

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

If you have sold or transferred all your shares in Graneagle Holdings Limited, you should at once hand this document and the accompanying Form of Acceptance to the purchasers or transferees, or to the bank, or the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchasers or transferees. This document should be read in conjunction with the accompanying Form of Acceptance, the provisions of which form part of the terms of the Offer contained herein.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



Long Grand Limited
長鴻有限公司

(incorporated in the British Virgin Islands with limited liability)

GRANEAGLE HOLDINGS LIMITED

鷹馳實業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

**COMPOSITE OFFER AND RESPONSE DOCUMENT
RELATING TO
UNCONDITIONAL MANDATORY GENERAL OFFER BY
OPTIMA CAPITAL LIMITED
ON BEHALF OF LONG GRAND LIMITED
FOR ALL THE ISSUED SHARES IN GRANEAGLE HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
LONG GRAND LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**Financial adviser to
Long Grand Limited**


Optima Capital Limited

**Financial adviser to
Graneagle Holdings Limited**



**英皇融資有限公司
Emperor Capital Limited**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders of
Graneagle Holdings Limited**

***Hercules*
Hercules Capital Limited**

A letter from Optima Capital containing, amongst other things, details of the terms of the Offer are set out on pages 6 to 13 of this Composite Document.

A letter from the Board is set out on pages 14 to 20 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Offer is set out on page 21 of this Composite Document.

A letter from Hercules to the Independent Board Committee and the Independent Shareholders, containing its advice in respect of the Offer to the Independent Board Committee and the Independent Shareholders, is set out on pages 22 to 36 of this Composite Document.

The procedures for acceptance of the Offer and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer should be received by Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 18 January 2008 or such other time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

28 December 2007

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EXPECTED TIMETABLE

2007
(Note 1)

Offer opens for acceptances Friday, 28 December

2008

Latest time and date for acceptance of the Offer (Note 2) 4:00 p.m. on Friday, 18 January

Closing Date of the Offer (Note 2) Friday, 18 January

Announcement of the results of the Offer uploaded
to the Stock Exchange's website not later than 7:00 p.m. on
Friday, 18 January

Latest date for posting of remittance to the Shareholders
in respect of valid acceptances of the Offer lodged on
or before 4:00 p.m. of the Closing Date (Note 3) Monday, 28 January

Notes:

1. All times and dates refer to Hong Kong local times and dates.
2. In accordance with the Takeovers Code, the Offer must initially be opened for acceptance for at least 21 days following the date on which this Composite Document was posted. The latest time and date for acceptance of the Offer is 4:00 p.m. on Friday, 18 January 2008.
3. The consideration payable for the Shares tendered under the Offer will be paid for by the Offeror as soon as possible but in any event within 10 days of the date of receipt of a duly completed acceptance in accordance with the Takeovers Code.

DEFINITIONS

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

“Announcement”	the joint announcement published by the Company and Long Grand dated 14 November 2007
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of Directors
“Bonds”	together, the Placing Bonds and the Subscription Bonds
“Business Day”	a day on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	the closing date of the Offer, being Friday, 18 January 2008 or any subsequent closing date(s) as may be determined and announced by the Offeror with the consent of the Executive
“Company”	Graneagle Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 147)
“Composite Document”	this composite offer and response document issued to all Independent Shareholder(s) in accordance with the Takeovers Code containing, amongst other things, details of the Offer
“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Conversion Share(s)”	the new Share(s) to be issued upon the exercise of the conversion rights attaching to the Bonds
“Director(s)”	the director(s) of the Company
“Dr. Yeung”	Dr. Yeung Sau Shing, Albert
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Form of Acceptance”	the accompanying form of acceptance and transfer in respect of the Offer

DEFINITIONS

“Group”	the Company and its subsidiaries
“Hercules”	Hercules Capital Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity as defined in schedule 5 of the SFO. Hercules Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Offer
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Law Ka Ming, Michael and Ms. Yip Kam Man
“Independent Shareholders”	Shareholders other than (i) Rich Wing, its associates and parties acting in concert with it; and (ii) Long Grand, Mr. Yam, Mr. Yuen, their associates and parties acting in concert with them
“Last Trading Day”	30 October 2007, being the last trading day for the Shares before the date of the Announcement
“Latest Practicable Date”	24 December 2007, being the latest practicable date prior to the printing of the Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Grand” or “Offeror”	Long Grand Limited, a company incorporated in the British Virgin Islands with limited liability and the offeror under the Offer, the entire issued share capital of which is beneficially owned as to 70% by Mr. Yam and as to 30% by Mr. Yuen
“Long Grand Subscription Agreement”	the conditional subscription agreement dated 14 November 2007 entered into between the Company and Long Grand in relation to the issue and subscription of the Subscription Shares, the Subscription Bonds and the Subscription Warrants
“Mr. Yam”	Mr. Yam Yu, the beneficial owner as to 70% of the entire issued share capital of Long Grand

DEFINITIONS

“Mr. Yuen”	Mr. Yuen Leong, a director and the beneficial owner as to 30% of the entire issued share capital of Long Grand
“Offer”	the unconditional cash offer for the Offer Shares being made by Optima Capital on behalf of Long Grand at HK\$1.00 per Offer Share
“Offer Share(s)”	all issued Shares other than those Shares already owned by Long Grand and parties acting in concert with it
“Optima Capital”	Optima Capital Limited, a licensed corporation under the SFO, licensed to carry out type 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities as defined in schedule 5 of the SFO and the financial adviser to Long Grand
“Placees”	the placees of the Placing Bonds (together with the Placing Warrants) procured by the Placing Agent for and on behalf of the Company which are parties independent of and not connected or acting in concert with (i) the Directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates; or (ii) Long Grand, Mr. Yam, Mr. Yuen and parties acting in concert with any of them
“Placing”	the placing of the Placing Bonds by the Placing Agent pursuant to the Placing Agreement
“Placing Agent”	Emperor Securities Limited, a licensed corporation under the SFO, licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities as defined in schedule 5 of the SFO
“Placing Agreement”	the conditional placing agreement dated 14 November 2007 entered into between the Company and the Placing Agent in relation to the placing of the Placing Bonds (together with the Placing Warrants) by the Placing Agent for and on behalf of the Company
“Placing Bonds”	the two-year zero coupon convertible bonds up to an aggregate principal amount of HK\$60,000,000 issued by the Company to the Placees pursuant to the Placing Agreement
“Placing Bondholders”	the holders of the Placing Bonds

DEFINITIONS

“Placing Conversion Share(s)”	the new Share(s) to be issued upon the exercise of the conversion rights attaching to the Placing Bonds
“Placing Warrant Share(s)”	the new Share(s) to be issued upon the exercise of the subscription rights attaching to the Placing Warrants
“Placing Warrant(s)”	the unlisted warrant(s) of the Company issued by way of bonus to the Placing Bondholders by the Company pursuant to the Placing Agreement conferring right in its registered form to the holder thereof to subscribe for new Shares at an initial subscription price of HK\$0.15 (subject to adjustment) at any time during the period from the date of issue to the date falling on the first anniversary of the issue of the Warrants
“PRC”	the Peoples’ Republic of China
“Registrar”	Tricor Secretaries Limited, the Hong Kong branch share registrar of the Company which is situated at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Rich Wing” or “Vendor”	Rich Wing Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Dr. Yeung
“Sale Share(s)”	the 81,246,188 Shares acquired by Long Grand from Rich Wing pursuant to the Share Purchase Agreement
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
“Share Purchase Agreement”	the conditional share purchase agreement dated 14 November 2007 entered into between Long Grand and Rich Wing in relation to the sale and purchase of the Sale Shares
“Share Subscription”	the subscription of the Subscription Shares by Long Grand pursuant to the Long Grand Subscription Agreement
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the issued Shares

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the Share Subscription and the subscription of the Subscription Bonds (together with Subscription Warrants) by Long Grand pursuant to the Long Grand Subscription Agreement
“Subscription Bonds”	the two-year zero coupon convertible bonds in an aggregate principal amount of HK\$124,500,000 issued by the Company to Long Grand pursuant to the Long Grand Subscription Agreement
“Subscription Conversion Share(s)”	the new Share(s) to be issued upon the exercise of the conversion rights attaching to the Subscription Bonds
“Subscription Share(s)”	170,000,000 new Share(s) issued by the Company to Long Grand pursuant to the Long Grand Subscription Agreement
“Subscription Warrant Share(s)”	the new Share(s) to be issued upon the exercise of the subscription rights attaching to the Subscription Warrants
“Subscription Warrant(s)”	the unlisted warrant(s) of the Company issued by way of bonus to Long Grand by the Company pursuant to the Long Grand Subscription Agreement conferring right in its registered form to the holder thereof to subscribe for new Shares at an initial subscription price of HK\$0.15 (subject to adjustment) at any time during the period from the date of issue to the date falling on the first anniversary of the issue of the Warrants
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“US”	the United States of America
“Warrant Share(s)”	the new Share(s) to be issued upon the exercise of the subscription rights attaching to the Warrants
“Warrants”	together, the Placing Warrants and the Subscription Warrants
“HK\$”	Hong Kong dollars
“%”	per cent.



Unit 3618, 36th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

28 December 2007

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY
OPTIMA CAPITAL LIMITED
ON BEHALF OF LONG GRAND LIMITED
FOR ALL THE ISSUED SHARES IN GRANEAGLE HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
LONG GRAND LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 14 November 2007, the Company and Long Grand jointly announced that:

- (i) Long Grand entered into the Share Purchase Agreement with Rich Wing pursuant to which Long Grand agreed to purchase and Rich Wing agreed to sell the Sale Shares, representing 48.64% of the then issued share capital of the Company, at a cash consideration of HK\$81,246,188 (equivalent of HK\$1.00 per Sale Share);
- (ii) Long Grand entered into the Long Grand Subscription Agreement with the Company pursuant to which the Company agreed to issue to Long Grand 170,000,000 new Shares at HK\$0.15 each and two-year zero coupon convertible bonds in an aggregate principal amount of HK\$124,500,000, which are convertible into new Shares at an initial conversion price of HK\$0.15 per Share (subject to adjustments) with the Subscription Warrants (in the proportion of one Subscription Warrant for every four Subscription Conversion Shares) attached conferring right to subscribe up to HK\$31,125,000 in aggregate in cash for new Shares at an initial subscription price of HK\$0.15 per Share (subject to adjustments); and

LETTER FROM OPTIMA CAPITAL

- (iii) the Placing Agent and the Company entered into the Placing Agreement pursuant to which the Placing Agent agreed to place the two-year zero coupon convertible bonds up to an aggregate principal amount of HK\$60,000,000, which are convertible into new Shares at an initial conversion price of HK\$0.15 per Share (subject to adjustments) with the Placing Warrants (in the proportion of one Placing Warrant for every four Placing Conversion Shares) attached conferring rights to subscribe up to HK\$15,000,000 in aggregate in cash for new Shares at an initial subscription price of HK\$0.15 per Share (subject to adjustments).

Completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement took place on 24 December 2007. Immediately following completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement but before exercise of any conversion rights attaching to the Bonds and the subscription rights attaching to the Warrants, Long Grand became interested in a total of 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Long Grand is required under the Takeovers Code to make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares already owned by Long Grand and parties acting in concert with it). Optima Capital has been appointed as the financial adviser to Long Grand in respect of the Offer and is making the Offer on behalf of Long Grand.

This letter sets out details of the terms of the Offer, together with the information on the Offeror and the intention of the Offeror regarding the future of the Group. Further details of the terms of the Offer are also set out in Appendix I to the Composite Document and in the accompanying Form of Acceptance.

Independent Shareholders are strongly advised to consider carefully the information contained in the letter from the Board set out on pages 14 to 20 and the letter from Hercules, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Offer, set out on pages 22 to 36 of the Composite Document.

THE OFFER

Optima Capital is making the Offer, which is unconditional, on behalf of Long Grand on the following terms:

For each Share HK\$1.00 in cash

The Offer price of HK\$1.00 per Share is the same as the purchase price under the Share Purchase Agreement. It also represents:

- (i) a discount of approximately 62.83% to the closing price of HK\$2.69 per Share as quoted on the Stock Exchange on 15 October 2007, being the last trading day of the Shares prior to the announcement by the Company of a possible change in controlling Shareholder and the commencement of the Offer period on 16 October 2007;

LETTER FROM OPTIMA CAPITAL

- (ii) a discount of approximately 82.64% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 79.72% to the average of the closing prices of approximately HK\$4.93 per Share for the five trading days of the Shares up to and including the Last Trading Day;
- (iv) a discount of approximately 78.35% to the average of the closing prices of approximately HK\$4.62 per Share for the ten trading days of the Shares up to and including the Last Trading Day;
- (v) a discount of approximately 55.95% to the average of the closing prices of approximately HK\$2.27 per Share for the 30 trading days of the Shares up to and including the Last Trading Day;
- (vi) a discount of approximately 77.53% to the closing price of HK\$4.45 per Share as at the Latest Practicable Date; and
- (vii) a premium of approximately 400% over the net asset value of approximately HK\$0.20 per Share with reference to the audited financial statements of the Group as at 31 March 2007 and after adjustment for payment of a final dividend of HK3 cents per Share and a special dividend of HK29 cents per Share (details of which are set out in the announcement of the Company dated 6 July 2007) based on 167,031,016 Shares in issue as at 31 March 2007.

Save for the Bonds and the Warrants, the Company does not have any other outstanding options, warrants and other securities convertible into Shares or any other share derivatives.

It is a term of the Long Grand Subscription Agreement that the Subscription Bonds are not transferable and that they cannot be converted until one month after the close of the Offer. It is also a term of the Placing Agreement that the Placing Bonds cannot be converted and are not transferable until one month after the close of the Offer and that the Offer will not be extended to holders of the Bonds. As such, Optima Capital, on behalf of Long Grand, will not make an offer for the Bonds and that the Offer will not be extended to the holders of the Bonds in respect of the Bonds. The Offeror has applied to the Executive and was granted a dispensation from Rule 13.1 of the Takeovers Code.

Total consideration and financial resources

As at the Latest Practicable Date, the Company had 337,031,016 Shares in issue. At the Offer price of HK\$1.00 per Share, the entire issued share capital of the Company is valued at approximately HK\$337.03 million.

Excluding the 251,246,188 Shares held by Long Grand and parties acting in concert with it, there are 85,784,828 Shares subject to the Offer and the Offer is valued at approximately HK\$85.78 million.

LETTER FROM OPTIMA CAPITAL

The Offer will be financed by cash deposits maintained by the Offeror and/or parties acting in concert with it with Credit Suisse. There are no payment of interest, repayment of or security for liability in relation to the financial resources available to the Offeror for the purpose of the Offer which depends to any significant extent on the business of the Company. Optima Capital is satisfied that sufficient financial resources are available to Long Grand to meet full acceptance of the Offer.

Dealing and interests in the Company's securities

Save for the acquisition of the Sale Shares and the Subscription, Long Grand and parties acting in concert with it had not dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible into Shares in the six months prior to 16 October 2007, being the commencement date of the Offer period, and up to the Latest Practicable Date.

Effect of acceptance of the Offer

By accepting the Offer, the Shareholders will sell their Shares to Long Grand free from all liens, charges, claims and encumbrances and any third party rights together with all rights attached to them, including the right to receive all dividends and distributions declared, paid or made on or after the date on which the Offer is made, i.e. 28 December 2007.

Stamp duty

Stamp duty at a rate of HK\$1 for every HK\$1,000 (or part thereof) of the consideration payable will be deducted from the amount payable to the Shareholders who accept the Offer. Long Grand will arrange for payment of the stamp duty in connection with the acceptance of the Offer and the transfer of the Offer Shares.

Payment

Payment (after the deduction of the sellers' share of stamp duty) in cash in respect of acceptances of the Offer will be made within ten days of the date of receipt of duly completed valid acceptance.

Compulsory acquisition

The Offeror does not intend to avail itself of any power of compulsory acquisition of any Shares after the close of the Offer.

Other arrangements

As at the Latest Practicable Date, save for the Share Purchase Agreement and the Long Grand Subscription Agreement, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of Long Grand or the Company and which might be material to the Offer. Other than the Share Purchase Agreement and the Long Grand Subscription Agreement, there is no agreement or arrangement to which Long Grand is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer.

LETTER FROM OPTIMA CAPITAL

Taxation

You are recommended to consult your own professional advisers if you are in any doubt as to the taxation implications of accepting the Offer. It is emphasised that none of the Offeror, the parties acting in concert with it, Optima Capital, any of their respective directors and any other parties involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Offer.

Further terms of the Offer

Further terms and conditions (including the procedures for acceptance and the acceptance period) of the Offer are also set out in Appendix I to the Composite Document and the Form of Acceptance.

INFORMATION ON LONG GRAND

Long Grand is a private limited company incorporated in the British Virgin Islands. It has not commenced any business activities since its incorporation other than the entering into of the Share Purchase Agreement and the Long Grand Subscription Agreement. The entire issued share capital of Long Grand is beneficially owned as to 70% by Mr. Yam and as to 30% by Mr. Yuen. Mr. Yuen is the sole director of Long Grand.

Mr. Yam, aged 51, is a businessman with investments principally in properties in Hong Kong and the PRC. Mr. Yam was employed by 福建省研究發展中心 (Fujian Provincial Research and Development Center) from 1985 to 1988 and was the chairman of 福建省廣源聯合發展公司 (Fujian Guangyuan (United) Development Company) from 1989 to 1993. Mr. Yam established China Power Limited (華力有限公司), a company principally engaged in investments in real estates and trading in the PRC and Hong Kong, in 1994 and has been the director of China Power Limited since then.

Mr. Yuen, aged 50, holds a master degree in mechanical engineering from the Shanghai Jiao Tong University (上海交通大學). Mr. Yuen was a senior research analyst of 福建省研究發展中心 (Fujian Provincial Research and Development Center) from 1985 to 1991. Mr. Yuen is a director of Origin Seed Technology Inc., a company listed on Nasdaq, since 1997 and was an executive director of Goldigit Atom-Tech Holdings Limited, a company which withdrew its listing on the Growth Enterprise Market of the Stock Exchange and continued on the Main Board of the Stock Exchange, from 2001 to 2002. Mr. Yuen has over ten years of experience in corporate management and operation.

INTENTION OF LONG GRAND REGARDING THE GROUP

Long Grand intends that the Group will continue its existing businesses following the close of the Offer. Following the close of the Offer, Long Grand will conduct a review of the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future development of the Group. Long Grand noted that the Group has entered into a letter of intent regarding the formation of a joint venture to engage in property development in the PRC and is agreeable to the Group exploring this diversification opportunity. It will also consider other suitable investments or business opportunities in addition to that under the letter of intent should they arise. Long Grand considers that the experience of Mr. Yam and Mr. Yuen in real estates business in the PRC and in corporate management and operation would assist the Group in developing property development business and the Offer is in the long term interest of Long Grand. Long Grand has no intention to re-deploy the fixed assets or discontinue the employment of the employees of the Group other than in its ordinary course of business.

As at the Latest Practicable Date, the Board comprised two executive Directors and three independent non-executive Directors. Long Grand intends that it will nominate Mr. Yuen as executive Director, and Ms. Chen Ye, Mr. Chan Wai Dune and Professor Lam Man Kit, Dominic as independent non-executive Directors on such date as the Takeovers Code permits. All the Directors will resign after the close of the Offer or such date as the Takeovers Code permits.

The biography of Mr. Yuen is set out in the paragraph headed “Information on Long Grand” above. The biographies of the other proposed Directors are set out below:

Ms. Chen Ye, aged 77, studied architecture at the Northeast Industrial College and is currently the senior consultant to 全國十八城市土地管理廳局長聯席會. Ms. Chen has held various senior positions in government departments in the PRC, including as the Senior Planner, Architect and Deputy Chief of 國家建委城建總局 (the Ministry of National Planning Bureau) (now 建設部 (Ministry of Construction)); and the Deputy Chief of 國家土地管理局 (The State Land Administration Bureau), (now 國土資源部 (Ministry of Land and Resources)).

LETTER FROM OPTIMA CAPITAL

Mr. Chan Wai Dune, aged 55, has over 27 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of the Chinese People's Political Consultative Conference of the Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of the first government of Hong Kong. Mr. Chan is currently the Managing Director of CCIF CPA Limited. Mr. Chan currently serves as independent non-executive directors for various listed companies in Hong Kong including Chuang's China Investments Limited (stock code: 298), Chuang's Consortium International Limited (stock code: 367), Hualing Holdings Limited (stock code: 382), Hunan Nonferrous Metals Corporation Limited (stock code: 2626), Jinheng Automotive Safety Technology Holdings Limited (stock code: 8293), Minmetals Resources Limited (stock code: 1208) and Sam Woo Holdings Limited (stock code: 2322).

Dr. Lam Man Kit, Dominic, aged 60, is the Chairman of the World Eye Organisation. Dr. Lam obtained a doctorate degree in Medical Biophysics in 1970. He was appointed as Assistant Professor at Harvard Medical School and subsequently Professor of Biotechnology and Ophthalmology at Baylor College of Medicine. In 1988, Dr. Lam was invited to be the Founding Director of the Hong Kong Institute of Biotechnology. In 1990, Dr. Lam was appointed a member of the US President's Committee on the Arts and Humanities and awarded the KPMG Peat Marwick's High Tech Entrepreneur of the Year. Since January 2003, Dr. Lam was the independent non-executive director of New World TMT Limited, a company previously listed on the main board of the Stock Exchange and was privatized and delisted in February 2006.

Long Grand intends that the Company will remain listed on the Stock Exchange after the close of the Offer. The sole director of Long Grand and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

LETTER FROM OPTIMA CAPITAL

GENERAL

To ensure equality of the treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares whose investments are registered in nominee names to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances will be sent to the Independent Shareholders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members or, in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the relevant Form of Acceptance completed and returned by the Independent Shareholders. None of the Company, the Offeror and the parties acting in concert with it, Optima Capital and the Registrar or any of their respective directors will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof. The attention of the Shareholders with a registered address in jurisdiction outside Hong Kong is drawn to the section headed "Overseas Shareholders" in Appendix I to the Composite Document.

Your attention is drawn to the additional information set out in the appendices to the Composite Document.

Yours faithfully,
For and on behalf of
Optima Capital Limited
Mei H. Leung
Chairman



GRANEAGLE HOLDINGS LIMITED

鷹馳實業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

Executive Directors:

Mr. Wong Chi Fai
Ms. Fan Man Seung, Vanessa

Independent non-executive Directors:

Mr. Leung Shu Yin, William
Mr. Law Ka Ming, Michael
Ms. Yip Kam Man

Registered office:

Clarendon House
Church Street
Hamilton HM11
Bermuda

*Head office and principal place of
business in Hong Kong:*

Suite 1114
Lippo Sun Plaza
28 Canton Road
Tsimshatsui, Kowloon
Hong Kong

28 December 2007

To the Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY
OPTIMA CAPITAL LIMITED
ON BEHALF OF LONG GRAND LIMITED
FOR ALL THE ISSUED SHARES IN GRANEAGLE HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
LONG GRAND LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 14 November 2007, the Company and Long Grand jointly announced that:

- (i) Long Grand entered into the Share Purchase Agreement with Rich Wing pursuant to which Long Grand agreed to purchase and Rich Wing agreed to sell the Sale Shares, representing 48.64% of the existing issued share capital of the Company, at a cash consideration of HK\$81,246,188 (equivalent of HK\$1.00 per Sale Share);

* For identification purposes only

LETTER FROM THE BOARD

- (ii) Long Grand entered into the Long Grand Subscription Agreement with the Company pursuant to which the Company agreed to issue to Long Grand 170,000,000 new Shares at HK\$0.15 each and two-year zero coupon convertible bonds in an aggregate principal amount of HK\$124,500,000, which are convertible into new Shares at an initial conversion price of HK\$0.15 per Share (subject to adjustments) with the Subscription Warrants (in the proportion of one Subscription Warrant for every four Subscription Conversion Shares) attached conferring right to subscribe up to HK\$31,125,000 in aggregate in cash for new Shares at an initial subscription price of HK\$0.15 per Share (subject to adjustments); and
- (iii) the Placing Agent and the Company entered into the Placing Agreement pursuant to which the Placing Agent agreed to place the two-year zero coupon convertible bonds up to an aggregate principal amount of HK\$60,000,000, which are convertible into new Shares at an initial conversion price of HK\$0.15 per Share (subject to adjustments) with the Placing Warrants (in the proportion of one Placing Warrant for every four Placing Conversion Shares) attached conferring rights to subscribe up to HK\$15,000,000 in aggregate in cash for new Shares at an initial subscription price of HK\$0.15 per Share (subject to adjustments).

Completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement took place on 24 December 2007. Immediately following completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement but before exercise of any conversion rights attaching to the Bonds and the subscription rights attaching to the Warrants, Long Grand became interested in a total of 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Long Grand is required under the Takeovers Code to make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares already owned by Long Grand and parties acting in concert with it). Optima Capital has been appointed as the financial adviser to Long Grand in respect of the Offer and is making the Offer on behalf of Long Grand.

In accordance with Rule 2.8 of the Takeovers Code, an Independent Board Committee comprising all the independent non-executive Directors, Mr. Leung Shu Yin, William, Mr. Law Ka Ming, Michael and Ms. Yip Kam Man, has been established to advise the Independent Shareholders in respect of the Offer. Each of Mr. Leung Shu Yin, William, Mr. Law Ka Ming, Michael and Ms. Yip Kam Man has declared that he/she does not have conflict of interests in the Offer. Hercules has also been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Offer and such appointment has been approved by the Independent Board Committee.

LETTER FROM THE BOARD

The purpose of the Composite Document is to provide you with, amongst other things, further information relating to the Group and the Offer and the recommendation of the Independent Board Committee and the advice of Hercules regarding the Offer.

SHAREHOLDING STRUCTURES

Set out below are the shareholding structures of the Company (i) immediately prior to completion of the Share Purchase Agreement; (ii) as at the Latest Practicable Date; (iii) assuming exercise in full of the conversion rights attaching to the Bonds but before exercise of the subscription rights attaching to the Warrants; and (iv) assuming exercise in full of the subscription rights attaching to the Bonds and the Warrants:

Shareholders	Prior to completion of the Share Purchase Agreement		As at the Latest Practicable Date		Upon full conversion of the Bonds but before exercise of the Warrants		Upon full conversion of the Bonds and the exercise of the Warrants	
	% of		% of		% of		% of	
	<i>Number of Shares held</i>	<i>issued Shares</i>	<i>Number of Shares held</i>	<i>issued Shares</i>	<i>Number of Shares held</i>	<i>issued Shares</i>	<i>Number of Shares held</i>	<i>issued Shares</i>
Long Grand								
-Sale Shares	-	-	81,246,188	24.11	81,246,188	5.18	81,246,188	4.33
-Subscription Shares	-	-	170,000,000	50.44	170,000,000	10.85	170,000,000	9.07
-Subscription Conversion Shares	-	-	-	-	830,000,000	52.97	830,000,000	44.28
-Subscription Warrant Shares	-	-	-	-	-	-	207,500,000	11.07
Total interest of Long Grand and parties acting in concert with it	-	-	251,246,188	74.55	1,081,246,188	69.00	1,288,746,188	68.75
Rich Wing	81,246,188	48.64	-	-	-	-	-	-
Public Shareholders								
Holders of the Placing Conversion Shares	-	-	-	-	400,000,000	25.53	400,000,000	21.34
Holders of the Placing Warrant Shares	-	-	-	-	-	-	100,000,000	5.33
Other public Shareholders	85,784,828	51.36	85,784,828	25.45	85,784,828	5.47	85,784,828	4.58
Public float	85,784,828	51.36	85,784,828	25.45	485,784,828	31.00	585,784,828	31.25
Total	<u>167,031,016</u>	<u>100.00</u>	<u>337,031,016</u>	<u>100.00</u>	<u>1,567,031,016</u>	<u>100.00</u>	<u>1,874,531,016</u>	<u>100.00</u>

LETTER FROM THE BOARD

THE OFFER

Immediately following completion of the Share Purchase Agreement, the Share Subscription under the Long Grand Subscription Agreement and the Placing Agreement but before exercise of any conversion rights attaching to the Bonds and any subscription rights attaching to the Warrants, Long Grand became interested in a total 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company as at the Latest Practicable Date. Long Grand is therefore required to make a general offer pursuant to Rule 26 of the Takeovers Code for all the issued Shares other than those already owned by Long Grand and parties acting in concert with it. Optima Capital has been appointed as the financial adviser to Long Grand in respect of the Offer and is making the Offer, which is unconditional, on behalf of Long Grand on the following terms:

For each Share HK\$1.00 in cash

The Offer price of HK\$1.00 per Share is the same as the purchase price under the Share Purchase Agreement. It also represents:

- (i) a discount of approximately 62.83% to the closing price of HK\$2.69 per Share as quoted on the Stock Exchange on 15 October 2007, being the last trading day of the Shares prior to the announcement by the Company of a possible change in controlling Shareholder and the commencement of the Offer period on the 16 October 2007;
- (ii) a discount of approximately 82.64% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 79.72% to the average of the closing prices of approximately HK\$4.93 per Share for the five trading days of the Shares up to and including the Last Trading Day;
- (iv) a discount of approximately 78.35% to the average of the closing prices of approximately HK\$4.62 per Share for the ten trading days of the Shares up to and including the Last Trading Day;
- (v) a discount of approximately 55.95% to the average of the closing prices of approximately HK\$2.27 per Share for the 30 trading days of the Shares up to and including the Last Trading Day;
- (vi) a discount of approximately 77.53% to the closing price of HK\$4.45 per Share as at the Latest Practicable Date; and
- (vii) a premium of approximately 400% over the net asset value of approximately HK\$0.20 per Share with reference to the audited financial statements of the Group as at 31 March 2007 and after adjustment for payment of a final dividend of HK3 cents per Share and a special dividend of HK29 cents per Share (details of which are set out in the announcement of the Company dated 6 July 2007) based on 167,031,016 Shares in issue as at 31 March 2007.

Save for the Bonds and the Warrants, the Company does not have any other outstanding options, warrants and other securities convertible into Shares or any other share derivatives.

LETTER FROM THE BOARD

It is a term of the Long Grand Subscription Agreement that the Subscription Bonds are not transferable and that they cannot be converted until one month after the close of the Offer. It is a term of the Placing Agreement that the Placing Bonds cannot be converted and are not transferable until one month after the close of the Offer and that the Offer will not be extended to holders of the Bonds. As such, Optima Capital, on behalf of Long Grand, will not make an offer for the Bonds and that the Offer will not be extended to the holders of the Bonds. The Offeror and parties acting in concert with it has applied to the Executive and was granted a dispensation from Rule 13.1 of the Takeovers Code.

INFORMATION ON LONG GRAND

Long Grand is a private limited company incorporated in the British Virgin Islands. It has not carried on any business activities since its incorporation other than the entering into of the Share Purchase Agreement and the Long Grand Subscription Agreement. The entire issued share capital of Long Grand is beneficially owned as to 70% by Mr. Yam and as to 30% by Mr. Yuen. Mr. Yuen is the sole director of Long Grand.

Mr. Yam, aged 51, is a businessman with investments principally in properties in Hong Kong and the PRC. Mr. Yam was employed by 福建省研究發展中心 (Fujian Provincial Research and Development Center) from 1985 to 1988 and was the chairman of 福建省廣源聯合發展公司 (Fujian Guanyuan (United) Development Company) from 1989 to 1993. Mr. Yam established China Power Limited (華力有限公司), a company principally engaged in the investments in real estates and trading in the PRC and Hong Kong, in 1994 and has been the director of China Power Limited since then.

Mr. Yuen, aged 50, holds a master degree in mechanical engineering from the Shanghai Jiao Tong University (上海交通大學). Mr. Yuen was a senior research analyst of 福建省研究發展中心 (Fujian Provincial Research and Development Center) from 1985 to 1991. Mr. Yuen is a director of Origin Seed Technology Inc., a company listed on Nasdaq, since 1997 and was an executive director of Goldigit Atom-Tech Holdings Limited, a company which withdrew its listing on the Growth Enterprise Market of the Stock Exchange and continued on the Main Board of the Stock Exchange, from 2001 to 2002. Mr. Yuen has over ten years of experience in corporate management and operation.

INTENTION OF LONG GRAND REGARDING THE GROUP

Long Grand intends that the Group will continue its existing businesses following the close of the Offer. Following the close of the Offer, Long Grand will conduct a review of the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future development of the Group. Long Grand noted that the Group has entered into a letter of intent regarding the formation of a joint venture to engage in property development in the PRC and is agreeable to the Group exploring this diversification opportunity. It will also consider other suitable investments or business opportunities in addition to that under the letter of intent should they arise. Long Grand has no intention to re-deploy the employees or the fixed assets of the Group other than in its ordinary course of business.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Board comprised two executive Directors and three independent non-executive Directors. Long Grand intends that it will nominate Mr. Yuen as executive Director, and Ms. Chen Ye, Mr. Chan Wai Dune and Professor Lam Man Kit, Dominic as independent non-executive Directors on such date as the Takeovers Code permits. All the existing Directors will resign after the close of the Offer or such date as the Takeovers Code permits.

The biography of Mr. Yuen is set out above. The biographies of the other new Directors to be nominated by Long Grand are set out as follows:

Ms. Chen Ye, aged 77, studied architecture at the Northeast Industrial College and is currently the senior consultant to 全國十八城市土地管理廳局長聯席會. Ms. Chen has held various senior positions in government departments in the PRC, including as the Senior Planner, Architect and Deputy Chief of 國家建委城建總局 (the Ministry of National Planning Bureau) (now Ministry of Construction); and the Deputy Chief of The State Land Administration Bureau (now Ministry of Land and Resources).

Mr. Chan Wai Dune, aged 55, has over 27 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of the Chinese People's Political Consultative Conference of the Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of the first government of Hong Kong. Mr. Chan is currently the Managing Director of CCIF CPA Limited. Mr. Chan currently serves as independent non-executive directors for various listed companies in Hong Kong including Chuang's China Investments Limited (stock code: 298), Chuang's Consortium International Limited (stock code: 367), Hualing Holdings Limited (stock code: 382), Hunan Nonferrous Metals Corporation Limited (stock code: 2626), Jinheng Automotive Safety Technology Holdings Limited (stock code: 8293), Minmetals Resources Limited (stock code: 1208) and Sam Woo Holdings Limited (stock code: 2322).

LETTER FROM THE BOARD

Dr. Lam Man Kit, Dominic, aged 60, is the Chairman of the World Eye Organisation. Dr. Lam obtained a doctorate degree in Medical Biophysics in 1970. He was appointed as Assistant Professor at Harvard Medical School and subsequently Professor of Biotechnology and Ophthalmology at Baylor College of Medicine. In 1988, Dr. Lam was invited to be the Founding Director of the Hong Kong Institute of Biotechnology. In 1990, Dr. Lam was appointed a member of the US President's Committee on the Arts and Humanities and awarded the KPMG Peat Marwick's High Tech Entrepreneur of the Year. Since January 2003, Dr. Lam was the independent non-executive director of New World TMT Limited, a company previously listed on the main board of the Stock Exchange and was privatized and delisted in February 2006.

Long Grand intends that the Company will remain listed on the Stock Exchange after the close of the Offer and does not intend to exercise its rights to compulsorily acquire all the Shares. The sole director of Long Grand and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of the Composite Document, which contains its recommendation to the Independent Shareholders in respect of the Offer and the letter from Hercules which contains its advice to the Independent Board Committee and the Independent Shareholders set out on pages 22 to 36 of the Composite Document in respect of the fairness and reasonableness of the Offer, and the principal factors and reasons which it has considered before arriving at its advice to the Independent Board Committee and the Independent Shareholders.

You are also advised to read the appendices to the Composite Document and the Form of Acceptance in respect of the acceptance and settlement procedures of the Offer.

In considering what action to take in connection with the Offer, Shareholders should also consider their own tax implications and, if they are in any doubt, they should consult their professional advisers. Your attention is also drawn to the additional information contained in the appendices to the Composite Document.

By Order of the Board
Graneagle Holdings Limited
Fan Man Seung, Vanessa
Director



GRANEAGLE HOLDINGS LIMITED

鷹馳實業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

28 December 2007

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY
OPTIMA CAPITAL LIMITED
ON BEHALF OF LONG GRAND LIMITED
FOR ALL THE ISSUED SHARES IN GRANEAGLE HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
LONG GRAND LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to the Composite Document dated 28 December 2007 jointly issued by the Company and the Offeror, of which this letter forms part. Terms defined in the Composite Document shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Offer are set out in the “Letter from the Board”, “Letter from Optima Capital” and the appendices to the Composite Document. Hercules has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Offer. Details of its advice and principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from Hercules” on pages 22 to 36 of the Composite Document.

Having considered the terms of the Offer and the advice of Hercules, we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend you to accept the Offer, if it is not feasible to realize a higher return from selling your Shares in the open market.

Yours faithfully,

For and on behalf of

The Independent Board Committee

Leung Shu Yin, William

Law Ka Ming, Michael

Yip Kam Man

* *For identification purposes only*

LETTER FROM HERCULES

The following is the text of a letter of advice from Hercules which has been prepared for the purpose of incorporation into the Composite Document, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Offer.

Hercules **Hercules Capital Limited**

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

28 December 2007

*To the Independent Board Committee
and Independent Shareholders*

Dear Sirs,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY
OPTIMA CAPITAL LIMITED
ON BEHALF OF LONG GRAND LIMITED
FOR ALL THE ISSUED SHARES IN GRANEAGLE HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
LONG GRAND LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the Offer, details of which are set out in the letter from Optima Capital and the letter from the Board contained in the Composite Document, of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Composite Document unless the context requires otherwise.

On 14 November 2007, Long Grand entered into the Share Purchase Agreement with Rich Wing to purchase the Sale Shares from Rich Wing at a cash consideration of HK\$81,246,188 (equivalent to HK\$1.00 per Sale Share). On the same day, Long Grand entered into the Long Grand Subscription Agreement with the Company to subscribe 170,000,000 new Shares at HK\$0.15 each and the Subscription Bonds in an aggregate principal amount of HK\$124,500,000, which are convertible into new Shares at an initial conversion price of HK\$0.15 per Share (subject to adjustments). Upon conversion of the Subscription Bonds, one Subscription Warrant, which confer the right to subscribe in cash for new Shares at an initial subscription price of HK\$0.15 per Share (subject to adjustments), will be granted for every four Subscription Conversion Shares held.

LETTER FROM HERCULES

On 14 November 2007, the Company also entered into the Placing Agreement with the Placing Agent, pursuant to which, the Placing Agent agreed to place the Placing Bonds in an aggregate principal amount of HK\$60,000,000, which are convertible into new Shares at an initial conversion price of HK\$0.15 per Share (subject to adjustments). Upon conversion of the Placing Bonds, one Placing Warrant, which confer the right to subscribe in cash for new Shares at an initial subscription price of HK\$0.15 per Share (subject to adjustments), will be granted for every four Placing Conversion Shares held.

Following the completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement which took place on 24 December 2007, Long Grand was interested in a total of 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company. Under Rules 26.1 and 13 of the Takeovers Code, Long Grand is required to make the Offer to acquire all the issued Shares and outstanding convertible securities (other than those Shares and convertible securities already owned by Long Grand and parties acting in concert with it). As at the Latest Practicable Date, save for the Bonds and Warrants, the Company did not have any other outstanding options, warrants and other securities convertible into Shares or any other share derivatives. Furthermore, pursuant to the Long Grand Subscription Agreement and the Placing Agreement, the Offer will not be extended to holders of the Bonds, and the Subscription Bonds and the Placing Bonds are not transferable and cannot be converted until one month after the close of the Offer. Long Grand and parties acting in concert with it has applied to the Executive and was granted a waiver on dispensations from Rule 13.1 of the Takeovers Code. Accordingly, Optima Capital is making the Offer on behalf of Long Grand on the term of HK\$1.00 in cash for every Share for all of the issued Shares not already owned by Long Grand and parties acting in concert with it.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Leung Shu Yin William, Mr. Law Ka Ming Michael and Ms. Yip Kam Man, has been established to advise the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Offer. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Offer, in particular as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, inter alia, the Composite Document, the financial statements of the Company and other relevant information provided to us by the Company. We have assumed that such information and statements and any representation made to us are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion. We have also assumed that all information, opinions and representations contained or referred to in the Composite Document are true, accurate and complete in all material respects as at the date of the Composite Document, and will continue to be true during the period the Offer remains open for acceptance, and that they may be relied upon in formulating our opinion. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Composite Document (other than that relating to the Offer, Long Grand and parties acting in concert with it). The Directors and Long Grand have confirmed respectively, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no material facts not contained in the Composite Document the omission of which would make any statement in the Composite Document misleading.

LETTER FROM HERCULES

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Composite Document and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors, or management of the Company, or Long Grand, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Company.

We have not considered the tax implications on the Independent Shareholders arising from acceptances or non-acceptances of the Offer as these depend on their individual circumstances. It is emphasized that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Offer. In particular, the Independent Shareholders who are overseas residents or are subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax positions, and if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Offer, we have considered the following principal factors and reasons:

1. Background to and terms of the Offer

Immediately following the completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement, Long Grand is interested in a total of 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company. Under Rules 26.1 and 13 of the Takeovers Code, Long Grand is required to make the Offer to acquire all the issued Shares and outstanding convertible securities (other than those Shares and convertible securities already owned or agreed to be acquired by Long Grand and parties acting in concert with it). As at the Latest Practicable Date, save for the Bonds and Warrants, the Company did not have any other outstanding options, warrants and other securities convertible into Shares or any other share derivatives. Furthermore, pursuant to the Long Grand Subscription Agreement and the Placing Agreement, the Offer will not be extended to holders of the Bonds, and the Subscription Bonds and the Placing Bonds are not transferable and cannot be converted until one month after the close of the Offer. Long Grand and parties acting in concert with it has applied to the Executive and was granted a waiver on dispensations from Rule 13.1 of the Takeovers Code. Accordingly, Optima Capital is making the Offer on behalf of Long Grand on the term of HK\$1.00 in cash for every Share for all of the issued Shares not already owned or agreed to be acquired by Long Grand and parties acting in concert with it on the following basis:

For each ShareHK\$1.00 in cash

Details of the terms and conditions of the Offer, including the procedures for acceptance, are set out in the letter from Optima Capital and Appendix I to the Composite Document.

LETTER FROM HERCULES

2. Financial performance of the Group

The Group is principally engaged in garment business. The financial information of the Group for the three years ended 31 March 2007 and the six months ended 30 September 2007 are summarized as follows:

Table 1 – Consolidated financial information of the Group for the three years ended 31 March 2007 and the six months ended 30 September 2007

	6 months ended		For the year ended 31 March		
	30 September	2007	2007	2006	2005
	(unaudited)	(audited)	(audited)	(audited)	(audited)
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Turnover	92,978	161,850	152,761	176,258	
Profit before taxation	7,007	15,897	12,277	11,701	
Net profit attributable to Shareholders	6,466	14,556	11,052	10,536	
Dividend (per Share)	–	HK3 cents ^{Note}	HK3 cents	HK2 cents	
	As at	As at	As at	As at	
	30 September	2007	31 March	2006	2005
	(unaudited)	(audited)	(audited)	(audited)	(audited)
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Non-current assets	2,179	2,769	3,477	4,438	
Current assets	56,201	102,127	85,725	88,917	
Total assets	58,380	104,896	89,202	93,355	
Current liabilities	19,576	18,395	12,667	24,662	
Non-current liabilities	43	62	127	204	
Total liabilities	19,619	18,457	12,794	24,866	
Net assets	38,761	86,439	76,408	68,489	

Note: The payments of a final dividend of HK3 cents per Share and a special dividend of HK29 cents per Share were made on 17 September 2007.

LETTER FROM HERCULES

For the three years ended 31 March 2007 and the six months ended 30 September 2007, most of the Group's turnover was generated from its garment business. When compared with the year ended 31 March 2005, the Group recorded a decrease of 13% in turnover for the year ended 31 March 2006. According to the 2006 annual report of the Company, the Group's decrease in turnover in the year was mainly attributable to the hold-down of orders by the US importers and buyers due to the uncertainties of the trade environment during the negotiations of the bilateral trading agreement between the US and the PRC in the last quarter of 2005. However, the trading environment became more stable and the orders of the Group from the US customers resumed in the first quarter of 2006 after the entering into of a three-year agreement on imports of Chinese clothing and textiles between the US and the PRC in November 2005.

During the year ended 31 March 2006, the Group changed its product mix by increasing the sales of the high-end lines of ladies' fashion, which in general had a higher profit margin. Due to the increased profit margin and the increase in bank interest income, the Group recorded an increase in net profit even though there was a decrease in turnover.

For the year ended 31 March 2007, the Group's consolidated turnover and net profit attributable to Shareholders amounted to approximately HK\$161.8 million and HK\$14.6 million respectively, representing a respective increase of approximately 5.9% and 31.7% as compared to the year ended 31 March 2006. According to the 2007 annual report of the Company, the increase in turnover was mainly attributable to the increase in the consumption in the US market. The substantial decrease in administrative expenses, especially the staff costs, and the almost doubled interest income contributed a rise of 31.7% in net profit of the Group.

As at 31 March 2007, the Group had total assets and total liabilities of approximately HK\$104.9 million and HK\$18.5 million respectively, resulted in a net asset value of HK\$86.4 million. The Group's total assets mainly comprised current assets, of which approximately HK\$44.2 million were cash and bank balances, HK\$30.7 million were inventories and HK\$18.2 million were trade and other receivables. Due to the substantial amount of current assets but relatively insignificant amount of current liabilities, the Group had a relatively high current ratio of 5.6 as at 31 March 2007. We were also confirmed by the Directors that the financial position of the Group remained healthy although dividends of approximately HK\$53.5 million were paid out on 17 September 2007.

For the six months ended 30 September 2007, the Group's consolidated turnover and net profit from operating activities amounted to approximately HK\$93.0 million and HK\$6.3 million respectively, representing an increase of 19% and a decrease of 8.0% respectively as compared to the six months ended 30 September 2006. According to the 2007 interim report of the Company, the increase in turnover was due to the increase in sales volume to the US customers. The reduction of profit from operating activities was resulted from the 10% increase in staff costs and almost five times increase in professional fee owing to a conditional mandatory general offer by Rich Wing during the period.

As at 30 September 2007, the Group had a net asset value of HK\$38.8 million, with total assets and total liabilities of approximately HK\$58.4 million and HK\$19.6 million respectively.

3. Future prospect of the Group

The garment business of the Group mainly focus on the US market. With reference to the information published by the Bureau of Economic Analysis, the US Department of Commerce, national gross domestic product (GDP) for the nine months ended 30 September 2007 in the US had increased by 4.9% to US\$13,763.7 billion as compared to the last corresponding period. The personal consumption expenditures on clothing and shoes for the nine months ended 30 September 2007 was US\$370.6 billion, represented an increase of 4.3% as compared to last corresponding period. Furthermore, according to the statistics released by the US Census Bureau, the retail sales of clothing and clothing accessories stores increased by 5.8% as compared to the last corresponding period and reached US\$193.8 billion for the eleven months ended 30 November 2007. However, as the sub-prime mortgage lending problem may adversely affect the US's economy in general, we expect that it may also have indirect impact on the short-term growth of the garment industry.

We noted from the composite offer document dated 19 September 2007 that the Group would be opened to new business opportunities other than the existing garment business. In order to further increase the Shareholders' value of the Company, the Group has been looking for suitable projects for business diversification since the change in control of the Company in September 2007. On 16 October 2007, a new board of Directors was appointed. On 22 October 2007, Surplus Rich Investments Limited, a wholly-owned subsidiary of the Company, entered into a non-legally binding letter of intent with Harbin Ai Da Investment Limited ("Ai Da"), a third party independent of Long Grand, the Company and its connected persons, for the establishment of a joint venture for undertaking property development and sale in the PRC.

The Directors are of the knowledge that Ai Da is a reputable real estate developer in the PRC. It has extensive experience in developing large-scaled real estate projects. The Directors believe that Ai Da's extensive experience and connections in the PRC property development industry can help facilitating the Group's business development in the PRC and the formation of a joint venture with Ai Da provides a good opportunity for the Company to tap into the lucrative real estate market in the PRC.

In accordance with the information published by National Bureau of Statistics of China, the national GDP for the nine months ended 30 September 2007 was RMB16,604 billion, represented an increase of 11.5% as compared to the last corresponding period. The per capita disposable income of urban households also showed a strong growth of 17.6% from RMB5,997 for the first six months in 2006 to RMB7,052 for the six months in 2007. The strong economic growth in the PRC has underpinned its continuous growth in the real estate sector. The confidence index of entrepreneurs of the real estate sector increased from 145.5 in the 2nd quarter of 2007 to 146.6 in the 3rd quarter of 2007. The national real estate development climate index reached 104.42 in October 2007, representing a year-on-year growth of approximately 2.7%. The total investment in real estate development for the ten months ended 31 October 2007 amounted to RMB1,919.2 billion, representing a year-on-year growth of 31.4%. Although the total area of developing land and premises is still on the rising trend, the total area of vacant premises as at 31 October 2007 decreased by 3.9% to 117.7 million square meters as compared to the last corresponding period. The total area of vacant residential premises even recorded a drop of 13.3% as compared to the last corresponding period. In light of the above, we believe that the future prospect of the real estate development industry in the PRC would be promising. However,

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Shareholders should note that the formation of the joint venture is subject to the parties executing a legally binding joint venture agreement and such agreement has not been entered into by the parties as at the Latest Practicable Date.

4. Information of Long Grand and its intention regarding the Group

With reference to the letter from Optima Capital, Long Grand is a private limited company incorporated in the British Virgin Islands. Save for the entering into of the Share Purchase Agreement and the Long Grand Subscription Agreement, it has not carried on any business activity since its incorporation. The entire issued share capital of Long Grand is beneficially owned as to 70% and 30% by Mr. Yam and Mr. Yuen respectively. Mr. Yuen is the sole director of Long Grand.

As stated in the letter from Optima Capital, it is the intention of Long Grand to remain the listing status of the Company on the Stock Exchange after the close of the Offer and to continue the Group's existing businesses. Long Grand noted that the Group has entered into a letter of intent regarding the formation of a joint venture to engage in the property development industry in the PRC and is agreeable to this diversification opportunity of the Group. Meanwhile, a review on the business operations and financial position of the Group will be conducted by Long Grand for the purpose of formulating business plans and strategies for the Group's future development. Long Grand will also consider other suitable investments or business opportunities should they arise. Long Grand has no intention to re-deploy the fixed assets or discontinue the employment of the employees of the Group other than in its ordinary course of business.

According to the letter from Optima Capital, Long Grand intends to nominate Mr. Yuen as an executive Director, and Ms. Chen Ye, Mr. Chan Wai Dune and Professor Lam Man Kit Dominic as independent non-executive Directors after the close of the Offer and all existing Directors will resign after the close of the Offer. The biographical details of the new Directors are set out in the letter from Optima Capital.

5. Offer Price

The Offer price of HK\$1.00 per Share (the "Offer Price") is the same as the purchase price per Sale Share under the Share Purchase Agreement and the Offer Price represents:

- (i) a discount of approximately 62.83% to the closing price of HK\$2.69 per Share as quoted on the Stock Exchange on 15 October 2007, being the last trading day of the Shares prior to the announcements by the Company of a possible change in controlling Shareholder and the commencement of the Offer period on the Last Trading Day;
- (ii) a discount of approximately 82.64% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 79.72% to the average closing price of approximately HK\$4.93 per Share as quoted on the Stock Exchange during the five trading days up to and including the Last Trading Day;

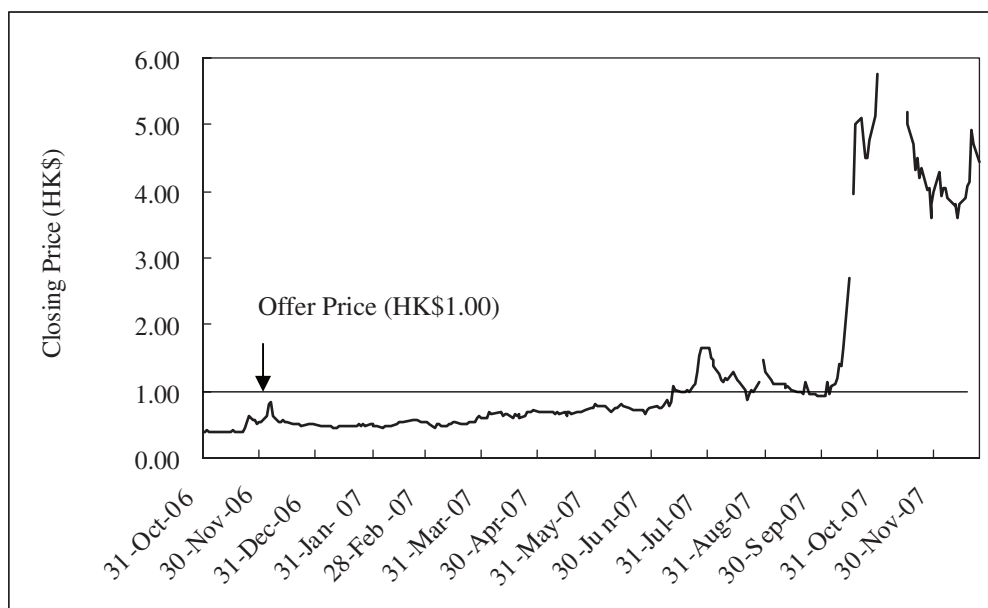
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- (iv) a discount of approximately 78.35% to the average closing price of approximately HK\$4.62 per Share as quoted on the Stock Exchange during the ten trading days up to and including the Last Trading Day;
- (v) a discount of approximately 55.95% to the average closing price of approximately HK\$2.27 per Share as quoted on the Stock Exchange during the thirty trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 77.53% to the closing price of HK\$4.45 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vii) a premium of approximately 400.00% over the net asset value per Share of approximately HK\$0.20 with reference to the audited financial statements of the Group as at 31 March 2007, after adjustment for the payment of a final dividend of HK3 cents per Share and a special dividend of HK29 cents per Share, and 167,031,016 Shares in issue as at 31 March 2007.

5.1 Historical share price of the Shares

In order to assess the fairness and reasonableness of the Offer Price, we have reviewed the movements in trading price of the Shares during the period from 31 October 2006 (being the first trading day of the 12-month period prior to the Last Trading Day) to the Latest Practicable Date (the “Review Period”). The closing prices of the Shares during the Review Period are depicted in Chart 1 below:

Chart 1 – Closing prices of the Shares during the Review Period



Source: Thomson ONE Banker

Note: The closing price of the Shares for the period from 9 July 2007 to 17 August 2007, being the period for cum-entitlement to the annual dividend and special dividend, have been adjusted for the annual dividend of HK3 cents and special dividend of HK29 cents by deducting HK32 cents from the quoted prices.

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As illustrated in Chart 1, the Shares were traded in the narrow range of HK\$0.385 to HK\$0.42 during the period from 31 October 2006 to 21 November 2006. On 22 November 2006, there was a sudden increase of 14.3% in the closing price of the Shares. The Company published an announcement on 23 November 2006 to clarify that the Board was not aware of any reason for such increase in share price. After that, the closing price of the Shares fluctuated in the range of HK\$0.44 to HK\$0.63 before the occurrence of another sharp rise of 30.2% increase in the closing price of the Shares on 5 December 2006. The closing price of the Shares then reached the short-term peak of HK\$0.83 on 6 December 2006. The Directors were not aware of any reason for such rise in the trading price of the Shares.

Subsequent to the publication of the Group's interim results for the six months ended 30 September 2006 after the close of trading time on 6 December 2006, which showed the decreases of approximately 18.3% in turnover and 24.7% in net profit as compared to the last corresponding period, the closing price of the Shares plunged to HK\$0.63 on 7 December 2006. Since then, the closing price of the Shares fluctuated in the range of HK\$0.44 to HK\$0.81 with an average of HK\$0.60 during the period from 8 December 2006 to 6 July 2007. After the publication of the Group's annual results for the year ended 31 March 2007 after the close of trading time on 6 July 2007, which showed increases of approximately 5.9% in turnover and 31.7% in net profit as compared to the last corresponding period, the closing price of the Shares rallied to HK\$1.66 on 27 July 2007. Subsequently, the closing price of the Shares plummeted to HK\$0.87 on 21 August 2007 without any special reason.

On 27 August 2007, Rich Wing entered into a share purchase agreement with various vendors to purchase 48.64% of the existing issued share capital of the Company. The trading of Shares was suspended on 28 August 2007 and 29 August 2007 pending the release of the announcement for the change in controlling shareholder and the possible conditional mandatory general offer (the "GO Announcement"). On 30 August 2007, being the day following the publication of the GO Announcement, the closing price of the Shares surged to HK\$1.46. After that, the closing price of the Shares dropped gradually to HK\$0.93 on 2 October 2007. We were advised by the Directors that they were not aware of any reason for such decrease in price. After the lapse of the general offer by Rich Wing on 10 October 2007, the closing price of the Shares bounced back to HK\$1.42 and reached HK\$1.64 on 12 October 2007.

On 15 October 2007, the closing price of the Shares increased by more than 64% from HK\$1.64 on 12 October 2007 to HK\$2.69. The Directors were not aware of any reason for such increase. In the afternoon of 15 October 2007, the Company called for suspension of trading of the Shares pending the release of an announcement regarding the possible disposal of Shares by Dr. Yeung. After the publication of such announcement, the closing price of the Shares skyrocketed to HK\$5.76 on the Last Trading Day. Subsequent to the publication of the Announcement, the closing price of the Shares reduced gradually to HK\$3.60 on 13 December 2007, and then fluctuated in the range of HK\$3.60 to HK\$4.92 during the period up to the Latest Practicable Date.

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5.2 Historical trading volume of the Shares

We have also reviewed the historical trading volume of the Shares during the Review Period. The average daily trading volume of the Shares, the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period are shown in Table 2 below.

Table 2 – Historical average daily trading volume of the Shares

Month	Average daily trading volume	% of average daily trading volume to the total number of issued Shares (Note 1)	% of average daily trading volume to the total number of Shares in public hands (Note 2)
2006			
October	2,000 (Note 3)	0.0012%	0.0023%
November	390,227	0.2336%	0.4549%
December	744,847	0.4459%	0.8683%
2007			
January	132,545	0.0794%	0.1545%
February	292,267	0.1750%	0.3407%
March	208,877	0.1251%	0.2435%
April	473,122	0.2833%	0.5515%
May	242,248	0.1450%	0.2824%
June	362,774	0.2172%	0.4229%
July	2,574,444	1.5413%	3.0010%
August	1,107,074	0.6628%	1.2905%
September	572,253	0.3426%	0.6671%
October	2,657,873	1.5912%	3.0983%
November	458,965	0.2748%	0.5350%
December	232,719 (Note 4)	0.1393%	0.2713%

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Calculated based on 167,031,016 Shares in issue as at the Last Trading Day.
2. Calculated based on 85,784,828 Shares held in public hands as at the Last Trading Day.

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3. Represents trading volume for 31 October 2006 only.
4. Represents trading volume for the period from 1 December 2007 to the Latest Practicable Date.
5. Trading in the Shares was suspended on 28 August 2007, 29 August 2007, the afternoon session on 15 October 2007, 16 October 2007 and the afternoon session on 30 October 2007 to 14 November 2007.

Table 2 demonstrates that during the Review Period, the average daily trading volume of the Shares was in the range of approximately 0.0012% to 1.5912% as to the total number of issued Shares as at the Last Trading Day and approximately 0.0023% to 3.0983% as to the total number of the Shares held in public hands as at the Last Trading Day. The above statistics showed that the liquidity of the Shares was relatively low during the Review Period.

5.3 Comparison with market comparables

In forming our opinion on the Offer Price, we have also considered the following comparable approaches, namely price-to-earnings approach, net assets approach and dividends approach, which are commonly adopted in evaluation of a company.

Price-to-earnings Approach

Based on the Group's profit of approximately HK\$14.56 million for the financial year ended 31 March 2007 and 337,031,016 Shares in issue on the Latest Practicable Date, the Group's basic earnings per Share for the financial year of 2007 was approximately HK\$0.0432. Therefore, the Offer Price of HK\$1.00 represents a price-earning ratio (PER) of 23.15 times based on the Group's earnings for the financial year of 2007.

Net Assets Approach

Based on the Group's consolidated net asset value of approximately HK\$86.44 million as at 31 March 2007, deducting from it the dividends of approximately HK\$53.45 million distributed in September 2007 and adding the subscription amount of approximately HK\$25.50 million for the Subscription Shares, the adjusted net asset value attributable to equity holders of the Company amounted to approximately HK\$58.49 million. Therefore, based on 337,031,016 Shares in issue on the Latest Practicable Date, the net asset value per Share amounted to approximately HK\$0.1735. The price-to-book ratio (PBR) of the Group implied by the Offer Price of HK\$1.00 is thus approximately 5.76 times.

Dividends Approach

Based on the final dividend of HK\$0.03 per Share for the year ended 31 March 2007, the dividend yield implied by the Offer Price is approximately 3.00%.

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In assessing the fairness and reasonableness of the Offer Price, based on the closing price of HK\$4.45 per Share on the Latest Practicable Date and 337,031,016 Shares in issue on the Latest Practicable Date, the market capitalization of the Company amounted to approximately HK\$1.50 billion. For comparison purposes, we have considered all the companies which (a) are currently listed on the Main Board of the Stock Exchange; (b) are principally engaged in similar business of the Group; and (c) had a market capitalization between HK\$900 million and HK\$2 billion as at the Latest Practicable Date. To our best knowledge, we have identified 8 comparable companies (the “Industry Comparables”) which meet all the above-mentioned criteria, and set out in Table 3 below a comparison of the valuation statistics of the Company implied by the Offer Price with the market valuations at which the Industry Comparables are currently trading.

Table 3: Trading multiples of the Industry Comparables and the Company

Company Name (Stock code)	Principal Business Activities	Market capitalization as at the Latest Practicable Date (HK\$' million)	PER (times)	PBR (times)	Dividend Yield (%)
Eagle Nice International Holdings Ltd. (2368)	Design and manufacture of sportswear for men, women and children on an OEM basis	1,069.32	13.76	1.50	4.33
Fountain Set Holdings Ltd. (420)	Production & sales of finished knitted fabrics, sewing threads & dyed yarns; provision of knitting, dyeing, printing & fabric finishing services; trading of raw yarns and sale of garments	1,532.44	5.00	0.55	3.60
Luen Thai Holdings Ltd. (311)	Manufacturing and trading of garment and textile products, the provision of freight forwarding and logistic services	1,032.20	52.74	0.66	1.49
Top Form International Ltd. (333)	Design, manufacture, distribution, wholesale, retail & trading of ladies' intimate apparel	979.43	7.37	1.91	5.98

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Company Name (Stock code)	Principal Business Activities	Market capitalization as at the Latest Practicable Date (HK\$' million)	PER (times)	PBR (times)	Dividend Yield (%)
U-Right International Holdings Ltd. (627)	Design, manufacture, distribution and sales of men and ladies casual wear for the PRC market and in Hong Kong	925.22	7.52	0.61	5.36
Victory City International Holdings Ltd. (539)	Production and sale of knitted fabric and dyed yarn and provision of related subcontracting services, and trading of garment products and provision of quality inspection services	1,549.10	5.07	0.76	6.43
Tack Fat Group International Limited (928)	Design and manufacture of jeans, pants, shorts, swimming apparel and sportswear for men, women and children on OEM and ODM basis	1,911.89	6.08	1.09	3.27
Tak Sing Alliance Holdings Limited (126)	Manufacture, trading and distribution of garments, operation of hotel, restaurant and food business and property investment and development	1,978.73	5.88	0.90	1.50
Minimum			5.00	0.55	1.49
Maximum			52.74	1.91	6.43
Average			12.93	1.00	4.00
The Company (147)	Garment manufacture		23.15	5.76	3.00

Note: The trading statistics of the Comparables were quoted from ThomsonOneBanker as at the Latest Practicable Date.

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As shown in Table 3, the PER of the Industry Comparables ranged from 5.00 times to 52.74 times, with an average of approximately 12.93 times. The PER implied by the Offer Price is 23.15 times, which falls within the range of the PER of the Industry Comparables and is higher than the average of the Industry Comparables of 12.93 times.

The PBR of the Industry Comparables ranged from approximately 0.55 times to 1.91 times, with an average of approximately 1.00 times. The PBR implied by the Offer Price is 5.76 times, which is higher than the maximum of the Industry Comparables of 1.91 times.

The dividend yield of the Industry Comparables ranged from 1.49% to 6.43%, with an average of approximately 4.00%. The dividend yield implied by the Offer Price of 3.00% is therefore within the range of the dividend yield of the Industry Comparables but lower than the average of the Industry Comparables of 4.00%.

In summary, the PER and dividend yield as implied by the Offer Price fall within the range of that of the Industry Comparables and the PBR as implied by the Offer Price is higher than the maximum of the Industry Comparables.

As each of the Industry Comparables may not be entirely comparable to the Group in terms of the scale of operations, market capitalization, financial position and performance, future prospect as well as other relevant criteria, and all of these factors may affect the valuation of a company as illustrated by the various results in our comparison, the above comparison is for illustrative purpose only.

Based on the above analysis, we consider that the Offer Price is fair and reasonable to the Company and the Independent Shareholders as a whole after taking into consideration of the followings:

- (a) the Offer Price is the same as the consideration paid by Long Grand under the Share Purchase Agreement;
- (b) the PER implied by the Offer Price is within the range of those of the Industry Comparables and higher than the average of the Industry Comparables;
- (c) the PBR implied by the Offer Price is higher than the maximum of the Industry Comparables;
- (d) the dividend yield implied by the Offer Price is within the range of those of the Industry Comparables; and
- (e) the liquidity of the Shares during the Review Period was thin and it is uncertain whether the liquidity of the Shares could be improved after the close of the Offer to allow the Independent Shareholders to dispose of their holding in the Shares in the market at the Offer Price.

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RECOMMENDATION

Having considered the principal factors and reasons stated above, in particular (i) the Offer Price is the same as the consideration paid by Long Grand under the Share Purchase Agreement; (ii) the PER implied by the Offer Price is within the range of those of the Industry Comparables and higher than the average of the Industry Comparables; (iii) the PBR implied by the Offer Price is higher than the maximum of the Industry Comparables; (iv) the dividend yield implied by the Offer Price is within the range of those of the Industry Comparables; and (v) the liquidity of the Shares during the Review Period was thin and it is uncertain whether the liquidity of the Shares could be improved after the close of the Offer to allow the Independent Shareholders to dispose of their holding in the Shares in the market at the Offer Price, we are of the view that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned although the Offer Price represented a substantial discount to the closing price of the Shares on the Last Trading Day. As such, we recommend the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to accept the Offer, if it is not feasible to realize a higher return from selling their Shares in the open market.

Independent Shareholders should note that although the Offer Price represents a premium of approximately 400% over the Group's adjusted net asset value with reference to the audited financial statements as at 31 March 2007, the Shares have been trading above the Offer Price after the Announcement had been made and up to the Latest Practicable Date. On the other hand, given the low liquidity of the Shares, despite the Offer Price represents a discount to the prevailing market price of the Shares, the Independent Shareholders who may wish to realize their investment in the Company, especially those with relatively sizeable shareholdings, might not be able to do so without having an adverse impact on the market price level of the Shares. It is also uncertain that the trading price of the Shares can be sustained at such level in the long term. Therefore, the Offer provides an alternative for the Independent Shareholders who would like to realize their investments in the Shares. The Independent Shareholders are reminded that they should carefully and closely monitor the market price and the liquidity of the Shares before the end of the offer period and consider selling their Shares in the open market rather than accepting the Offer if the net proceeds from the market sale of their Shares after deducting all transaction costs are more than the net amount to be received under the Offer.

Those Independent Shareholders who, after considering the information on Long Grand and the future intention of Long Grand regarding the Group, are attracted by the future prospects of the Group following the Offer, should consider retaining some or all of their Shares.

The procedures for acceptance of the Offer are set out in Appendix I to the Composite Document and the accompanying Forms of Acceptance. The latest time for acceptance of the Offer and lodging the Forms of Acceptance (unless extended by Long Grand) is 4:00 p.m. on Friday, 18 January 2008. Independent Shareholders are urged to act according to this timetable if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo
Managing Director

Amilia Tsang
Director

1. FURTHER PROCEDURES FOR ACCEPTANCE

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name(s), and you wish to accept the Offer, you must send the accompanying Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:
- (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorizing it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnify or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Shares have been lodged with your licensed securities dealer/custodian bank through CCASS, instruct your licensed securities dealer (or other registered dealer in securities)/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities)/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.

- (c) If the certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shares, the Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Optima Capital and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.
- (e) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by not later than 4:00 p.m. on Friday, 18 January 2008 or such later time and/or date as the Offeror may determine in compliance with the requirements of the Takeovers Code and announce, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered shareholder of Shares or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered holder of Shares, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (f) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) The address of the Registrar is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

2. ACCEPTANCE PERIOD AND REVISIONS

Unless the Offer has previously been extended or revised, the latest time and date for acceptance will be 4:00 p.m. on Friday, 18 January 2008. In order to be valid, the relevant Form of Acceptance must be received by the Registrar in accordance with the instructions printed thereon by 4:00 p.m. on Friday, 18 January 2008. The Offer is unconditional.

The Offeror is entitled to extend or revise the Offer in accordance with the Takeovers Code after the date of this Composite Document. If the Offeror revises the terms of the Offer, all Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. If the Offer is revised, it will remain open for acceptance for a period of not less than 14 days from the posting of the revised offer document to the Shareholders. If the Offer is revised or extended, an announcement of such revision or extension will be published stating the revised closing date of the Offer.

3. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time and/or date as the Executive agrees) on Friday, 18 January 2008 which is the Closing Date, the Offeror must inform the Executive and the Stock Exchange of its intention in relation to the revision or extension of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offer has been revised or extended.

The announcement must state the following:

- (i) the total number of issued Shares and rights over Shares for which acceptances of the Offer have been received;
- (ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror or parties acting in concert with it before the Offer period; and
- (iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer period by the Offeror or parties acting in concert with it.

The announcement must also specify the percentages of the relevant classes of share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

- (b) In computing the total number of Shares represented by acceptances, only valid acceptances that are complete and in good order and which have been received by the Registrar no later than 4:00 p.m. on Friday, 18 January 2008 shall be included.
- (c) As required under the Takeovers Code, all announcements in respect of listed companies must be made in accordance with the requirements of the Listing Rules.

4. RIGHT OF WITHDRAWAL

Acceptance to the Offer shall be irrevocable and cannot be withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offer as described under the section headed “Announcements” above. In those circumstances, the Executive may require that acceptors be granted a right of withdrawal on terms acceptable to the Executive until such announcements requirements can be met.

In such case, upon the Independent Shareholders withdraw the acceptance, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares lodged with the Form of Acceptance to the Independent Shareholder(s).

5. OVERSEAS SHAREHOLDERS

The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such persons who wish to accept the Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.

6. SETTLEMENT

Provided that the Form of Acceptance and relevant share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares are completed and in good order and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date, a cheque for the amount due to each accepting Shareholder in respect of the Shares tendered by him/her/it under the Offer, less seller's ad valorem stamp duty payable by him/her/it, will be despatched to each accepting Shareholder at the address specified on the Form of Acceptance by ordinary post at his/her/its own risk as soon as possible but in any event within 10 days of the date on which all the relevant documents of title are received by the Registrar to render such acceptance complete and valid.

The settlement of the consideration to which any Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.

7. GENERAL

- (a) All communications, notices, Forms of Acceptance, share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither the Company, the Offeror, Optima Capital, their respective agents nor the Registrar accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the Form of Acceptance form part of the terms of the Offer.
- (c) The accidental omission to despatch the Composite Document and/or the Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (d) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form of Acceptance will constitute an authority to any director of the Offeror, Optima Capital or such person or persons as any of them may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person has accepted the Offer.

- (f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Offer is sold by any such person or persons free from all liens, claims and encumbrances and together with all rights attaching thereto including the right to receive all future dividends or other distributions, if any, declared, paid or made on the Shares on or after the date of the Composite Document.
- (g) References to the Offer in the Composite Document and in the Form(s) of Acceptance shall include any extension and/or revision thereof.
- (h) The English text of the Composite Document and the Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

I. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the financial results of the Group for each of the three years ended 31 March 2007 and the six months ended 30 September 2007. The information is extracted from the Group's interim report and annual reports which are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The auditors' reports by Deloitte Touche Tohmatsu in respect of the Group's audited accounts for the three years ended 31 March 2007 did not contain any qualification. The Company has declared and paid dividends of HK2.0 cents, HK3.0 cents, HK3.0 cents in years 2005, 2006 and 2007 respectively. In addition, the Company has declared and paid special dividends of HK29.0 cents per Share in 2007. The Company has no exceptional and/or extraordinary items and minority interests for each of the three years ended 31 March 2007 and for the six months ended 30 September 2007.

RESULTS	6 months ended 30 September		Year ended 31 March	
	2007 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	92,978	161,850	152,761	176,258
Profit before taxation	7,007	15,897	12,277	11,701
Taxation	(541)	(1,341)	(1,225)	(1,165)
Profit attributable to equity holders of the Company	<u>6,466</u>	<u>14,556</u>	<u>11,052</u>	<u>10,536</u>
Total dividend paid				
– final dividend	–	5,011	5,011	3,341
– special dividend	–	48,439	–	–
	<u>–</u>	<u>53,450</u>	<u>5,011</u>	<u>3,341</u>
Dividend per share :				
– final dividend	–	HK3 cents	HK3 cents	HK2 cents
– special dividend	–	HK29 cents	–	–
	<u>–</u>	<u>HK32 cents</u>	<u>HK3 cents</u>	<u>HK2 cents</u>
Earnings per share – basic	<u>HK3.87 cents</u>	<u>HK8.71 cents</u>	<u>HK6.62 cents</u>	<u>HK6.31 cents</u>
ASSETS AND LIABILITIES	As at 30 September		As at 31 March	
	2007 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Total assets	58,380	104,896	89,202	93,355
Total liabilities	(19,619)	(18,457)	(12,794)	(24,866)
Shareholders' funds	<u>38,761</u>	<u>86,439</u>	<u>76,408</u>	<u>68,489</u>

II. AUDITED FINANCIAL INFORMATION

The following is the full text of the audited financial statements of the Group for the two years ended 31 March 2007 as extracted from the annual report of the Company for the year ended 31 March 2007:

Consolidated Income Statement

For the year ended 31 March 2007

	<i>NOTES</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover		161,850	152,761
Cost of sales		<u>(137,213)</u>	<u>(129,353)</u>
Gross profit		24,637	23,408
Other income		2,167	1,248
Distribution and selling expenses		(1,485)	(1,106)
Administrative expenses		<u>(9,422)</u>	<u>(11,273)</u>
Profit before taxation		15,897	12,277
Taxation	6	<u>(1,341)</u>	<u>(1,225)</u>
Profit for the year	7	<u><u>14,556</u></u>	<u><u>11,052</u></u>
Earnings per share – basic	9	<u><u>8.71 HKcents</u></u>	<u><u>6.62 HKcents</u></u>

Consolidated Balance Sheet*At 31 March 2007*

	<i>NOTES</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current asset			
Property, plant and equipment	<i>10</i>	<u>2,769</u>	<u>3,477</u>
Current assets			
Inventories	<i>11</i>	30,715	22,696
Trade and other receivables	<i>12</i>	18,190	11,619
Pledged bank deposit	<i>19</i>	9,040	8,579
Bank balances and cash	<i>13</i>	<u>44,182</u>	<u>42,831</u>
		<u>102,127</u>	<u>85,725</u>
Current liabilities			
Trade and other payables	<i>14</i>	18,311	12,326
Taxation payable		<u>84</u>	<u>341</u>
		<u>18,395</u>	<u>12,667</u>
Net current assets		<u>83,732</u>	<u>73,058</u>
Total assets less current liabilities		86,501	76,535
Non-current liability			
Deferred taxation	<i>15</i>	<u>(62)</u>	<u>(127)</u>
Net assets		<u><u>86,439</u></u>	<u><u>76,408</u></u>
Capital and reserves			
Share capital	<i>16</i>	1,670	1,670
Reserves		<u>84,769</u>	<u>74,738</u>
Total equity		<u><u>86,439</u></u>	<u><u>76,408</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31 March 2007*

	Share capital <i>HK\$'000</i>	Contributed surplus <i>(note 17)</i> <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2005	1,670	60,737	3,781	–	2,301	68,489
Exchange difference arising on translation of foreign operations, recognised directly in equity	–	–	–	208	–	208
Profit for the year	–	–	–	–	11,052	11,052
Total recognised income for the year	–	–	–	208	11,052	11,260
Dividend paid	–	(3,341)	–	–	–	(3,341)
At March 31, 2006 and April 1, 2006	1,670	57,396	3,781	208	13,353	76,408
Exchange difference arising on translation of foreign operations, recognised directly in equity	–	–	–	486	–	486
Profit for the year	–	–	–	–	14,556	14,556
Total recognised income for the year	–	–	–	486	14,556	15,042
Dividend paid	–	(5,011)	–	–	–	(5,011)
At March 31, 2007	<u>1,670</u>	<u>52,385</u>	<u>3,781</u>	<u>694</u>	<u>27,909</u>	<u>86,439</u>

Consolidated Cash Flow Statement*For the year ended 31 March 2007*

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities		
Profit before taxation	15,897	12,277
Adjustments for:		
Bank interest income	(2,125)	(1,069)
Allowance for inventories	1,047	1,701
Depreciation	1,550	1,747
Impairment loss recognised in respect of property, plant and equipment	166	–
Gain on disposal of property, plant and equipment	(5)	(4)
Operating cash flows before movements in working capital	16,530	14,652
(Increase) decrease in inventories	(9,066)	7,886
(Increase) decrease in trade and other receivables	(6,571)	4,799
Increase (decrease) in trade and other payables	5,985	(11,577)
Cash generated from operations	6,878	15,760
Hong Kong Profits Tax paid	(1,663)	(1,720)
Net cash from operating activities	<u>5,215</u>	<u>14,040</u>
Investing activities		
Interest received	2,125	1,069
Purchase of property, plant and equipment	(1,079)	(789)
Proceeds from disposal of property, plant and equipment	76	7
Increase in pledged bank deposit	(461)	(435)
Net cash from (used in) investing activities	<u>661</u>	<u>(148)</u>
Cash used in financing activity		
Dividend paid	(5,011)	(3,341)
Net increase in cash and cash equivalents	865	10,551
Cash and cash equivalents at April 1	42,831	32,072
Effect of foreign exchange rate changes	486	208
Cash and cash equivalents at March 31 represented by bank balances and cash	<u><u>44,182</u></u>	<u><u>42,831</u></u>

Notes To The Consolidated Financial Statements

For the year ended 31 March 2007

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company is disclosed in the Corporate Information of the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. Its subsidiaries are principally engaged in garment manufacture and trading and details are set out in note 24.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (new “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are either effective for accounting periods beginning on or after December 1, 2005, January 1, 2006 or March 1, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment, revision or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 23 (Revised)	Borrowing costs ²
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁶
HK(IFRIC) – INT 12	Service concession arrangements ⁷

¹ Effective for annual periods beginning on or after January 1, 2007.

² Effective for annual periods beginning on or after January 1, 2009.

³ Effective for annual periods beginning on or after May 1, 2006.

⁴ Effective for annual periods beginning on or after June 1, 2006.

⁵ Effective for annual periods beginning on or after November 1, 2006.

⁶ Effective for annual periods beginning on or after March 1, 2007.

⁷ Effective for annual periods beginning on or after January 1, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Turnover

Turnover represents the net amounts received and receivable for goods sold during the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related tax.

Sales of goods are recognised when goods are delivered to customers and title has passed.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating leases are recognised as a reduction of rental expense over the lease term on a straight line basis.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Textile quotas

The cost of acquiring temporary textile quotas are dealt with in the income statement in the year in which they are utilised. Textile quotas allocated by the authorities are not capitalised and are not included as assets in the balance sheet.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, pledged bank deposits and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities which include trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit scheme

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expenses when employees have rendered service entitling them to the contributions.

4. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposit, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has trade receivables and pledged bank deposit denominated in foreign currencies (see notes 12 and 19), which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

Interest bearing financial assets are mainly bank balances carried at prevailing market rate, that exposed the group to cash flow interest risk. The Group's fair value interest rate risk relate to the pledged bank deposits. However, such interest rate risk exposures are immaterial to the Group as the bank balances and pledged bank deposit are all short-term in nature.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at March 31, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on trade receivables is concentrated on a few customers. Trade receivables attributable to the Group's largest and second largest customer represent approximately 97% and 3% (2006: 93% and 7%) of the total trade receivables at the balance sheet date. The aggregate balance of the related trade receivables amounted to approximately HK\$17,605,000 at March 31, 2007.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Fair values of financial assets and financial liabilities

The carrying amounts of bank balances and cash, pledged bank deposits, trade and other receivables, trade and other payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

5. SEGMENT INFORMATION

(A) Business segments

The Group's entire turnover and more than ninety percent of The Group's assets are contributed by its garment business and therefore no business segment analysis is presented.

(B) Geographical segments

The Group's operations are located in Hong Kong. All the Group's turnover and contribution to results were derived from the sales to the United States of America ("USA").

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
USA	17,605	11,195	–	–
Hong Kong	45,111	42,950	2	–
Mainland China (the "PRC")	33,301	25,590	1,077	789
	96,017	79,735	1,079	789
Unallocated	8,879	9,467	–	–
	<u>104,896</u>	<u>89,202</u>	<u>1,079</u>	<u>789</u>

6. TAXATION

The taxation charge comprises:

	2007 HK\$'000	2006 HK\$'000
Hong Kong Profits Tax		
– current year	1,398	1,304
– under(over) provision in prior years	8	(2)
	1,406	1,302
Deferred taxation		
– deferred taxation credit (note 15)	(65)	(77)
	<u>1,341</u>	<u>1,225</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit before taxation	<u>15,897</u>	<u>12,277</u>
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	2,782	2,148
Tax effect of expenses that are not deductible in determining taxable profit	30	89
Tax effect of income that is not taxable in determining taxable profit	(1,696)	(1,387)
Under(over) provision in prior years	8	(2)
Tax effect of unrecognised tax losses	272	597
Effect of different tax rate of a subsidiary operating in other jurisdiction	<u>(55)</u>	<u>(220)</u>
Tax charge for the year	<u>1,341</u>	<u>1,225</u>

7. PROFIT FOR THE YEAR

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' emoluments (<i>note 7(a)</i>)	1,080	820
Other staff costs	3,265	4,344
Other staff's retirement benefit scheme contributions	<u>140</u>	<u>158</u>
Total staff costs	<u>4,485</u>	<u>5,322</u>
Auditors' remuneration:		
– current year	480	443
– underprovision in prior years	17	–
Allowance for inventories	1,047	1,701
Cost of inventories recognised as expense	133,537	126,502
Depreciation	1,550	1,747
Impairment loss recognised in respect of property, plant and equipment	166	–
Net exchange loss	281	330
Operating lease rentals in respect of:		
– rented premises	1,021	914
– motor vehicle	155	236
Textile quota expenses	2,629	1,150
and after crediting:		
Bank interest income	2,125	1,069
Gain on disposal of property, plant and equipment	<u>5</u>	<u>4</u>

Notes:

(a) **Information regarding directors' and employees' emoluments**

The emoluments paid or payable to each of the eight (2006: eight) directors as follows:

	Ling Tai Yuk, John HK\$'000	Kong Ho Pak HK\$'000	Pang Hon Chung HK\$'000	Keir, Tsoh Ching, James Jonathan HK\$'000	Lee Jonathan HK\$'000	Leung Shu Yin, William HK\$'000	Chau Wai Yin, Jonathan HK\$'000	Ng Tze Kin, David HK\$'000	2007 Total HK\$'000
Fees	50	50	50	50	50	80	50	50	430
Other emoluments									
Salaries and other benefits	650	-	-	-	-	-	-	-	650
	<u>700</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>80</u>	<u>50</u>	<u>50</u>	<u>1,080</u>

	Ling Tai Yuk, John HK\$'000	Kong Ho Pak HK\$'000	Pang Hon Chung HK\$'000	Keir, Tsoh Ching, James Jonathan HK\$'000	Lee Jonathan HK\$'000	Leung Shu Yin, William HK\$'000	Chau Wai Yin, Jonathan HK\$'000	Ng Tze Kin, David HK\$'000	2006 Total HK\$'000
Fees	50	50	50	50	50	80	50	50	430
Other emoluments									
Salaries and other benefits	390	-	-	-	-	-	-	-	390
	<u>440</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>80</u>	<u>50</u>	<u>50</u>	<u>820</u>

No directors waived any emoluments in both years ended March 31, 2007 and March 31, 2006.

(b) **Employees**

The five highest paid individuals of the Group included one director (2006: one director), whose emoluments are disclosed above. The emoluments of the remaining four (2006: four) highest paid employees are as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and others	2,144	1,880
Retirement benefit scheme contributions	48	46
	<u>2,192</u>	<u>1,926</u>

The emoluments of each of the four (2006: four) highest paid employees were below HK\$1,000,000.

During the year, no emoluments (2006: nil) were paid by the Group to the five highest paid individuals of the Group (including directors) as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during both years.

8. DIVIDENDS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Ordinary shares:		
Final dividends paid – HK3 cents per share for the year ended March 31, 2006 (2006: HK2 cents per share for the year ended March 31, 2005)	<u>5,011</u>	<u>3,341</u>

A final dividend of HK3 cents per share and a special dividend of HK29 cents per share for the year ended March 31, 2007 have been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year of HK\$14,556,000 (2006: HK\$11,052,000) and on 167,031,016 (2006: 167,031,016) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding in both years.

10. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At April 1, 2005	16,435	4,094	2,709	1,984	25,222
Additions	374	415	–	–	789
Disposals	(166)	(151)	–	–	(317)
At March 31, 2006	16,643	4,358	2,709	1,984	25,694
Additions	894	42	141	2	1,079
Disposals	(712)	(232)	(477)	–	(1,421)
At March 31, 2007	16,825	4,168	2,373	1,986	25,352
DEPRECIATION AND IMPAIRMENT					
At April 1, 2005	13,187	3,372	2,257	1,968	20,784
Provided for the year	1,266	281	184	16	1,747
Eliminated on disposals	(166)	(148)	–	–	(314)
At March 31, 2006	14,287	3,505	2,441	1,984	22,217
Provided for the year	1,114	295	139	2	1,550
Impairment loss recognised	–	105	61	–	166
Eliminated on disposals	(712)	(231)	(407)	–	(1,350)
At March 31, 2007	14,689	3,674	2,234	1,986	22,583
NET BOOK VALUES					
At March 31, 2007	2,136	494	139	–	2,769
At March 31, 2006	2,356	853	268	–	3,477

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Machinery and equipment	5 – 33 $\frac{1}{3}$ %
Furniture and office equipment	10 – 33 $\frac{1}{3}$ %
Motor vehicles	10 – 20%
Leasehold improvements	Shorter of the lease periods or 20%

11. INVENTORIES

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Raw materials	18,129	13,931
Work in progress	9,526	6,047
Finished goods	3,060	2,718
	<u>30,715</u>	<u>22,696</u>

12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivable of HK\$17,605,000 (2006: HK\$11,195,000). The following is an aged analysis of trade receivables:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 – 30 days	17,605	10,956
31 – 60 days	–	239
	<u>17,605</u>	<u>11,195</u>

Credit policy:

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale.

All trade receivables are denominated in United States dollars and subject to currency risk.

It is the policy of the Group to allow settlement on an open account basis only by customers who have a good payment record and well-established relationships with the Group. The credit period for such customers is reviewed periodically in response to financial conditions, orders on hand and other credit information.

13. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits carry at market interest rate of 4.9% (2006: 4.4%) per annum with an original maturity of three months or less.

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$13,919,000 (2006: HK\$9,322,000). The following is an aged analysis of trade payables:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 – 30 days	12,268	7,747
31 – 60 days	1,618	1,535
> 90 days	<u>33</u>	<u>40</u>
	<u><u>13,919</u></u>	<u><u>9,322</u></u>

15. DEFERRED TAXATION

A summary of the deferred tax liability recognised and movement thereon during the current and prior year is as follows:

	Accelerated tax depreciation <i>HK\$'000</i>
At April 1, 2005	204
Credit to income for the year	<u>(77)</u>
At March 31, 2006	127
Credit to income for the year	<u>(65)</u>
At March 31, 2007	<u><u>62</u></u>

At the balance sheet date, the Group has unused tax losses of HK\$13,897,000 (2006: HK\$12,343,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

16. SHARE CAPITAL

	April 1, 2005, March 31, 2006 and March 31, 2007	
	Number of ordinary shares	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.01 each	<u>50,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each	<u>167,031,016</u>	<u>1,670</u>

17. CONTRIBUTED SURPLUS

The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium of the then holding company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation on May 25, 1993, together with the amounts transferred from share capital and share premium account as a result of the capital reduction taken place in August 2001, less dividends paid, amounts utilised on redemption of shares and amount eliminated against accumulated losses.

18. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of rented premises and a motor vehicle under non-cancellable operating leases with an average lease term of one year which fall due as follows:

	2007		2006	
	Rented premises <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Rented premises <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>
Within one year	752	150	665	150

19. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its bank deposit of HK\$9,040,000 (2006: HK\$8,579,000) to secure the banking facilities granted to the Group. The pledged deposit is denominated in United States dollars and subject to currency risk.

The deposit carries fixed interest rate of 4.9% (2006: 4.4%) per annum. The pledged bank deposit will be released upon expiry or cancellation of the banking facilities.

20. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on September 17, 2004 pursuant to a resolution passed by the Company's shareholders on September 17, 2004 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on September 16, 2014. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK\$1 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme at the date of adoption. The number of shares in respect of which options granted and may be granted to any Eligible Employee is not permitted to exceed 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer together with the payment of nominal consideration of HK\$1 per option by the grantee.

An option may be exercised at any time during a period not exceeding twelve months commencing after the date the option is accepted. The expiry of the option may be determined by the Board of Directors of the Company which shall not later than the last day of such period.

The exercise price is determined by the Directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the 5 trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.

No options have been granted under the Scheme since its adoption.

21. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which is matched by employees.

The employees of the Group in the PRC are members of state-managed retirement benefit scheme operated by the PRC Government. The Company's subsidiary is required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contributions under the scheme.

22. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	2007 HK\$'000	2006 HK\$'000
Rental charges paid to related companies and a director (<i>note a</i>)	934	859
Consultancy fees paid to related companies (<i>note b</i>)	<u>208</u>	<u>398</u>

Notes:

- (a) A director of the Company, Mr. Ling Tak Yuk, John, controls and has beneficial interests in these related companies.
- (b) The spouse of a director controls and has beneficial interests in one of the three related companies. For the other related companies, two other directors of the Company control and have beneficial interests in these two companies separately.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 7.

23. POST BALANCE SHEET EVENT

On May 11, 2007, the Company entered into an agreement with an independent third party, Trump Star Limited, to dispose of a wholly-owned subsidiary of the Company, Gentech (Asia) Limited ("Gentech"), and the related loan advanced by the Group to Gentech at a consideration of HK\$8,879,000. The directors are in the process of estimating the financial impact of such disposal.

Gentech was originally engaged in the development, production and distribution of health food and supplement products in the PRC and became inactive during the year ended March 31, 2007. The disposal was effected in order to allow the Group to focus on its core businesses, i.e. garment manufacture and trading, and to generate cash flows for providing the Group with additional working capital.

24. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at March 31, 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Nominal value of issued ordinary share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital held by the Company %	Principal activities
<i>Directly held</i>				
High Dragon Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Invigo Overseas Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Windstar Pacific Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
<i>Indirectly held</i>				
Koniko Company Limited	Hong Kong/ Hong Kong and PRC	HK\$20 Deferred** non-voting shares HK\$22,143,000	100	Garment manufacture and trading

* *All are ordinary shares unless otherwise stated.*

** *None of the deferred non-voting shares are held by the Group. The deferred non-voting shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting or to participate in any distribution on winding up.*

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Company with limited liability, except for otherwise denoted, which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

25. SUMMARISED BALANCE SHEET OF THE COMPANY

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Assets	61,663	34,025
Liabilities	<u>493</u>	<u>471</u>
Net assets	<u><u>61,170</u></u>	<u><u>33,554</u></u>
Capital and reserves		
Share capital	1,670	1,670
Reserves	<u>59,500</u>	<u>31,884</u>
Total equity	<u><u>61,170</u></u>	<u><u>33,554</u></u>

Profit of the Company for the year ended March 31, 2007 amounted to approximately HK\$32,627,000 (2006: HK\$7,708,000).

III. UNAUDITED INTERIM RESULTS

The following is the full text of the unaudited financial statements of the Group for the six months ended 30 September 2007 as extracted from the interim report of the Company for the same period:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited six months ended 30 September	
	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
TURNOVER	4	92,978	78,101
Cost of sales		<u>(82,413)</u>	<u>(67,450)</u>
Gross profit		10,565	10,651
Other revenue and gains		1,234	1,056
Distribution costs		(524)	(529)
Administrative expenses		<u>(5,023)</u>	<u>(4,386)</u>
PROFIT FROM OPERATING ACTIVITIES	5	6,252	6,792
Gain on disposal of subsidiaries	6	<u>755</u>	<u>–</u>
PROFIT BEFORE TAXATION		7,007	6,792
Taxation charge	7	<u>(541)</u>	<u>(540)</u>
PROFIT FOR THE PERIOD		<u><u>6,466</u></u>	<u><u>6,252</u></u>
EARNINGS PER SHARE	9		
Basic		3.87 cents	3.74 cents
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited as at 30 September 2007 HK\$'000	Audited as at 31 March 2007 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	<u>2,179</u>	<u>2,769</u>
CURRENT ASSETS			
Inventories		16,855	30,715
Trade and other receivables	11	11,553	18,190
Pledged bank deposit	13	–	9,040
Cash and bank balances		<u>27,793</u>	<u>44,182</u>
		<u>56,201</u>	<u>102,127</u>
CURRENT LIABILITIES			
Trade and other payables	12	18,932	18,311
Taxation payable		<u>644</u>	<u>84</u>
		<u>19,576</u>	<u>18,395</u>
NET CURRENT ASSETS		<u>36,625</u>	<u>83,732</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>38,804</u>	<u>86,501</u>
NON-CURRENT LIABILITY			
Deferred taxation		<u>43</u>	<u>62</u>
		<u>38,761</u>	<u>86,439</u>
CAPITAL AND RESERVES			
Share capital	14	1,670	1,670
Reserves		<u>37,091</u>	<u>84,769</u>
Total equity		<u>38,761</u>	<u>86,439</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated (Losses) profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 April 2006	1,670	57,396	3,781	208	13,353	76,408
Exchange difference arising on translation of foreign operations	-	-	-	176	-	176
Dividend paid	-	(5,011)	-	-	-	(5,011)
Profit for the period	-	-	-	-	6,252	6,252
Balance as at 30 September 2006	<u>1,670</u>	<u>52,385</u>	<u>3,781</u>	<u>384</u>	<u>19,605</u>	<u>77,825</u>
Balance as at 1 April 2007	1,670	52,385	3,781	694	27,909	86,439
Dividend paid	-	(730)	-	-	(52,720)	(53,450)
Released upon disposal of subsidiaries	-	-	-	(694)	-	(694)
Profit for the Period	-	-	-	-	6,466	6,466
Balance as at 30 September 2007	<u>1,670</u>	<u>51,655</u>	<u>3,781</u>	<u>-</u>	<u>(18,345)</u>	<u>38,761</u>

Note:

The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium of the then holding company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation on 25 May 1993, together with the amounts transferred from share capital and share premium account as a result of the capital reduction which took place in August 2001, less dividends paid, amounts utilised on redemption of shares and amount eliminated against accumulated losses.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	six months ended	
	30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	26,848	11,711
Net cash generated from investing activities	10,116	143
Net cash used in financing activities	<u>(53,450)</u>	<u>(5,011)</u>
Net (decrease)/increase in cash and cash equivalents	(16,486)	6,843
Cash and cash equivalents at beginning of Period	44,182	42,831
Effect on foreign exchange rate changes	<u>97</u>	<u>176</u>
Cash and cash equivalents at end of Period	<u><u>27,793</u></u>	<u><u>49,850</u></u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<u><u>27,793</u></u>	<u><u>49,850</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31 March 2007.

The following new standards and interpretations which are relevant to the Group’s operations have been issued and effective as at the time of preparing this information:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of such standards or interpretations did not result in substantial changes to the Group’s accounting policies.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 12	Service Concession Arrangements ²
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008

The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

2. FINANCIAL RISK MANAGEMENT

The Group's financial instruments include trade and other receivables, bank deposit, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

(a) Currency risk

The Group has trade receivable and bank deposits denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Interest rate risk

Interest bearing financial assets are mainly bank balances carried at prevailing market rate, that exposed the Group to cash flow interest risk. The Group's fair value interest rate risk relate to the bank deposits. However, such interest rate risk exposures are immaterial to the Group as the bank balances and bank deposits are all short term in nature.

(c) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 September 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the condensed consolidated balance sheet. In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Trade and other receivables

The Group makes impairment losses on bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Impairments are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and bad and doubtful debt expenses in the period in which such estimate has been changed.

(b) Inventories

Inventories are measured at lower of cost and net realisable value. The Group reviews the carrying amount of inventories at each balance sheet date, and make allowance for inventory items identified, if any, to be carried at lower recoverable value through estimation of the expected selling prices under the current market conditions.

4. TURNOVER AND SEGMENT INFORMATION**(A) Business segment**

The Group's turnover and operating profit were solely contributed by garment business during the periods ended 30 September 2007 and 2006.

(B) Geographical segment

Sales revenue from the Group's operations was solely from the United States of America, irrespective of the origin of the goods/services.

5. PROFIT FROM OPERATING ACTIVITIES

	Unaudited six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operating activities has been arrived at after charging:		
Directors' emoluments	542	300
Other staff's costs	1,620	1,658
Other staff's retirement benefit scheme contributions	63	70
	<u>2,225</u>	<u>2,028</u>
Allowance for inventories	1,967	1,565
Depreciation	637	777
Operating lease rentals in respect of:		
– rented premises	447	487
– motor vehicle	78	78
Textile quota expenses	2,059	1,512
Cost of inventories recognised as expense	78,387	64,373
and after crediting:		
Bank interest income	<u>1,179</u>	<u>1,021</u>

6. DISPOSAL OF SUBSIDIARIES

On 11 May 2007, the Group entered into an agreement with an independent third party to dispose of the entire issue share capital of Gentech (Asia) Limited (“Gentech”) and the shareholder’s loan due to the Group by Gentech for a consideration of approximately HK\$8,879,000. Gentech was originally engaged in the development, production and distribution of health food and supplement products in the PRC and became inactive during the year ended 31 March 2007. The transaction was completed on 23 May 2007.

The net assets of Gentech at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	153
Trade and other receivables	42
Bank and cash balances	8,759
Trade and other payables	<u>(35)</u>
	8,919
Release of translation reserve	<u>(795)</u>
	8,124
Gain on disposal	<u>755</u>
Total consideration	<u><u>8,879</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Gentech is as follows:

	<i>HK\$'000</i>
Cash consideration	8,879
Cash and bank balance disposed of	<u>(8,759)</u>
	<u><u>120</u></u>

7. TAXATION CHARGE

	Unaudited	
	six months ended	
	30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax	(560)	(562)
Deferred taxation	<u>19</u>	<u>22</u>
	<u><u>(541)</u></u>	<u><u>(540)</u></u>

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period.

As at the balance sheet date, the Group has unused tax losses of approximately HK\$14,887,000 (31 March 2007: HK\$13,897,000) available for offset against future profits. No deferred tax asset has been recognized due to the unpredictability of future profit streams.

8. DIVIDENDS

	Unaudited six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Paid:		
2006 final dividend of HK\$0.03 per share for the year ended 31 March 2006	–	5,010
2007 final and special dividend of HK\$0.03 and HK\$0.29 per share for the year ended 31 March 2007	53,450	–
	<u>53,450</u>	<u>5,010</u>
Proposed	<u>–</u>	<u>–</u>

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's unaudited consolidated profit attributable to shareholders for the Period of HK\$6,466,000 (2006: HK\$6,252,000) and on the weighted average number of 167,031,016 (2006:167,031,016) ordinary shares in issue during the Period.

No diluted earnings per share figures have been shown as there were no dilutive potential ordinary shares outstanding for both of the periods.

10. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the Period is summarised as follows:

	HK\$'000
Net book value as at 1 April 2007	2,769
Additions	198
Disposal of subsidiaries	(153)
Depreciation	(637)
Exchange adjustment	2
	<u>2,179</u>
Net book value as at 30 September 2007	<u>2,179</u>

11. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of approximately HK\$9,746,000 (31 March 2007: HK\$17,605,000).

The aging analysis for trade receivables is as follows:

	Unaudited as at 30 September 2007 HK\$'000	Audited as at 31 March 2007 HK\$'000
Within 30 days	9,684	17,605
Over 30 days but less than 60 days	<u>62</u>	<u>–</u>
	<u><u>9,746</u></u>	<u><u>17,605</u></u>

Note:

Credit policy

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale.

It is the policy of the Group to allow settlement on an open account basis only by customers who have good repayment records and well-established relationships with the Group. The credit period for such customers is reviewed periodically in response to the financial conditions, orders on hand and other credit information.

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$14,983,000 (31 March 2007: HK\$13,919,000).

The aging analysis for trade payables is as follows:

	Unaudited as at 30 September 2007 HK\$'000	Audited as at 31 March 2007 HK\$'000
Within 30 days	9,914	12,268
Over 30 days but less than 60 days	4,900	1,618
Over 60 days but less than 90 days	74	–
Over 90 days	<u>95</u>	<u>33</u>
	<u><u>14,983</u></u>	<u><u>13,919</u></u>

13. PLEDGE OF ASSETS

As at 30 September 2007, none of the Group's asset had been pledged to secure general banking facilities granted to the Group (31 March 2007: HK\$ 9,040,000).

14. SHARE CAPITAL

	Unaudited as at 30 September 2007 HK\$'000	Audited as at 31 March 2007 HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
167,031,016 ordinary shares of HK\$0.01 each	<u>1,670</u>	<u>1,670</u>

15. RELATED PARTY TRANSACTIONS

(A) Rental charges and consultancy fees paid

	Unaudited six months ended 30 September 2007 HK\$'000	2006 HK\$'000
Rental charges paid to a director and a related company (<i>note a</i>)	525	448
Consultancy fees paid to related companies (<i>note b</i>)	<u>110</u>	<u>110</u>

Notes:

- (a) A director of the Company, Mr. Ling Tai Yuk, John, controlled and had beneficial interests in this related company.

Mr. Ling Tai Yuk, John had resigned as director of the Company with effect from 16 October 2007.

- (b) The spouse of a director controlled and had beneficial interests in one of these two related companies. For another related company, one director of the Company controlled and had beneficial interest in the company.

The aforesaid directors had resigned as directors of the Company with effect from 16 October 2007.

(B) Guarantee

As at 30 September 2007, a personal guarantee to the extent of HK\$5,800,000 had been given by Ling Tai Yuk, John, a director of the Company's wholly owned subsidiary, to secure banking facilities granted to that wholly owned subsidiary.

(C) Key management compensation

	Unaudited	
	six months ended	
	30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries	<u>542</u>	<u>300</u>

16. POST BALANCE SHEET EVENTS

- (a) On 10 October 2007, the Group entered into a loan agreement and obtained a loan facility (the “Loan”) of HK\$36,000,000 from an independent third party. The Loan would be available for drawdown within 17 months starting from the date of the loan agreement. The Loan was interest bearing at 1% per month and was secured by the entire shareholding of a wholly owned subsidiary of the Group.

Subsequently, an amount of HK\$36,000,000 was drawn down by the Group as additional working capital.

- (b) On 14 November 2007, the Company entered into an agreement with Long Grand Limited. Pursuant to the agreement, the Company agreed to issue to Long Grand Limited 170,000,000 ordinary shares at the issue price of HK\$0.15 each and two-year zero coupon convertible bonds (“Subscription Bonds”) in an aggregate amount of HK\$124,500,000, which are convertible into shares at an initial conversion price of HK\$0.15 per share (subject to adjustments) with the unlisted warrants of the Company (“Subscription Warrants”) (in proportion of one Subscription Warrant for every four new shares to be issued upon the exercise of the conversion rights attaching to the Subscription Bonds) attached conferring right to subscribe up to HK\$31,125,000 in aggregate in cash for new shares at an initial subscription price of HK\$0.15 per share (subject to adjustments).
- (c) On 14 November 2007, the Company entered into an agreement with Emperor Securities Limited (the “Placing Agent”). Pursuant to the agreement, the Placing Agent agreed to place two-year zero coupon convertible bonds (“Placing Bonds”) up to an aggregate principal amount of HK\$60,000,000, which are convertible into new shares at an initial conversion price of HK\$0.15 per share (subject to adjustments) with the unlisted warrants of the Company (“Placing Warrants”) (in proportion of one Placing Warrant for every four new shares to be issued upon the exercise of the conversion rights attaching to the Placing Bonds) attached conferring rights to subscribe up to HK\$15,000,000 in aggregate in cash for new shares at an initial subscription price of HK\$0.15 per share (subject to adjustments).

17. CONTINGENT LIABILITY

The Group did not have any significant contingent liability as at the balance sheet date.

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the board of directors on 17 December 2007.

IV. INDEBTEDNESS STATEMENT

1. As at the close of business on 31 October 2007, the Group pledged its entire shareholding in and shareholder's loan of Gold Fountain International Limited, a wholly-owned subsidiary of the Group, to secure loan facility of HK\$36,000,000 granted to the Group. The loan facility was subsequently drawn down by the Group after 31 October 2007.
2. As at the close of business on 31 October 2007, the Group did not have any term loan or debt securities issued and outstanding, and authorized or otherwise created but unissued.
3. Save as disclosed above and apart from intra-group liabilities, as at the close of business on 31 October 2007, the Group did not have any outstanding bank overdrafts, loans or other similar indebtedness, mortgages, charges, debentures or any guarantees or any litigation (which may give rise to contingent liabilities). As at the Latest Practicable Date, the Directors were not aware of any events that may give rise to any material contingent liabilities.

V. MATERIAL CHANGE

Save as disclosed below, the Board confirms there are no material changes in the financial or trading position or outlook of Company subsequent to 31 March 2007, the date of which the latest audited financial statements of Company were made up:

- (i) the Group pledged the entire shareholding and shareholder's loan of Gold Fountain International Limited, a wholly-owned subsidiary of the Group, to secure a loan facility of HK\$36,000,000 granted to the Group as general working capital. The loan was drawn down by the Group and was outstanding as at the Latest Practicable Date;
- (ii) as announced by the Company on 15 May 2007, Invigo Overseas Limited, a wholly-owned subsidiary of the Company entered into the sale and purchase agreement with Trump Star Limited, an independent third party, on 11 May 2007 to dispose the entire equity interests in Gentech (Asia) Limited for a total consideration of HK\$8,878,686. The disposal was completed on 23 May 2007 and Gentech (Asia) Limited ceased to be a subsidiary of the Company;
- (iii) the distribution of approximately HK\$53.45 million dividend to the Shareholders on 17 September 2007 (details of which are stated in the announcement of the Company dated 6 July 2007); and
- (iv) the issue of the Subscription Shares, Bonds and Warrants upon completion of the Long Grand Subscription Agreement and the Placing Agreement.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Shareholders with regard to the Group and the Offer.

The information contained in this Composite Document (other than information relating to the Offer, the Offeror and parties acting in concert with it and the Directors nominated by the Offeror) has been supplied by the Directors who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offer, the Offeror and parties acting in concert with it and the Directors nominated by the Offeror). The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than information relating to the Offer, the Offeror and parties acting in concert with it and the Directors nominated by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading. The issue of this Composite Document has been approved by the Board.

The information contained in this Composite Document (other than information of the Group, the Directors and the Vendor) has been supplied by the Offeror. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Group, the Directors and the Vendor, but including information relating to the Directors nominated by the Offeror). The sole director of the Offeror confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than information relating to the Group, the Directors and the Vendor, but including information relating to the Directors nominated by the Offeror) have been arrived at after due and careful consideration, and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. CORPORATE INFORMATION OF THE COMPANY

The Company was incorporated in Bermuda. Its registered office is at Clarendon House, Church Street, Hamilton HM11, Bermuda and its head office and principal place of business is at Suite 1114, Lippo Sun Plaza, 28 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The company secretary of the Company is Ms. Chan Yuk Chun and the qualified accountant is Mr. Ho Koon Man.

3. SHARE CAPITAL

(a) Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon exercise in full of the rights under the Bonds and the Warrants are as follows:

Shares		<i>HK\$</i>
<i>Authorised:</i>		
<u>50,000,000,000</u>	As at the Latest Practicable Date	<u>500,000,000</u>
<i>Issued and fully paid:</i>		
337,031,016	Shares in issue as at the Latest Practicable Date	3,370,310
830,000,000	Subscription Conversion Shares	8,300,000
400,000,000	Placing Conversion Shares	4,000,000
207,500,000	Subscription Warrant Shares	2,075,000
<u>100,000,000</u>	Placing Warrant Shares	<u>1,000,000</u>
<u>1,874,531,016</u>	Total issued Shares upon conversion of the Bonds and exercise of the Warrants	<u>18,745,310</u>

All the existing issued Shares and Shares to be issued on conversion of the Bonds and exercise of the Warrants rank pari passu in all respects including all rights as to dividends, voting and capital.

Since 31 March 2007, the date of which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, an aggregate of 170,000,000 new Shares were issued pursuant to the Long Grand Subscription Agreement.

Save as the Bonds and Warrants, the Company does not have any outstanding warrants or share options or other securities carrying rights of conversion into or exchange or subscription for Shares.

(b) Listing

The Shares are listed and traded on the Main Board of the Stock Exchange. No part of the issued share capital of the Company is listed or dealt in, nor is any listing of or permission to deal with, the Shares being or proposed to be sought on any other stock exchange.

4. DISCLOSURE OF INTERESTS**(a) Directors' interests**

As at the Latest Practicable Date, none of the Directors and chief executives of the Company was interested in the Shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(b) Interests of substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following substantial Shareholders (within the meaning of the Listing Rules) had the following interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision 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 shares capital carrying rights to vote in all circumstances at general meeting of any member of the Group:

Long position in Shares

Name	Capacity	Total number of Shares or underlying Shares	Approximate percentage to the existing total issued Shares
Long Grand (<i>Note 1</i>)	Beneficial owner	1,288,746,188 (<i>Note 2</i>)	382.38% (<i>Note 3</i>)

Notes:

- (1) Long Grand is owned as to 70% by Mr. Yam and as to 30% by Mr. Yuen.
- (2) The 1,288,746,188 Shares comprise (i) 81,246,188 Shares being the Sale Shares; (ii) 170,000,000 Shares being the Subscription Shares; (iii) 830,000,000 Shares being the Subscription Conversion Shares and (iv) 207,500,000 Shares being the Subscription Warrant Shares.
- (3) The 1,288,746,188 Shares represent approximately 382.38% of the total issued Shares as at the Latest Practicable Date, i.e. 337,031,016 Shares as enlarged by the issue of the Subscription Shares.

Save as disclosed above, as at the Latest Practicable Date, no other person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

The principal members of the Offeror's concert group comprise Mr. Yuen and Mr. Yam. Save for the holding of the Sale Shares, the Subscription Shares, the Subscription Bonds and the Subscription Warrants, none of the Offeror and parties acting in concert with it including the director of the Offeror had any interest in the Shares or the options, warrants, derivatives or securities which are convertible into Shares.

(c) Interests in the Offeror

None of the Company and the Directors were interested in or owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the Offeror as at the Latest Practicable Date.

5. DEALING IN SECURITIES

During the period beginning six months prior to 16 October 2007, being the commencement date of the Offer period and up to the Latest Practicable Date,

- (a) save as disclosed below, none of the Company and the Directors had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Offeror or the Company:

Name of Shareholder	Transaction date	Nature of transaction	No. of Shares involves	Price per Share HK\$
Ng Tze Kin, David	11 July 2007	Sale	100,000	1.16
– an ex-non-executive			100,000	1.15
Director who resigned			100,000	1.17
on 16 October 2007			<u>50,000</u>	1.18
			<u><u>350,000*</u></u>	

** representing 0.21% of the total issued share capital of the Company as at the transaction date*

	12 July 2007	Sale	50,000	1.20
			<u>100,000</u>	1.19
			<u><u>150,000#</u></u>	

representing 0.09% of the total issued share capital of the Company as at the transaction date

- (b) save for the acquisition of the Sale Shares from the Vendor by the Offeror pursuant to the Share Purchase Agreement and the subscription of the Subscription Shares and Subscription Bonds (with Subscription Warrants) by the Offeror pursuant to the Long Grand Subscription Agreement, none of the sole director of the Offeror, the Offeror nor parties acting in concert with the Offeror (including Mr. Yam and Mr. Yuen) had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company;

- (c) none of the Company's subsidiaries, pension fund of the Group, professional advisers named under the section headed "Experts and Consents" in this appendix or advisers to the Company as specified in class (2) of the definition of associates under the Takeovers Code, but excluding exempt principal traders, had any interest in or had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company; and
- (d) no fund manager who managed securities of the Company on a discretionary basis and connected with the Company had any interest in or had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company.

6. ARRANGEMENTS IN CONNECTION WITH THE OFFER

As at the Latest Practicable Date,

- (i) no benefit will be given to any of the Directors as compensation for loss of office or otherwise in connection with the Offer;
- (ii) there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offer;
- (iii) there was no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer;
- (iv) there is no agreement, arrangement or understanding in relation to the transfer, charge or pledge to any person of any Shares acquired in pursuance of the Offer;
- (v) no person had irrevocably committed himself or herself to accept or reject the Offer prior to the posting of this Composite Document;
- (vi) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror, the Company or with any person who is acting in concert with the Offeror, the Company or with any person who is an associate of the Offeror or an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" as described by the Takeovers Code;
- (vii) there was no arrangement to which the Offeror is a party (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Offer; and
- (viii) no material contract was entered into by the Offeror in which any Director has a material personal interest.

7. MARKET PRICES

- (a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the six-month period preceding 16 October 2007, being the commencement date of the Offer period, and up to the Latest Practicable Date are HK\$5.76 per Share on 30 December 2007 and HK\$0.61 per Share on 16 April 2007 and 20 April 2007, respectively.
- (b) The table below shows the closing prices of the Shares as quoted on the Stock Exchange on the last trading day of each of the six calendar months immediately preceding 16 October 2007, being the commencement date of the Offer period, and the calendar month after 16 October 2007 up to the Latest Practicable Date:

Date	Closing price per Share HK\$
30 April 2007	0.70
31 May 2007	0.80
29 June 2007	0.76
31 July 2007	1.96
31 August 2007	1.30
28 September 2007	0.93
15 October 2007 (the last trading day prior to Offer period commenced)	2.69
30 October 2007 (the Last Trading Day)	5.76
30 November 2007	4.00
The Latest Practicable Date	4.45

8. MATERIAL CONTRACTS

Save as disclosed below, the Group had not entered into any contract (not being contracts entered into in the ordinary course of business of the Group) on or after 16 October 2005, being the date two years preceding the commencement of the Offer period, and up to and including the Latest Practicable Date which may be material:

- (a) the sale and purchase agreement dated 11 May 2007 entered into between Trump Star Limited, an independent third party, and Invigo Overseas Limited (“Invigo”), a wholly-owned subsidiary of the Company in relation to the disposal of two ordinary shares of HK\$1 each in the issued share capital of Gentech (Asia) Limited (“Gentech”) (a wholly-owned subsidiary of Invigo), which represent its entire issued share capital as at the date of the aforesaid agreement and the assignment of all loans owing by Gentech to Invigo as at the date of the aforesaid agreement to Trump Star Limited by Invigo at a consideration of approximately HK\$8.88 million. The transaction was completed on 23 May 2007. Details of the transaction were included in the circular of the Company dated 30 May 2007;

- (b) the Long Grand Subscription Agreement; and
- (c) the Placing Agreement.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

10. SERVICE CONTRACTS

None of the Directors has any existing or proposed service contracts with the Company or any of its subsidiaries or associated companies in force (i) which (including continuous and fixed terms contracts) have been entered into or amended within six months before 16 October 2007, being the commencement date of the Offer period; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed-term contracts with more than 12 months to run irrespective of the notice period.

11. EXPERTS AND CONSENTS

- (a) The following are the qualifications of the experts who have given opinion or advice contained in this Composite Document:

Name	Qualification
Optima Capital	licensed by the SFC to carry on type 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities as defined in schedule 5 of the SFO
Hercules	licensed by the SFC to carry on type 6 (advising on corporate finance) regulated activity as defined in schedule 5 of the SFO

- (b) As at the Latest Practicable Date, Hercules had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.
- (c) Optima Capital and Hercules have given and have not withdrawn their written consents to the issue of this Composite Document, with inclusion of their letters and/or references to their names in the form and context in which they respectively appear.

- (d) As at the Latest Practicable Date, Hercules was not interested, directly or indirectly, in any assets which had since 31 March 2007 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

12. GENERAL

- (a) The registered office of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (b) The sole director of the Offeror is Mr. Yuen and the shareholders of the Offeror are Mr. Yam and Mr. Yuen. The correspondence address of them are at Unit 2302, 23rd Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.
- (c) The registered office of Optima Capital is at Unit 3618, 36th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (d) The registered office of Hercules is at 1503, Ruttonjee House, 11 Duddell Street, Central, Hong Kong.
- (e) The registered office of Emperor Capital Limited is 28/F., Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.
- (f) This Composite Document is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 28/F, Emperor Group Centre, 288 Hennessy Road, Wan Chai, Hong Kong during normal business hours and will be displayed on the website of the SFC at www.sfc.hk and on the website of the Company at www.irasia.com/listco/hk/graneagle up to and including the Closing Date:-

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the memorandum and articles of association of the Offeror;
- (iii) the annual reports of the Company for the years ended 31 March 2006 and 31 March 2007;
- (iv) the interim report of the Company for the six months ended 30 September 2007;
- (v) the letter from Optima Capital, the text of which is set out on pages 6 to 13 of this Composite Document;

- (vi) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 21 of this Composite Document;
- (vii) the letter of advice from Hercules, the text of which is set out on pages 22 to 36 of this Composite Document;
- (viii) the documents regarding the financial resources available to the Offeror for the purpose of meeting acceptances of the Offer;
- (ix) the contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (x) the Share Purchase Agreement;
- (xi) the written consents referred to in section headed “Experts and consents” of this appendix;
and
- (xii) a copy of the Composite Document.