

Dear Shareholders,

Subsequent to the delisting in February 2012, Style Merchants has been operating in a very challenging business environment in the last seven months. While we struggle to maintain a normal operation, the company has been downsizing with its self-operated retail stores and staff due to limited profit visibility. In April 2012, in view of the continuous monthly operating loss and shortage of funding, the Board decided to embark on a rights issue exercise to make available adequate funding for the company to weather through these challenging and difficult times, but was eventually terminated in July due to legal and technical difficulties with the Bermuda company law. As a result, the company further shrank its operation and reduced the number of staff and retail shops, and diverted its business focus on franchisee operation.

In September, the Board was advised by the management that the company was facing a critical insolvent situation. The board, due to the urgency and severity of the outcomes in case of immediate liquidation, made diligent efforts to identify practical solutions to rescue the company with an attempt to preserve any potential values for the shareholders. After due and cautious considerations, the directors decided to call upon an emergency fund raising of RMB 5 million to prevent the company from involuntary liquidation that would leave the shareholders with no realizable values. As the company carried negative net asset values, substantial liabilities and poor business prospects and visibility, the terms for this fund raising had to be attractive with adequate risk/return justifications for shareholders/investors to participate, the directors agreed the RMB5 million would be in the form of issuing new shares that represents 95% of the company when fully subscribed. In other words, existing shareholders of Style Merchants retain 5% of the company afterwards.

Since the RMB 5 million has to be made available to the company as soon as practically possible, the subscription will be open to

all existing shareholders or new investors on a first-come first-serve basis. The latest balance sheet of the company is also attached for your review, assessment and decision. As mentioned above, the investment or fund raising cannot take place at the Bermuda holding entity level, therefore, Style Merchants will undergo a restructure exercise so that the wholly-owned intermediate holding entity registered in Hong Kong will be the entity for the investment to take place. In addition, the restructure exercise will not forego or erase any assets or liabilities of third parties that are not within the group, the balance sheet of the wholly-owned intermediate holding entity will effectively be the same as the Bermuda ultimate holding entity (please refer to the diagram attached).

Due to the urgency of funding and the "first-come first-serve" condition, if any shareholder is interested to participate in this RMB 5 million fund raising exercise, please contact the company by returning e-mail to mandy.ho@stylemerchants.com immediately.

From the Board of Directors