments and other current assets	1,117
Cash and cash equivalents	196
	11,969
TOTAL ASSETS	12,551
LESS: CURRENT LIABILITIES	
Accounts payable	(2,304)
Accrued expenses	(142)
Deferred royalty income	(179)
Income tax payable	(264)
Distributions payable to members of Mudd, LLC	(2,018)
	(4,907)
NET ASSETS	7,644

As at 31st December, 2002	Mudd Business *US$'000*	Paper, Denim and Cloth Business *US$'000*	Total *US$'000*
DIVISION ASSETS			
Inventories	7,056	4,656	11,712
Accounts receivable, net	35	237	272
Amounts due from licensees	1,892	–	1,892
Other assets	72	8	80
	9,055	4,901	13,956
UNALLOCATED CORPORATE ASSETS			12,684
TOTAL ASSETS			26,640
LESS: DIVISION LIABILITIES			
Accounts payable	(4,866)	(2,038)	(6,904)
Accrued expenses	(82)	(388)	(470)
Deferred royalty income	(433)	–	(433)
	(5,381)	(2,426)	(7,807)
LESS: UNALLOCATED CORPORATE LIABILITIES			(11,189)
TOTAL LIABILITIES			(18,996)
NET ASSETS			7,644

As at 31st December, 2003	Mudd Business *US$'000*	Paper, Denim and Cloth Business *US$'000*	Total *US$'000*
DIVISION ASSETS			
Fixed assets	485	–	485
Inventories	9,944	5,441	15,385
Accounts receivable, net	20	757	777
Amounts due from licensees	3,029	–	3,029
Amount due from factor	756	–	756
Prepayments and other current assets	368	–	368
Cash and cash equivalents	491	–	491
Other assets	63	24	87
TOTAL ASSETS	15,156	6,222	21,378
LESS: DIVISION LIABILITIES			
Accounts payable	(7,291)	(2,287)	(9,578)
Accrued expenses	(152)	(314)	(466)
Deferred royalty income	(302)	–	(302)
Amount due to factor	(587)	–	(587)
Income tax payable	(10)	–	(10)
Distributions payable to members of Mudd, LLC	(2,791)	–	(2,791)
TOTAL LIABILITIES	(11,133)	(2,601)	(13,734)
NET ASSETS			7,644

As at 20th May, 2004	Mudd Business US$'000	Paper, Denim and Cloth Business US$'000	Total US$'000
DIVISION ASSETS			
Fixed assets	767	56	823
Inventories	15,386	8,530	23,916
Accounts receivable, net	172	1,168	1,340
Amounts due from licensees	1,232	–	1,232
Prepayments and other current assets	383	736	1,119
Income tax refundable	165	–	165
Cash and cash equivalents	106	–	106
Security deposits	–	162	162
TOTAL ASSETS	18,211	10,652	28,863
LESS: DIVISION LIABILITIES			
Accounts payable	(8,714)	(2,193)	(10,907)
Accrued expenses	(390)	(831)	(1,221)
Deferred royalty income	(302)	–	(302)
Amount due to factor	(6,259)	–	(6,259)
Distributions payable to members of Mudd, LLC	(2,530)	–	(2,530)
TOTAL LIABILITIES	(18,195)	(3,024)	(21,219)
NET ASSETS			7,644

4. STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the statements of changes in members' equity of Mudd, LLC for the Relevant Periods:

	Total
	US$'000
As at 1st January, 2001	6,894
Profit attributable to members	23,515
Distribution to members	(22,765)
As at 31st December, 2001 and as at 1st January, 2002	7,644
Profit attributable to members	46,803
Distribution to members	(46,803)
As at 31st December, 2002 and as at 1st January, 2003	7,644
Profit attributable to members	33,167
Distribution to members	(33,167)
As at 31st December, 2003 and as at 1st January, 2004	7,644
Profit attributable to members	6,041
Distribution to members	(6,041)
As at 20th May, 2004	7,644

Mudd, LLC does not have a share capital during the Relevant Periods as the ownership of Mudd, LLC is divided into and represented by membership units. The amount of distributable reserves represents the balance in their respective capital accounts as at the end of each of the Relevant Periods.

5. CASH FLOW STATEMENTS

The following is a summary of the cash flow statements of Mudd, LLC for the Relevant Periods together with the unaudited cash flow statement for the five months ended 31st May, 2003:

	Year ended 31st December, 2001	Year ended 31st December, 2002	Year ended 31st December, 2003	Period from 1st January, 2004 to 20th May, 2004	Five months ended 31st May, 2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)
Cash flows from operating activities					
Profit from operations	26,034	48,347	34,329	6,291	10,893
Adjustments for:					
Depreciation of owned assets	288	213	317	84	115
Loss on disposal of fixed assets	–	–	–	93	–
Operating profit before changes in working capital	26,322	48,560	34,646	6,468	11,008
Changes in working capital:					
Inventories	6,121	(7,539)	(3,673)	(8,531)	(4,755)
Accounts receivable, net	(21)	(251)	(505)	(563)	(21)
Amounts due from licensees	(1,263)	(11)	(1,137)	1,797	1,892
Amount due from factor	1,300	(5,919)	9,744	756	9,740
Prepayments and other current assets	915	638	111	(751)	338
Other assets	(8)	(20)	(7)	(75)	(16)
Accounts payable and accrued expenses	(3,681)	4,928	2,670	2,084	(361)
Amount due to factor	–	–	587	5,672	–
Deferred royalty income	(285)	254	(131)	–	(433)
Net cash from operations	29,400	40,640	42,305	6,857	17,392
Interest paid	(2,043)	(911)	(626)	(276)	(385)
Interest received	26	6	8	2	4
Income tax paid	(204)	(858)	(579)	(151)	(209)
Net cash generated from operating activities	27,179	38,877	41,108	6,432	16,802
Net cash used in investing activities					
Payment to acquire fixed assets	(167)	(252)	(241)	(515)	(138)
Net cash used in financing activities					
Distributions to members of Mudd, LLC	(27,194)	(37,677)	(41,520)	(6,302)	(17,711)
Net increase/(decrease) in cash and cash equivalents	(182)	948	(653)	(385)	(1,047)
Cash and cash equivalents as at beginning of year/period	378	196	1,144	491	1,144
Cash and cash equivalents as at end of year/period	196	1,144	491	106	97
Analysis of balances of cash and cash equivalents:					
Cash and bank balances	196	1,144	491	106	97

6. SUBSEQUENT EVENT

On 21st May, 2004, certain assets and liabilities of the Mudd Business operated by Mudd, LLC were contributed to a newly formed entity, Mudd (USA) LLC in exchange for a membership interest. Mudd, LLC then distributed its membership interest in Mudd (USA) LLC to its members, who then sold 80% of their interest to TFM Holdings Corporation. Mudd, LLC then changed its name to Paper Denim and Cloth, LLC.

7. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Mudd, LLC have been prepared in respect of any period subsequent to 20th May, 2004.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE MUDD BUSINESS

Overview

Mudd, LLC (now known as Paper, Denim and Cloth, LLC) was established in 1996 as a New York limited liability company. Throughout the Relevant Periods and up to 20th May, 2004, its principal activities were acting 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 under two business divisions, namely, (i) the Mudd Business and (ii) the Paper, Denim and Cloth Business.

Mudd (USA) LLC ("Mudd (USA)") was formed on 9th March, 2004 as a Delaware limited liability company for the purpose of acquiring all the property and assets (except certain liabilities and the Paper, Denim and Cloth Business) of Mudd, LLC. Since completion of the aforesaid acquisition on 21st May, 2004, Mudd (USA) has been principally engaged in the Mudd Business, which comprises the designing, manufacturing and selling of denim jeans and other apparel products as well as licensing related products through brands including the Mudd brand and the MM Couture brand.

The Paper, Denim and Cloth Business was started in 2001 and initially represented a very insignificant amount of the turnover of Mudd, LLC. Accordingly, there was no distinction between the Mudd Business and Paper, Denim and Cloth Business during the year ended 31st December, 2001. Throughout the Relevant Periods and up to 20th May, 2004, the Mudd Business and the Paper, Denim and Cloth Business were carried on by Mudd, LLC under common management from a number of significant aspects, such as operation, distribution, administration, asset management, accounting and finance. Therefore, certain historical financial information of the Mudd Business and the Paper, Denim and Cloth Business for the Relevant Periods could not be carved out from the financial statements of Mudd, LLC. Only certain financial information in respect of the Mudd Business as detailed below can be separated. The remaining expenses items are classified as unallocated items and therefore are not presented for the purpose of the review of the trading record of the Mudd Business.

Sales

The sales of the Mudd Business consist wholly of income arising from the design, manufacture and sale of denim jeans and other apparel products and license related products through brands including the Mudd brand and the MM Couture brand. Sales revenue represents net invoiced value of goods sold, after allowances for goods returns, discounts and allowances, subject to the revenue recognition policy of the Mudd Business.

Sales revenue is recognised when the significant risks and rewards of ownership of the products have been transferred to the customer and the amount of revenue can be measured reliably.

Cost of sales

The cost of sales of the Mudd Business consists primarily of inventory costs, labour costs and licensing fees.

Gross profit

The gross profit of the Mudd Business varies principally as a result of the general economic conditions of the retail market, their effect on product pricing and the cost of sales on the Mudd Business. The Mudd Business principally sets the prices for its products with reference to the selling prices of suppliers and manufacturers and the prices charged by competitors.

Royalty income

The Mudd Business also derives royalty income by licensing certain products through its brand including the Mudd brand and the MM Couture brand. Royalty is calculated based on sales of licensed products in accordance with the contract terms of the royalty agreements.

Distribution costs

Distribution costs included warehouse expenses and selling and designing expenses. Warehouse expenses mainly comprise of shipping staff salaries, shipping supplies and freight charges. Selling and designing expenses mainly comprise of salaries, commissions and advertising and promotion.

Administrative expenses

Administrative expenses mainly comprise of employee benefits and professional fees.

Interest expenses

Interest expenses mainly represent the finance charges levied by the factors on the advanced funds to the Mudd Business.

Income tax

Income tax mainly represents the New York City unincorporated business tax.

Business review

Year ended 31st December, 2002 compared to year ended 31st December, 2001

Sales

The sales of the Mudd Business increased from approximately US$156,985,000 for the year ended 31st December, 2001 to approximately US$196,587,000 for the year ended 31st December, 2002, representing an increase of approximately US$39,602,000 or 25.2%. The significant increase is mainly attributable to the rapid expansion of the Mudd Business in 2002 and the general market condition of the denim industry was also good in 2002.

Cost of sales

The cost of sales of the Mudd Business increased from approximately US$108,269,000 for the year ended 31st December, 2001 to approximately US$129,924,000 for the year ended 31st December, 2002, representing an increase of approximately US$21,655,000 or 20.0%. The rate of increase was less than the increase in sales because in 2002 the Mudd Business changed the principal source of supply from South America to China in which the production cost was lower and therefore the cost of purchase of materials decreased accordingly.

Gross profit

The gross profit of Mudd increased from approximately US$48,716,000 for the year ended 31st December, 2001 to approximately US$66,663,000 for the year ended 31st December, 2002 and the gross profit margin increased from approximately 31.0% in 2001 to approximately 33.9% in 2002. The increase in gross profit margin is mainly because the production cost in China is lower than South America and accordingly the Mudd Business was able to obtain more favourable terms of purchase which result in higher gross profit margin.

Royalty income

The royalty income generated by the Mudd Business increased from approximately US$6,108,000 for the year ended 31st December, 2001 to approximately US$11,534,000 for the year ended 31st December, 2002, representing an increase of approximately US$5,426,000 or 88.8%. The significant increase was mainly due to the increase in the number of licensees in 2002 and the significant sales growth with the existing licensees in 2002.

Distribution costs

As explained above, since the Paper, Denim and Cloth Business was started in 2001 and only accounted for a very insignificant operation of Mudd, LLC, all distribution costs which include warehouse expenses and selling and designing expenses of approximately US$9,936,000 and US$11,387,000 respectively during the year ended 31st December, 2001 were considered incurred by the Mudd Business. During the year ended 31st December, 2002, the posting of invoices for warehouse expenses of the Paper, Denim and Cloth Business were not separated from the Mudd Business as the warehouse facilities were still not separated during this period and accordingly, no specific identification of the warehouse expenses by businesses could be made and therefore the warehouse expenses were not comparable to the year ended 31st December, 2001.

Due to the above reason, the distribution costs which can be specifically identified as attributable to the Mudd Business during the year ended 31 December, 2002 included only the selling and designing expenses as the warehouse expenses could not be separated. The selling and designing expenses incurred by the Mudd Business decreased from approximately US$11,387,000 for the year ended 31st December, 2001 to approximately US$9,846,000 for the year ended 31st December, 2002, representing a decrease of approximately US$1,541,000 or 13.5%. Selling and designing expenses of the Mudd Business for the year ended 31st December, 2002 mainly comprise salaries and commissions, which amounted to approximately US$6,449,000 or represent approximately 65.5% of the total selling and designing expenses.

As the general market condition of the denim industry was good in 2002, the Mudd Business was able to generate more sales without increasing the related costs in line with the sales.

Administrative expenses

Throughout the years ended 31 December, 2001 and 2002, the administrative functions of the Mudd Business and the Paper, Denim & Cloth Business were performed by the same people at the same locations and could not be separately identified. Accordingly, the administrative expenses were recorded on a combined basis and could not be separated between the Mudd Business and the Paper, Denim and Cloth Business during the year ended 31st December, 2002. Therefore the administrative expenses incurred during the year ended 31st December, 2002 were not comparable to the year ended 31st December, 2001.

Interest expenses

As explained above, since the Paper, Denim and Cloth Business was started in 2001 and only accounted for a very insignificant operation of Mudd, LLC, all interest expenses during the year ended 31st December, 2001 were considered incurred by the Mudd Business. During the year ended 31st December, 2002, Mudd, LLC has not yet separately recorded the interest expenses of the Mudd Business from the Paper, Denim and Cloth Business and accordingly, no specific identification of the interest expenses by businesses could be made and therefore the interest expenses were not comparable to the year ended 31st December, 2001.

Income tax

As explained above, since the Paper, Denim and Cloth Business was started in 2001 and only accounted for a very insignificant operation of Mudd, LLC, all income tax during the year ended 31st December, 2001 were considered incurred by the Mudd Business. During the year ended 31st December, 2002, Mudd, LLC has not yet separately recorded all the expenses of the Mudd Business from the Paper, Denim and Cloth Business and accordingly, no specific identification of the income tax by businesses could be made and therefore the income tax were not comparable to the year ended 31st December, 2001.

Year ended 31st December, 2003 compared to year ended 31st December, 2002

Sales

The sales of the Mudd Business decreased from approximately US$196,587,000 for the year ended 31st December, 2002 to approximately US$158,760,000 for the year ended 31st December, 2003, representing a decrease of approximately US$37,827,000 or 19.2%. In 2003, the global costs of raw materials and the cost of quotas in China, which is the major source of supply of raw materials, increased dramatically throughout 2003. Although the Mudd Business changed its supply source to other countries to minimise both the costs of raw materials and the costs of quotas, these new supply sources were less efficient in meeting the demand of the Mudd Business and therefore resulting in loss of sales of the Mudd Business. In addition, there was a prolonged dock strike in the United States of America in late 2003 which resulting in serious delay in shipments and further loss of sales of the Mudd Business.

Cost of sales

The cost of sales of the Mudd Business decreased from approximately US$129,924,000 for the year ended 31st December, 2002 to approximately US$111,395,000 for the year ended 31st December, 2003, representing a decrease of approximately US$18,529,000 or 14.3%. The rate of decrease was less than the decrease in sales because the delay in shipments and dramatic increase in costs of quotas which led to change in supply sources, resulting in additional costs of raw materials, labour costs and shipment charges for the year ended 31st December, 2003.

Gross profit

As a result of the above principal factors, the gross profit of the Mudd Business decreased from approximately US$66,663,000 for the year ended 31st December, 2002 to approximately US$47,365,000 for the year ended 31st December, 2003 and the gross profit margin decreased from approximately 33.9% in 2002 to approximately 29.8% in 2003.

Royalty income

The royalty income generated by the Mudd Business increased from approximately US$11,534,000 for the year ended 31st December, 2002 to approximately US$12,359,000 for the year ended 31st December, 2003, representing an increase of approximately US$825,000 or 7.2%. The increase was primarily due to continuous increase in the strength of the Mudd brand in the market place and most of the licensing related products also showed increase in sales.

Distribution costs

During the year ended 31st December, 2003, the distribution costs included warehouse expenses of approximately US$11,026,000 and selling and designing expenses of approximately US$10,682,000.

The warehouse expenses incurred by the Mudd Business for the year ended 31st December, 2003 mainly comprise shipping staff salaries and shipping supplies. During the year ended 31st December, 2002, the posting of invoices for warehouse expenses of the Paper, Denim and Cloth Business were not separated from the Mudd Business as the warehouse facilities were still not separated during this period and accordingly, no specific identification of the warehouse expenses by businesses could be made and therefore the warehouse expenses in 2002 were not comparable to the year ended 31st December, 2003.

The selling and designing expenses incurred by the Mudd Business increased from approximately US$9,846,000 for the year ended 31st December, 2002 to approximately US$10,682,000 for the year ended 31st December, 2003, representing an increase of approximately US$836,000 or 8.5%. Selling and designing expenses of the Mudd Business for the year ended 31st December, 2003 mainly comprise salaries and commissions, which amounted to approximately US$7,683,000 or represent approximately 71.9% of the total selling and designing expenses. As compared to the year ended 31st December, 2002, the salaries and commissions comprised a higher proportion of the total selling and designing expenses in 2003 as the Mudd Business employed additional design personnel to deal with the new product category. Accordingly, the selling and designing expenses in 2003 increased despite of the decrease in sales.

Administrative expenses

During the year ended 31st December, 2002, the administrative functions of the Mudd Business and the Paper, Denim and Cloth Business were performed by the same people at the same locations and could not be separately identified. Accordingly, the administrative expenses were recorded on a combined basis and could not be separated between the Mudd Business and the Paper, Denim and Cloth Business during the year ended 31st December, 2002. Therefore the administrative expenses incurred during the year ended 31st December, 2002 were not comparable to the year ended 31st December, 2003.

Interest expenses

During the year ended 31st December, 2002, the interest expenses of the Mudd Business and the Paper, Denim and Cloth Business were not separately recorded. Accordingly, the interest expenses incurred during the year ended 31st December, 2002 were not comparable to the year ended 31st December, 2003.

Income tax

During the year ended 31st December, 2002, the income tax of the Mudd Business and the Paper, Denim and Cloth Business were not separately recorded. Accordingly, the income tax incurred during the year ended 31st December, 2002 were not comparable to the year ended 31st December, 2003.

Period ended 20th May, 2004 compared to 31st December, 2003

Sales

The sales of the Mudd Business decreased from approximately US$158,760,000 for the year ended 31st December, 2003 to approximately US$45,547,000 for the period ended 20th May, 2004, representing a decrease of approximately US$49,447,000 or 31.2% on an annualised basis. The decrease in sales was primarily caused by interruption in supply of the raw materials of the Mudd Business. With the continuing high quota costs in China, the Mudd Business changed its supply sources to other countries which could not respond efficient enough to meet Mudd's production needs and this result in loss of sales. Management of Mudd confirmed that the supply problems have been addressed and it is anticipated that a more responsive supply structure would be implemented in 2005 when the quota system is expected to be eliminated.

Cost of sales

The cost of sales of the Mudd Business decreased from approximately US$111,395,000 for the year ended 31st December, 2003 to approximately US$32,932,000 for the period ended 20th May, 2004, representing a decrease of approximately US$32,358,000 or 29.1% on an annualised basis. The decrease in cost of sales was considered in line with the decrease in sales.

Gross profit

As the quota costs continue to increase in 2004, the gross profit margin of the Mudd Business decreased from approximately 29.8% for the year ended 31st December, 2003 to approximately 27.7% for the period ended 20th May, 2004.

Royalty income

The royalty income generated by the Mudd Business decreased from approximately US$12,359,000 for the year ended 31st December, 2003 to approximately US$3,493,000 for the period ended 20th May, 2004 representing a decrease of approximately US$3,976,000 or 32.2% on an annualised basis. The decrease in royalty income was mainly because the licensees' sales of two licensing related product categories, namely knit and woven tops, and swimwear had lower sales in 2003 and this resulted in a decrease in royalty income accordingly.

Distribution costs

During the period ended 20th May, 2004, the distribution costs included warehouse expenses of approximately US$3,613,000 and selling and designing expenses of approximately US$3,635,000 respectively.

The warehouse expenses incurred by the Mudd Business decreased from approximately US$11,026,000 for the year ended 31st December, 2003 to approximately US$3,613,000 for the period ended 20th May, 2004, representing a decrease of approximately US$2,355,000 or 21.4%, on an annualized basis. The inefficiencies caused by interruption of the raw materials resulted in the Mudd Business having paid significantly more warehouse salaries in 2004 in dealing with such supply chain interruptions. Accordingly, the rate of decrease in warehouse expenses were less than the decrease in sales.

The selling and designing expenses incurred by the Mudd Business decreased from approximately US$10,682,000 for the year ended 31st December, 2003 to approximately US$3,635,000 for the period ended 20th May, 2004, representing a decrease of approximately US$1,958,000 or 18.3%, on an annualized basis. Selling and designing expenses of the Mudd Business for the period ended 20th May, 2004 mainly comprise salaries and commissions, which amounted to approximately US$2,833,000 or represent approximately 77.9% of the total selling and designing expenses. As compared to the year ended 31st December, 2003, the salaries and commissions comprise a higher proportion of the total selling and designing expenses in 2004 as the Mudd Business employed additional design personnel as there is an increasing need for new designs in the denim industry. Accordingly, the rate of decrease in selling and designing expenses was less than the decrease in sales.

Administrative expenses

The administrative expenses incurred by the Mudd Business increased from approximately US$8,251,000 for the year ended 31st December, 2003 to approximately US$3,577,000 for the period ended 20th May, 2004, representing an increase of approximately US$334,000 or 4.1%, on an annualized basis. Administrative expenses of the Mudd Business for the period ended 20th May, 2004 mainly comprise salaries and employee benefits and professional fees, which amounted to approximately US$2,084,000 or represent 58.3% of the total administrative expenses, as compared to approximately 54.0% of the total administrative expenses in 2003. Management considered that there are no significant fluctuations in the major expense items classified as administrative expenses.

Interest expenses

The interest expenses incurred by the Mudd Business increased from approximately US$352,000 for the year ended 31st December, 2003 to approximately US$148,000 for the period ended 20th May, 2004, representing an increase of approximately US$3,000, on an annualized basis and no material fluctuation was noted.

Income tax

The income tax charged as attributable to the Mudd Business was approximately US$475,000 for the year ended 31st December, 2003. During the period ended 20th May, 2004, the Mudd Business has an income tax credit of approximately US$21,000 which represents the overprovision for income tax in previous year.

A. ACCOUNTANTS' REPORT OF SINO LEGEND GROUP FOR THE PERIOD FROM 8TH JANUARY, 2004 (DATE OF INCORPORATION) TO 30TH SEPTEMBER, 2004

Accountants' report on Sino Legend Group

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants of Sino Legend Limited, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

6/F, Wheelock House
20 Pedder Street
Central
Hong Kong

18 March, 2005

The Directors
Tack Fat Group International Limited
18/F Roxy Industrial Centre
58-66 Tai Lin Pai Road
Kwai Chung, New Territories
Hong Kong

Dear Sirs

We set out below our report on the financial information relating to Sino Legend Limited ("Sino Legend") and its subsidiaries (collectively referred to as the "Sino Legend Group") for the period from 8th January, 2004 (date of incorporation of Sino Legend) to 30th September, 2004 (the "Relevant Period"), for inclusion in the circular of Tack Fat Group International Limited (the "Company") dated 18 March, 2005 (the "Circular").

Sino Legend was incorporated in the British Virgin Islands with limited liability on 8th January, 2004. Sino Legend had not carried out any business since its incorporation save for entering into the subscription agreements dated 21st May, 2004 for acquisition of equity interest in Mudd (USA) LLC ("Mudd (USA)") at a consideration of US$40 million. Thereafter, the principal asset of Sino Legend is its indirect holding of 72% of the membership units of Mudd (USA).

Mudd (USA) was formed on 9th March, 2004 as a Delaware limited liability company for the purpose of acquiring all the property and assets (except certain liabilities and the Paper, Denim & Cloth Business) of Mudd, LLC. Since completion of the aforesaid acquisition on 21st May, 2004, Mudd (USA) has been principally engaged in the Mudd Business, which comprises the design, manufacture and sale of denim jeans and other apparel and accessories products and licensing related products through brands including the Mudd brand and the MM Couture brand. Mudd (USA) commenced operations as from 21st May, 2004.

As at the date of this report, Sino Legend has the following subsidiaries, all of which are private companies:

Name of company	Place and date of incorporation	Issued and fully paid-up capital	Attributable equity interest	Principal activities
Subsidiaries held directly by Sino Legend:				
TFM Holdings Corporation ("TFM")	United States of America 5th February, 2004	Common stock US$100	100%	Investment holding
City Winner Limited ("City Winner")	British Virgin Islands 2nd January, 2004	Class A shares US$720 Class B shares US$200 Class C shares US$80	72%	Investment holding
Subsidiary held indirectly by Sino Legend through TFM Holdings Corporation:				
Mudd (USA) LLC	United States of America 9th March, 2004	Membership Units: 72,000 Class A US$40,000 20,000 Class B US$10,000 8,000 Class C Nil paid	72%	Design, manufacture and sale of denim jeans and other apparel and accessories products and license related products through brands

As at the date of this report, no audited financial statements have been prepared for Sino Legend and City Winner since their respective dates of incorporation as these companies were not subject to any statutory audit requirements in their jurisdiction of incorporation, and no audited financial statements have been prepared for TFM as it was newly incorporated. For the purpose of this report, we have, however, performed our own independent review of all relevant transactions of Sino Legend, TFM and City Winner since their respective dates of incorporation to 30th September, 2004 and carried out such procedures as we considered necessary for inclusion of financial information relating to Sino Legend, TFM and City Winner in this report.

The financial statements of Mudd (USA) for the period from 21st May, 2004 (date of commencement of operation) to 30th September, 2004 for United States financial reporting purposes were prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP"). Hertz, Herson & Company, LLP, Certified Public Accountants registered in the United States of America, have audited the USGAAP financial statements of Mudd (USA) for the period from 21st May, 2004 (date of commencement of operation) to 30th September, 2004.

For the purpose of this report, the directors of Sino Legend have also prepared the unaudited consolidated management accounts of Sino Legend Group for the Relevant Period in accordance with accounting principles generally accepted in Hong Kong (the "Sino Legend Group HKGAAP Management Accounts") for which the directors of Sino Legend are solely responsible. The Sino Legend Group HKGAAP Management Accounts have been prepared based on the audited USGAAP financial statements of Mudd (USA) for the period from 21st May, 2004 (date of commencement of operation) to 30th September, 2004, and the unaudited management accounts of the other companies now comprising Sino Legend Group from their respective dates of incorporation to 30th September, 2004.

The financial information of Sino Legend Group for the Relevant Period as set out in this report has been prepared based on the Sino Legend Group HKGAAP Management Accounts and are prepared on the basis as set out in Section 1 below. No adjustment is considered necessary.

For the purpose of this report, we have examined the financial information of Sino Legend Group for the Relevant Period and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The Sino Legend Group HKGAAP Management Accounts are the responsibility of the directors of Sino Legend. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information of Sino Legend Group set out in this report from the Sino Legend Group HKGAAP Management Accounts, to form an independent opinion on such financial information and to report our opinion to you.

In our opinion, the financial information together with the notes thereon gives, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flows of Sino Legend Group for the Relevant Period and of the consolidated balance sheet of Sino Legend Group as at 30th September, 2004.

1. BASIS OF PREPARATION

The financial information as set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial information set out in this report has been prepared under the historical cost convention and has been prepared in the United States dollars.

2. PRINCIPAL ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an enterprise controlled by Sino Legend. Control exists when Sino Legend has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. An investment in a subsidiary is consolidated into the consolidated financial statements.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests represent the interests of outside shareholders in the results and net assets of Sino Legend's subsidiaries.

In the balance sheet of Sino Legend, investments in subsidiaries are stated at cost less any impairment losses.

Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses. Subsequent expenditure relating to a fixed asset 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 Sino Legend Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

Depreciation

Leasehold improvements are amortised over the lesser of the term of the lease or the estimated useful lives of the assets.

Depreciation on fixed assets is computed by accelerated methods over the estimated useful lives of the assets.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of intangible assets is charged to the income statement on a straight-line basis over their estimated economic useful lives.

Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets and other long-lived assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing 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 write-down 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 write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Income taxes

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 the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

Sino Legend Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of Sino Legend Group are domiciled and operate. The determination of current and deferred income tax was based on the enacted tax rates.

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.

Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Employee benefits

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

When Sino Legend Group grants employees options to acquire shares of Sino Legend at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

Sino Legend Group maintains a defined contribution 401 (k) retirement plan covering all eligible employees. The plan provides for employee contributions and a discretionary matching contribution by Sino Legend Group. Sino Legend Group did not make any contributions to the plan as at 30th September, 2004.

Operating lease charges

Where Sino Legend Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal installments 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Sino Legend Group 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.

Revenue recognition

Provided it is probable that the economic benefits will flow to Sino Legend Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Revenue from sale of goods is recognised when goods are delivered 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, if any, and is after deduction of any trade discounts.

(ii) Royalty income is recognised on an accrual basis.

Related parties

For the purposes of these financial statements, parties are considered to be related to Sino Legend Group if Sino Legend Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where Sino Legend Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3. INCOME STATEMENT

The following is a summary of the consolidated income statement of Sino Legend Group for the Relevant Period:

	Notes	**8th January, 2004 to 30th September, 2004** *US$'000*
Turnover	*(a)*	68,246
Cost of sales		(47,878)
Gross profit		20,368
Other revenue	*(a)*	3,644
Distribution costs		(8,335)
Administrative expenses		(3,414)
Profit from operations	*(b)*	12,263
Interest expenses	*(c)*	(2,536)
Profit from ordinary activities before taxation		9,727
Income tax	*(d)*	(101)
Profit after taxation		9,626
Minority interests		(2,431)
Profit attributable to shareholders		7,195

Notes:

(a) Turnover and revenue

	8th January, 2004 to 30th September, 2004
	US$'000
Turnover	
Sale of products, net of returns, discounts and allowances	68,246
Other revenue	
Gross royalty income	4,301
Less: Licensing fees	(657)
	3,644
Total revenue	71,890

No business segment information (primary segment information) has been disclosed for the period presented as Sino Legend Group was engaged in the design, manufacture and sale of denim jeans and other apparel and accessories products and license related products through brands. Substantially all of Sino Legend Group's operations are located in the United States of America ("USA") and therefore no geographical segment information has been disclosed for the period presented.

(b) Profit from operations

Profit from operations is arrived at after charging:

	8th January, 2004 to 30th September, 2004
	US$'000
Total staff costs	
– Salaries and allowances	6,852
Amortisation of intangible assets	407
Depreciation of owned assets	80
Operating lease rentals in respect of land and buildings	585
Auditors' remuneration	216
Cost of inventories expensed	47,878

(c) Interest expenses

	8th January, 2004 to 30th September, 2004
	US$'000
Interest and borrowing costs on long-term debt	1,005
Interest on advances from factor	1,531
	2,536

(d) Income tax

Sino Legend Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of Sino Legend Group are domiciled and operate. The determination of current and deferred tax was based on the enacted tax rates. An analysis of the provision for tax in the income statement is as follows:

	8th January, 2004 to 30th September, 2004
	US$'000
Hong Kong profits tax:	–
Overseas income taxes:	
United States of America	
Current income tax:	
– New York City unincorporated business tax	101
Income tax charge	101

Sino Legend Group is not liable to Hong Kong profits tax as it does not have assessable income currently sourced from Hong Kong.

Prepaid income taxes amounted to approximately US$14,000 as at 30th September, 2004. The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expenses:

	8th January, 2004 to 30th September, 2004
	US$'000
Accounting profit before taxation	9,727
Expected income tax at applicable tax rate	97
Tax effects of:	
– non-deductible items	4
Income tax charge	101

4. BALANCE SHEET

A summary of the consolidated balance sheet of Sino Legend Group as at the end of the Relevant Period is set out below:

		30th September, 2004
	Notes	*US$'000*
NON-CURRENT ASSETS		
Fixed assets	*(a)*	947
Intangible assets	*(b)*	91,727
Other assets		321
		92,995
CURRENT ASSETS		
Inventories	*(c)*	8,626
Accounts receivable	*(d)*	7
Amounts due from licensees	*(e)*	2,029
Amount due from factor	*(f)*	13,076
Income tax recoverable		14
Prepayments and other current assets		3,390
Cash and cash equivalents		54
		27,196
TOTAL ASSETS		120,191
LESS: CURRENT LIABILITIES		
Accounts payable and accrued expenses	*(g)*	17,334
Deferred royalty income		541
Amounts due to shareholders		1,539
Current-portion of long-term debt	*(h)*	23,000
		42,414
NET CURRENT LIABILITIES		(15,218)
TOTAL ASSETS LESS CURRENT LIABILITIES		77,777
LESS: NON-CURRENT LIABILITIES		
Long-term debt	*(h)*	(14,333)
MINORITY INTERESTS		(16,247)
NET ASSETS		47,197
Representing:		
SHAREHOLDERS' EQUITY (Section 5)		47,197

Notes:

(a) Fixed assets

	Furniture and fixtures	Leasehold improvements	Machinery and equipment	Computer equipment	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At cost:					
Additions					
– through acquisition of the Mudd Business	59	420	77	211	767
– others	114	26	7	113	260
As at 30th September, 2004	173	446	84	324	1,027
Accumulated depreciation:					
Charge for the period and as at 30th September, 2004	12	25	7	36	80
Net book value:					
As at 30th September, 2004	161	421	77	288	947

(b) Intangible assets

	Trademarks	Customers relationship	Negative goodwill	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At cost:				
Additions through acquisition of the Mudd Business and as at 30th September, 2004	85,000	15,350	(8,216)	92,134
Accumulated amortisation:				
Charge for the period and as at 30th September, 2004	–	(555)	148	(407)
Net book value:				
As at 30th September, 2004	85,000	14,795	(8,068)	91,727

(c) Inventories

	30th September, 2004
	US$'000
Raw materials	549
Finished goods	8,077
	8,626

(d) Accounts receivable

The ageing analysis of accounts receivable is as follows:

	30th September, 2004
	US$'000
Within 30 days	1
31 – 60 days	4
Over 60 days	2
	7

Sino Legend Group's sales are usually settled on open account basis with credit terms ranging from 30 days to 90 days. During the Relevant Period, Sino Legend Group, subject to the factor's credit approval, assigned and sold to the factor substantially all its accounts receivable without recourse. Further details of the factoring arrangement are disclosed in note (f) below.

(e) Amounts due from licensees

Sino Legend's subsidiary, Mudd (USA), is the licensor under the terms of various royalty agreements and earns royalty income based on sales of the licensed products. The royalty agreements expire through 31st December, 2007. The minimum royalty income receivable by Mudd (USA) pursuant to the royalty agreements is as follows:

	30th September, 2004
	US$'000
Within one year	2,416
In the second to fifth years inclusive	1,405
	3,821

(f) Amount due from factor

Sino Legend Group, subject to the factor's credit approval, assigns and sells to the factor substantially all its accounts receivable without recourse. In instances where the credit approval of the factor has not been received prior to shipment, the risk of collectibility is retained by Sino Legend Group; otherwise all accounts receivable are sold to the factor without recourse. The factor also advances funds to Sino Legend Group which are secured by all of the accounts receivable, trademarks and finished goods inventory.

(g) Accounts payable and accrued expenses

The ageing analysis of accounts payable is as follows:

	30th September, 2004
	US$'000
Accounts payable:	
Within 30 days	6,356
31 – 60 days	5,374
Over 60 days	5,016
Total accounts payable	16,746
Accrued expenses	588
	17,334

(h) Long-term debt

During the period, Sino Legend's subsidiary, Mudd (USA), signed a five-year revolving credit agreement with its factor. The loan bears interest at rates ranging from the Chase Bank rate of prime minus 0.5% to prime plus 0.75% at 30th September, 2004. The factor has a security interest in substantially all of the assets of Mudd (USA) and the loan is repayable in full in April 2006.

(i) Commitments

As at 30th September, 2004, Sino Legend Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	30th September, 2004
	US$'000
Within one year	1,305
In the second to fifth years inclusive	3,009
	4,314

(j) Related party transactions

During the period, Sino Legend Group, had entered into the following significant related party transactions which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of business:

Nature of related party relationship	**Nature of transactions**	*Note*	*US$'000*
Company with common member interest	Administrative service income	*(i)*	106
	Amount due from a related party	*(ii)*	3,247

Notes:

(i) Administrative service income is based on rate mutually agreed between the parties involved.

(ii) Included in prepayments and other current assets on the consolidated balance sheet is an amount due from a related party which is unsecured, interest free and repayable on demand.

(k) Contingent liabilities

As at 30th September, 2004, Sino Legend Group did not have any significant contingent liabilities.

5. STATEMENT OF CHANGES IN EQUITY

The following is a summary of the consolidated statement of changes in equity of Sino Legend Group for the Relevant Period:

	Share capital				
	Ordinary shares	**Class A preferred shares**	**Share premium**	**Retained profits**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
As at 8th January, 2004					
Issue of ordinary shares	2	–	–	–	2
Issue of Class A preferred shares	–	10	39,990	–	40,000
Net profit attributable to shareholders	–	–	–	7,195	7,195
As at 30th September, 2004	2	10	39,990	7,195	47,197

6. CASH FLOW STATEMENT

The following is a summary of the consolidated cash flow statement of Sino Legend Group for the Relevant Period:

	US$'000
Cash flows from operating activities	
Profit from operations	12,263
Adjustments for:	
Amortisation of intangible assets	407
Depreciation	80
Operating profit before changes in working capital	12,750
Changes in working capital:	
Inventories	6,760
Accounts receivable	165
Amounts due from licensees	(797)
Prepayments and other current assets	(2,190)
Accounts payable and accrued expenses	8,210
Deferred royalty income	239
Net changes in amount due from/(to) factor	(19,335)
Amounts due to shareholders	1,539
Net cash generated from operations	7,341
Tax paid	(115)
Net cash from operating activities	7,226
Cash flows from investing activities	
Payments to acquire fixed assets and other non-current assets	(453)
Cash paid for acquisition of subsidiaries, net of cash acquired *(note)*	(41,518)
Net cash used in investing activities	(41,971)
Cash flows from financing activities	
Issue of ordinary shares for cash consideration	2
Issue of Class A preferred shares for cash consideration	40,000
Repayment of long-term debt	(2,667)
Interest and borrowing cost on long-term debt	(1,005)
Interest on advances from factor	(1,531)
Net cash generated from financing activities	34,799
Net increase in cash and cash equivalents and as at 30th September, 2004	54
Analysis of balance of cash and cash equivalents	
Cash and bank balances	54

Note:

Sino Legend Group entered into subscription agreements on 21st May, 2004 for acquisition of equity interest in Mudd (USA) and City Winner at the consideration of US$40 million and US$800 respectively. Details of the assets and liabilities acquired are as follows:

	21st May, 2004
Mudd (USA):	*US$'000*
Assets/(liabilities) acquired:	
Fair values of –	
Intangible assets	100,350
Fixed assets	767
Other assets	128
Inventories	15,386
Accounts receivable	172
Amounts due from licensees	1,232
Prepayments and other current assets	1,200
Accounts payable and accrued expenses	(9,124)
Amount due to factor	(6,259)
Deferred royalty income	(302)
Long-term debt	(40,000)
	63,550
Net assets acquired by Sino Legend Group as at 21st May, 2004	49,734
Cash consideration and acquisition costs paid	(41,518)
Negative goodwill arising from acquisition	8,216
City Winner:	
Fair values of –	
Assets acquired – cash and bank balance	1
Cash consideration and acquisition costs paid	(1)
	–
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition:	
Net cash and bank balances acquired	1
Cash consideration and acquisition costs paid	(41,519)
Net cash outflow of cash and cash equivalents in respect of the acquisition	(41,518)

7. SUBSEQUENT EVENTS

There were no significant events in respect of Sino Legend Group subsequent to 30th September, 2004.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Sino Legend Group, Sino Legend or any of its subsidiaries have been prepared in respect of any period subsequent to 30th September, 2004.

Yours faithfully,

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND PROSPECTS OF SINO LEGEND GROUP

Sino Legend is an investment holding company incorporated in the British Virgin Islands with limited liability on 8th January, 2004. Sino Legend had not carried out any business since its incorporation save for entering into the subscription agreements dated 21st May, 2004 for acquisition of equity interest in Mudd (USA) LLC ("Mudd (USA)") at a consideration of US$40 million. Mudd (USA) was formed on 9th March, 2004 as a Delaware limited liability company for the purpose of acquiring all the property and assets (except certain liabilities and the Paper, Denim & Cloth Business) of Mudd, LLC. Since completion of the aforesaid acquisition on 21st May, 2004, Mudd (USA) has been principally engaged in the Mudd Business, which comprises the design, manufacture and sale of denim jeans and other apparel and accessories products and licensing related products through brands including the Mudd brand and the MM Couture brand.

Throughout the very challenging global supply conditions and the retail environments in the United States in 2003 to 2004, the Mudd brand remained strong in the United States market and consistently claimed top rating from its target consumers. However, regarding 2004 and looking forward into 2005, although global trade barrier will ease, market competition is expected to remain fierce. In view of the competitive market condition, Sino Legend has plans to introduce more new products and brands, new information technology, cutting delivery lead-time, increasing operation efficiency and trimming overhead. Management feels confident that these measures, together with the continuing strength of the Mudd brand and the 2005 easing of global trade barriers, will enable Sino Legend to maintain and possibly increase the customary leadership position of the Mudd brand in the United States market.

Set out below the pro forma financial information on the Enlarged Group immediately after Completion.

A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on the unaudited consolidated balance sheet of the Group as set out in its unaudited interim financial report for the six month ended 30th September, 2004, which is set out in Appendix I to this circular after giving effect to the pro forma adjustments described below.

As the unaudited pro forma consolidated balance sheet is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up or at any future date.

(Expressed in HK$'000)	**Group: unaudited as at 30th September, 2004**	*Note*	**Group: pro forma adjustments**	**Enlarged Group: unaudited pro forma**
Non-current assets				
Fixed assets	354,711			354,711
Investments in associates	–	*b*	413,400	439,400
		c	26,000	
Other financial assets	42,402	*b*	78,000	94,402
		c	(26,000)	
Deferred tax assets	2,342			2,342
	399,455			890,855
Current assets				
Inventories	204,326			204,326
Trade and other receivables	249,828			249,828
Cash and cash equivalents	490,080	*b*	(413,400)	226,680
		b	(78,000)	
		a	228,000	
	944,234			680,834
Current liabilities				
Trade and other payables	75,777			75,777
Bank loans and overdrafts	152,225			152,225
Obligations under finance leases	17,341			17,341
Dividend payable	28,545			28,545
Current taxation	6,704			6,704
	280,592			280,592
Net current assets	663,642			400,242
Total assets less current liabilities	1,063,097			1,291,097

(Expressed in HK$'000)	**Group: unaudited as at 30th September, 2004**	*Note*	**Group: pro forma adjustments**	**Enlarged Group: unaudited pro forma**
Non-current liabilities				
Bank loans	410,000			410,000
Convertible bonds	11,700	*a*	234,000	245,700
Obligations under finance leases	39,668			39,668
Provision for long service payments	1,800			1,800
Deferred tax liabilities	12,838			12,838
	476,006			710,006
NET ASSETS	587,091			581,091
CAPITAL AND RESERVES				
Share capital	143,148			143,148
Reserves	443,943	*a*	(6,000)	437,943
	587,091			581,091

Notes:

(a) This adjustment is made to illustrate the effect of the Company's issue of convertible bonds of approximately HK$234,000,000, net of issuance costs of approximately HK$6,000,000, in October 2004 as disclosed in the Company's announcement dated 12th October, 2004.

(b) This adjustment is made to illustrate the effect of the acquisition of 43.06% equity interest in Sino Legend at a cash consideration of approximately HK$413,400,000 (the "Acquisition") and payment of premium of approximately HK$78,000,000 as consideration for granting a purchase option to the Group to acquire an additional 20.8% equity interest in Sino Legend at cash consideration of approximately HK$200,070,000, which are subject to the Company's shareholders approval in an extraordinary general meeting to be convened in due course.

Upon the completion of the Acquisition, the aggregate equity interest held by the Group in Sino Legend would increase from 6.94% to 50% and one-half of the voting power of Sino Legend would be controlled by the Group. Accordingly, Sino Legend and its principal operating subsidiary, Mudd (USA) LLC would become the associates of the Group.

(c) This adjustment is made upon the completion of the Acquisition to reclassify the cost of initial investment in 6.94% equity interest in Sino Legend amounting to approximately HK$26,000,000 to "Investments in associates" from "Other financial assets". The initial investment in Sino Legend was acquired by the Group on 21st May, 2004.

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma consolidated income statement of the Enlarged Group has been prepared based on:

– the unaudited consolidated income statement of the Group as set out in its unaudited interim financial report for the six months ended 30th September, 2004, which is set out in Appendix I to this circular; and

– the audited consolidated income statement of Sino Legend Group for the period from 8th January, 2004 (date of incorporation of Sino Legend) to 30th September, 2004, as audited by HLB Hodgson Impey Cheng set out in Appendix III to this circular

after giving effect to the pro forma adjustments described below.

As the unaudited pro forma consolidated income statement is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Enlarged Group for the financial period in respect of which it is prepared or for any future financial period.

(Expressed in HK'000)	**Group: unaudited for the six months ended 30th September, 2004**	*Note*	**Group: pro forma adjustments**	**Enlarged Group: unaudited pro forma**
Turnover	746,948			746,948
Cost of sales	(565,618)			(565,618)
	181,330			181,330
Other revenue	3,595			3,595
Selling expenses	(86,099)			(86,099)
Administrative expenses	(19,248)			(19,248)
Profit from operations	79,578			79,578
Share of profit of associates	–	*a*	27,313	27,313
Finance costs	(13,587)	*b*	(1,170)	(14,757)
Profit from ordinary activities before taxation	65,991			92,134
Income tax	(5,223)	*a*	(11,199)	(16,422)
Profit attributable to shareholders	60,768			75,712

Notes:

*(a) This adjustment is made to illustrate the effect of the Group's equity share of the profit before taxation and taxation attributable to Sino Legend Group from the period from 8th January, 2004 (date of incorporation of Sino Legend) to 30th September, 2004, which have been arrived at based on the assumption that 50% equity interest in Sino Legend had been acquired by the Group on the date of incorporation of Sino Legend.

*(b) This adjustment is made to illustrate the effect of the interest expense of approximately HK$1,170,000 payable on the Company's convertible bonds of approximately HK$234,000,000 as if such convertible bonds had been issued on 1st April, 2004.

(c) There were no significant seasonal factors on the unaudited pro forma consolidated income statement of the Enlarged Group.

* *Being pro forma adjustments which are expected to have a continuing effect.*

C. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma condensed consolidated cash flow statement of the Enlarged Group has been prepared based on the unaudited condensed consolidated cash flow statement of the Group as set out in its unaudited interim financial report for the six months ended 30th September, 2004, which is set out in Appendix I to this circular, after giving effect to the pro forma adjustments described below.

As the unaudited pro forma condensed consolidated cash flow statement is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the financial period in respect of which it is prepared or for any future financial period.

(Expressed in HK'000)	**Group: unaudited for the six months ended 30th September, 2004**	*Note*	**Group: pro forma adjustments**	**Enlarged Group: unaudited pro forma**
Cash generated from operations	70,282			70,282
Tax paid	(1,682)			(1,682)
Net cash from operating activities	68,600			68,600
Net cash generated from/(used in) investing activities	23,285	*c*	(413,400)	(468,115)
		c	(78,000)	
Net cash generated from financing activities	34,561	*a*	228,000	261,391
		b	(1,170)	
Net increase/(decrease) in cash and cash equivalents	126,446			(138,124)
Cash and cash equivalents at beginning of period	363,611			363,611
Cash and cash equivalents at end of period	490,057			225,487

Notes:

(a) This adjustment is made to illustrate the cash flow effects of the net proceeds of approximately HK$228,000,000 from the Company's issue of the convertible bonds.

*(b) This adjustment is made to illustrate the cash flow effect of the interest expense of approximately HK$1,170,000 payable on the convertible bonds as if the convertible bonds had been issued on 1st April, 2004.

(c) This adjustment is made to illustrate the cash flow effects of the consideration payable for the Acquisition of approximately HK$413,400,000 and the premium payable for the purchase option of approximately HK$78,000,000.

* *Being pro forma adjustment which is expected to have a continuing effect.*

D. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

18th March, 2005

The Board of Directors
Tack Fat Group International Limited

Dear Sirs,

We report on the unaudited pro forma financial information of the Enlarged Group (being the Group (as defined herein) together with Sino Legend Limited ("Sino Legend") and its subsidiaries (collectively "Sino Legend Group") set out on pages 108 to 112 in Appendix IV to the circular dated 18th March, 2005. The unaudited pro forma financial information which has been prepared by Tack Fat Group International Limited (the "Company", and together with its subsidiaries are referred to as the "Group"), solely for illustrative purposes, to provide information about how the proposed acquisition of the 43.06% equity interest in Sino Legend by the Company (the "Acquisition") as described in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group might have affected the historical financial information in respect of the Group.

The historical financial information is derived from the unaudited historical financial information of the Group as set out in Appendix I and the audited historical financial information of Sino Legend Group as set out in Appendix III. The basis of preparation of the pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information 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").

It is our responsibility to form an opinion, as required by the Listing Rules, on the 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 pro forma financial information 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 work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the pro forma financial information.

The pro forma financial information is for illustrative purposes only, based on the judgments and assumptions of the Company's directors, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

– the Enlarged Group had the Acquisition actually completed as at the dates indicated therein; or

– the Enlarged Group at any future date or for any future periods.

Opinion

In our opinion:

(a) the accompanying unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purpose of the pro forma financial information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

E. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULT OF OPERATION OF THE ENLARGED GROUP

1. Business review

Year ended 31st March, 2002

The Group's total turnover amounted to approximately HK$710.4 million for the year ended 31st March, 2002, a growth of 10.8% from the previous year, primarily due to strong growth in both ODM and OEM orders and expansion in production capacity. The Group's gross profit margin and net profit margin recorded improvements to 33.9% and 11.6% respectively, primarily attributable to the increase in orders of high margin products and continued efforts for stringent cost control. The Group's net profit amounted to approximately HK$82.3 million.

Year ended 31st March, 2003

The Group's total turnover increased by 24.6% to approximately HK$885.0 million for the year ended 31st March, 2003 from the previous year. The 911 incident triggered the transfer of significant orders of the US and European customers from Middle East and Muslim countries to the more politically stable Asian countries and the Group's turnover was largely benefited from such change. Together with its stringent cost control measures and economies of scale, the Group achieved gross profit margin and net profit margin of 32.9% and 11.8% respectively. The Group's net profit amounted to approximately HK$104.1 million, a rise of 26.5% from the previous year.

Year ended 31st March, 2004

As a leading OEM/ODM manufacturer for renowned international brand names and large scale department stores, the Group's total turnover increased by 11.8% to approximately HK$989.4 million for the year ended 31st March, 2004 from the previous year. With its continued stringent cost control measures, the Group's gross profit margin and net profit margin were maintained at 32.7% and 12.2% respectively, steady from the previous year. The Group's net profit amounted to approximately HK$121.0 million, a rise of 16.3% from the previous year.

Six months ended 30th September, 2004

The Group's total turnover amounted to approximately HK$746.9 million for the six months ended 30th September, 2004, a growth of 68.7% from the corresponding period of previous year, primarily as a result of favourable industry development, sustainable economies of scale and improved operational efficiency and turnover derived from the exclusive manufacturing agreement with Mudd (USA) which commenced in the period. The Group's gross profit margin and net profit margin recorded decreases to 24.3% and 8.1% respectively, primarily due to outsourcing of part of the manufacturing orders from Mudd (USA). The Group's net profit amounted to approximately HK$60.8 million.

The Enlarged Group's equity share in the profit before taxation and taxation of Sino Legend Group would amount to approximately HK$27.3 million and HK$11.2 million respectively on a pro forma basis, assuming that 50% equity interest in Sino Legend had been acquired by the Enlarged Group on 8th January, 2004 (its date of incorporation).

2. Prospects

The Directors believes that the Acquisition is beneficial in expanding the business scope and propelling the business growth of the Enlarged Group. As a famous brand name for denim jeans and other apparel and accessories for girls and young women in the US, the business and operating performance of Mudd (USA) is expected to grow significantly in view of the gradual recovery of the US economy. Through the Acquisition, the Enlarged Group is in a position to share such gains and the profitability of the Enlarged Group is therefore expected to grow.

Mudd (USA) will become a major customer of the Enlarged Group in the coming years. The Directors expects that the Acquisition and manufacturing co-operation with Mudd (USA) not only provide a major secured source of manufacturing revenue to the Enlarged Group but also bring strong momentum for the continued growth in the ODM/OEM business of the Enlarged Group.

F. INDEBTEDNESS

As at the close of business on 31st January, 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding bank and other borrowings of approximately HK$978,287,000. The borrowings comprised secured bank overdrafts and loans of approximately HK$684,103,000, finance lease obligations of approximately HK$60,184,000 and convertible bonds of approximately HK$234,000,000. As at 31st January, 2005, the banking facilities of the Enlarged Group were supported by corporate guarantees issued by the Company and the Enlarged Group's inventories released under trust receipt bank loans. As at 31st January, 2005, the Enlarged Group had contingent liabilities of approximately HK$63,290,000 in respect of bills discounted with recourse.

Save as aforesaid or as otherwise herein, the Enlarged Group did not have, at the close of business on 31st January, 2005, outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

G. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's present internal resources and the available credit facilities, the Enlarged Group has sufficient working capital for its present requirements.

H. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2004, being the date of the latest audited financial statements were made up.

A. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

B. DISCLOSURE OF INTERESTS

(i) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Director had or was deemed to have interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Director	*Note*	Nature of interest	No. of Shares held	Position	Approximate percentage of issued share capital
Mr. Kwok Wing	*1*	Corporate	652,800,000	Long	43.04%
Mr. Kwok Wing	*2*	Corporate	101,200,000	Long	6.67%
Mr. Kwok Wing	–	Personal	8,424,000	Long	0.56%

Notes:

1. The Shares are owned by Efulfilment Enterprises Limited, a company incorporated in the British Virgin Islands and 50% of the issued share capital of which is held by Mr. Kwok Wing.

2. The Shares are owned by Sharp Asset Holdings Limited, a company incorporated in the British Virgin Islands and the entire issued share capital of which is held by Mr. Kwok Wing.

3. Ms. Wan Lai Ngan, being the spouse of Mr. Kwok Wing, is deemed to be interested in the Shares beneficially owned by Mr. Kwok Wing pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(ii) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were 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 general meetings of any member of the Group:

Name of Shareholder	*Note*	No. of Shares held	Position	Approximate percentage of issued share capital
Efulfilment Enterprises Limited	*1*	652,800,000	Long	43.04%
Mr. Cheah Cheng Hye	*2*	157,232,000	Long	10.37%
Value Partners Limited	*2*	157,232,000	Long	10.37%
Templeton Asset Management Limited	–	154,818,000	Long	10.21%

Notes:

1. The issued share capital of Efulfilment Enterprises Limited is beneficially owned by Mr. Kwok Chiu and Mr. Kwok Wing, a Director, in the proportion of 50:50.

2. Mr. Cheah is deemed to be interested in these Shares by control over Value Partners Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 general meetings of any member of the Group.

(iii) Competing Interest

As at the Latest Practicable Date, so far as the Directors are aware of, no Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

(iv) Other Interest

(a) None of the Directors had any interest, direct or indirect, in any assets which has been acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to, any member of the Group as at the Latest Practicable Date; and

(b) None of the Directors had any material interest in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

C. MATERIAL CONTRACTS

Set out below are contracts, not being contracts in the ordinary course of business of the Group, have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the Agreement; and

(b) the placing agreement dated 13th September, 2004 and entered into between the Company, First Securities (HK) Limited, KCG Securities Asia Limited and CMB International Capital Corporation Limited in relation to the placing of the Notes.

D. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

E. LITIGATION AND CLAIM

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

F. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion which are contained in this circular:

Name	Qualification
KPMG	Certified Public Accountants
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

Each of KPMG and HLB Hodgson Impey Cheng has given and has not withdrawn their respective written consents, to the issue of this circular with the inclusion therein of their respective letters and/or references to their respective names, in the form and context in which they appear respectively.

As at the Latest Practicable Date, none of KPMG or HLB Hodgson Impey Cheng had any shareholding in the Company or any of its subsidiaries or the rights to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Since the date to which the latest published audited financial statements of the Company were made up and up to the Latest Practicable Date, none of KPMG and HLB Hodgson Impey Cheng had any interest in any assets which have been 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.

G. MISCELLANEOUS

(a) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The head office and principal place of business of the Company in Hong Kong is located at 13th Floor, Roxy Industrial Centre, 58-66 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

(c) The company secretary of the Company is Mr. Chu Kin Wah, who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(d) The Company's branch share registrar and transfer office in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese text.

H. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the legal advisers to the Company on Hong Kong laws, Michael Li & Co. at 14/F., Printing House, 6 Duddell Street, Central, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to and including 4th April, 2005:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31st March, 2004;

(c) the interim report of the Company for the six months ended 30th September, 2004;

(d) the Agreement;

(e) the accountants' reports of MUDD, LLC and Sino Legend Group, the text of which are set out in Appendix II and Appendix III respectively to this circular;

(f) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(g) the written consents referred to in the paragraph headed "Experts and consents" in this Appendix;

(h) the letter from KPMG in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular; and

(i) the Circular.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Tack Fat Group International Limited (the "**Company**") will be held at 10:00 a.m. on Monday, 4th April, 2005 at Chater Room III, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTION NO. 1

"**THAT**:

(a) the sale and purchase agreement dated 26th July, 2004 and entered into between Lung Investment Holding, LLC as vendor and Newest Global Limited, a wholly-owned subsidiary of the Company, as purchaser, as supplemented by five supplemental agreements dated 7th October, 2004, 2nd November, 2004, 20th January, 2005, 22nd February, 2005 and 17th March, 2005 (copies of which have been produced at the Meeting and marked "A", "B", "C", "D", "E" and "F" respectively and signed by the chairman of the Meeting for the purpose of identification) relating to the acquisition (the "**Acquisition**") of 516,667 class A preferred shares ("**Preferred Shares**") of US$0.01 each in the capital of Sino Legend Limited for a cash consideration of US$53.0 million and the transactions contemplated thereunder, be and are hereby approved, ratified and confirmed; and

(b) the board of directors of the Company (the "**Board**") be and is hereby authorised to do all other acts and things and take such action as may in the opinion of the Board be necessary, desirable or expedient to implement and give effect to the Acquisition."

ORDINARY RESOLUTION NO. 2

"**THAT**:

(a) subject to the passing of the ordinary resolution no.1 above and completion (the "**Completion**") of the Acquisition, the payment of a cash premium (the "**Premium Payment**") of US$10.0 million on Completion for the grant of the option to Newest Global Limited to purchase a further 250,000 Preferred Shares be and are hereby approved, ratified and confirmed; and

(b) the Board be and is hereby authorised to do all other acts and things and take such action as may in the opinion of the Board be necessary, desirable or expedient to implement and give effect to the Premium Payment."

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

Hong Kong, 18th March, 2005

Registered office:
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business in Hong Kong:
13th Floor
Roxy Industrial Centre
58-66 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for use at the Meeting is enclosed. Such form of proxy is also published on the website of the Stock Exchange at www.hkex.com.hk. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority, at the offices of the Company's branch registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time of the meeting or adjourned meeting. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.