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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a 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 circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



GRANEAGLE HOLDINGS LIMITED

鷹馳實業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

PROPOSED CONNECTED TRANSACTIONS IN RELATION TO (i) SUBSCRIPTION OF SHARES AND CONVERTIBLE BONDS (WITH WARRANTS); AND (ii) PLACING OF CONVERTIBLE BONDS (WITH WARRANTS)

**Independent Financial Adviser to the Independent Board
Committee and the Independent Shareholders**

Hercules
Hercules Capital Limited

A notice convening a special general meeting of Graneagle Holdings Limited to be held at 28/F, Emperor Group Centre, 288 Hennessy Road, Wan Chai, Hong Kong on Friday, 21 December 2007 at 10:30 a.m. is set out on pages 67 to 69 of this circular. If you are not able to attend the special general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment of it, if you so wish.

5 December 2007

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RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that in relation to Long Grand, Mr. Yam and Mr. Yuen) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

The sole director of Long Grand accepts full responsibility for the accuracy of the information contained in this circular (other than that in relation to the Company) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

“Announcement”	the announcement of the Company 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
“Bye-laws”	the bye-laws of the Company as may be amended from time to time
“Company”	Graneagle Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are currently listed on the Stock Exchange
“Completion”	completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement in accordance with their respective terms
“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Conversion Price”	the sum payable in respect of each new Share to which the holder of the Bonds will be entitled upon exercise of the conversion rights of the Bonds represented thereby, being HK\$0.15 per Share (subject to adjustment)
“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
“Exercise Period”	the period from the date of issue to the date falling on the first anniversary of the issue of the Warrants

DEFINITIONS

“Exercise Price”	the sum payable in respect of each new Share to which the registered holder of the Warrants will be entitled upon exercise of the subscription rights represented thereby, being HK\$0.15 per Share (subject to adjustment)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Law Ka Ming, Michael and Ms. Yip Kam Man
“Independent Financial Adviser”	Hercules Capital Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities as defined in schedule 5 of the SFO, being appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription
“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
“Latest Practicable Date”	3 December 2007, being the latest practicable date for ascertaining certain information referred to in this circular prior to the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Grand”	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

DEFINITIONS

“Mr. Yam”	Mr. Yam Yu, the beneficial owner as to 70% of the entire issued share capital of Long Grand
“Mr. Yuen”	Mr. Yuen Leong, the sole director and the beneficial owner as to 30% of the entire issued share capital of Long Grand
“Offer”	the possible unconditional cash offer for the Offer Shares to be 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, or agreed to be acquired 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
“Placees”	the placees of the Placing Bonds (together with the Placing Warrants) to be procured by the Placing Agent for and on behalf of the Company which shall be 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 (together with Placing Warrants) 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 Bondholders”	the holders of the Placing Bonds

DEFINITIONS

“Placing Bonds”	the two-year zero coupon convertible bonds up to an aggregate principal amount of HK\$60,000,000 to be issued by the Company to the Placees pursuant to the Placing Agreement
“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 to be 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 Exercise Period
“PRC”	the People’s Republic of China
“Rich Wing”	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 Share(s) to be 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 (Cap. 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be held on 21 December 2007 to approve the Long Grand Subscription Agreement and the Placing Agreement and the transactions contemplated thereunder including the issue of the Subscription Shares, the Bonds and the Warrants
“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

DEFINITIONS

“Shareholder(s)”	holder(s) of the issued Shares
“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 to be 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 Price”	the sum payable by Long Grand under the Long Grand Subscription Agreement for each Subscription Share, being HK\$0.15 per Subscription Share (subject to adjustment)
“Subscription Share(s)”	170,000,000 new Share(s) to be 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 to be 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 Exercise Period
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“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
“%”	per cent.



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:

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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

5 December 2007

To the Shareholders

Dear Sir or Madam,

**PROPOSED CONNECTED TRANSACTIONS IN RELATION TO
(i) SUBSCRIPTION OF SHARES AND
CONVERTIBLE BONDS (WITH WARRANTS); AND
(ii) PLACING OF CONVERTIBLE BONDS (WITH WARRANTS)**

INTRODUCTION

On 14 November 2007, the Company announced that Long Grand entered into:

- (i) 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) the Long Grand Subscription Agreement with Long Grand 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 Agreement with the Placing Agent 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).

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 will be interested in a total of 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

In such event, Long Grand will be required under the Takeovers Code to make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired 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. Subject to Completion having occurred, Optima Capital will make the Offer on behalf of Long Grand.

The purpose of this circular is to provide you with (i) further information regarding the details of the Long Grand Subscription Agreement, the Placing Agreement and the issue of the Bonds and the Warrants; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Subscription and transactions contemplated under the Long Grand Subscription Agreement; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and transactions contemplated under the Long Grand Subscription Agreement; and (iv) a notice convening the SGM at which the necessary resolutions will be proposed to seek your approval for the above matters.

LONG GRAND SUBSCRIPTION AGREEMENT

Date

14 November 2007

LETTER FROM THE BOARD

Parties

- (a) The Company, as the issuer of the Subscription Shares and the Subscription Bonds (together with Subscription Warrants); and
- (b) Long Grand as the subscriber for the Subscription Shares and the Subscription Bonds (together with Subscription Warrants).

Share Subscription

Pursuant to the Long Grand Subscription Agreement, the Company agreed to allot and issue, and Long Grand agreed to subscribe in cash of HK\$25,500,000 for the Subscription Shares (equivalent to a price of HK\$0.15 per Subscription Share).

The 170,000,000 Subscription Shares represent: (i) approximately 101.78% of the existing issued share capital of the Company; and (ii) approximately 50.44% of the issued share capital as enlarged by the issue of the Subscription Shares.

The Subscription Shares, when allotted and issued, will rank pari passu in all respects among themselves and with the Shares in issue as at the date of allotment and issue of the Subscription Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Subscription Shares.

The Subscription Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

The issue price per Subscription Share of HK\$0.15:

- (i) represents a discount of approximately 97.40% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on 30 October 2007, being the last trading day of the Shares immediately before the date of the Announcement;
- (ii) represents a discount of approximately 96.96% 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 30 October 2007;
- (iii) represents a discount of approximately 96.51% to the closing price of HK\$4.30 per Share as quoted on the Stock Exchange on 3 December 2007, being the Latest Practicable Date;
- (iv) represents a discount of approximately 96.20% to the average of the closing prices of approximately HK\$3.95 per Share for the five trading days of the Shares up to and including the Latest Practicable Date;

LETTER FROM THE BOARD

- (v) represents a discount of approximately 25.00% to 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 and after adjustment for the 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 the Latest Practicable Date; and
- (vi) represents a discount of 85% to the consideration of HK\$1.00 per Sale Share.

Long Grand has irrevocably undertaken that until one month after the date of closing of the Offer, not to dispose of (including without limitation by the creation of any option, charge or other encumbrance or rights over or in respect of) any of the Subscription Shares or any interests therein owned by it. The Board considers that the Subscriber will be subject to such market risk attributable by the lock-up period, of which such restriction is not imposed on the Sale Shares.

The issue price of the Subscription Shares was determined after arm's length negotiations between the Company and Long Grand, after considering the Group's existing financial position, in particular, the net asset value of the Company, liquidity of the Shares in the market, the intended amount of funds to be raised, the lock-up period and the number of Subscription Shares involved in the Share Subscription. For further details, please refer to the reasons as set out in the section headed "Reasons for the Long Grand Subscription Agreement and the Placing Agreement" below.

Based on the above, the Board (excluding the independent non-executive Directors) is of the view that the terms of the Share Subscription are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Principal terms of the Subscription Bonds

Pursuant to the Long Grand Subscription Agreement, the Company agreed to issue, and Long Grand agreed to subscribe for the two-year zero coupon convertible bonds in an aggregate principal amount of HK\$124,500,000.

The principal terms of the Subscription Bonds are summarised below:

Amount of issue

An aggregate principal amount of HK\$124,500,000

Conversion Price

HK\$0.15 per Subscription Conversion Share, which is subject to adjustments for subdivision or consolidation of shares, rights issues and other dilutive events which may have adverse effects on the rights of Long Grand. The Conversion Price:

- (i) represents a discount of approximately 97.40% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on 30 October 2007, being the last trading day of the shares immediately before the date of the Announcement;

LETTER FROM THE BOARD

- (ii) represents a discount of approximately 96.96% 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 30 October 2007;
- (iii) represents a discount of approximately 96.51% to the closing price of HK\$4.30 per Share as quoted on the Stock Exchange on 3 December 2007, being the Latest Practicable Date;
- (iv) represents a discount of approximately 96.20% to the average of the closing prices of approximately HK\$3.95 per Share for the five trading days of the Shares up to and including the Latest Practicable Date;
- (v) represents a discount of approximately 25.00% to 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 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 the Latest Practicable Date;
- (vi) is equivalent to the issue price of the Subscription Shares; and
- (vii) represents a discount of 85% to the consideration of HK\$1.00 per Sale Share.

Interest

The Subscription Bonds bear no interest on the principal amount.

Maturity date

The maturity of the Subscription Bonds will be the date falling on the second anniversary of the date of issue of the Subscription Bonds. Any unredeemed and unconverted Subscription Bonds shall, at the option of the Company, be redeemed at 100% of the outstanding principal amount in cash or be converted into Shares by Long Grand.

Terms of conversion

Long Grand shall have the right at any time after the date falling one month after the date of closing of the Offer to convert any outstanding amount of the Subscription Bonds into the Subscription Conversion Shares at the Conversion Price, except that:

- (i) Long Grand shall not exercise the conversion rights attaching to the Subscription Bonds to the extent not less than 25% of the issued share capital of the Company will be in public hands after the conversion; and
- (ii) upon the Placing Bondholders exercising the conversion rights attaching to all or part only of the Placing Bonds, Long Grand shall be mandatory required to exercise the conversion rights attaching to the Subscription Bonds in an amount equivalent to the converted Placing Bonds.

LETTER FROM THE BOARD

Subscription Conversion Shares

Based on the Conversion Price of HK\$0.15, a maximum number of 830,000,000 Subscription Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Subscription Bonds in full, which represent:

- (i) approximately 246.27% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares;
- (ii) approximately 71.12% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Subscription Conversion Shares; and
- (iii) approximately 52.97% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares.

The Subscription Conversion Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issue of the Subscription Conversion Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Subscription Conversion Shares.

Voting

Long Grand will not have any voting rights at any meetings of the Company for the Subscription Bonds.

Transferability

The Subscription Bonds may not be transferred or assigned to any third party.

Early redemption

At the request of the Company, the Subscription Bonds may be early redeemed at an amount equal to 100% of the principal amount of the Subscription Bonds.

Specific mandate

The Subscription Conversion Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Conversion Shares. The Subscription Bonds will not be listed on any stock exchange.

LETTER FROM THE BOARD

Subscription Warrants

Pursuant to the Long Grand Subscription Agreement, upon Long Grand exercising the conversion rights attaching to all or part only of the Subscription Bonds, the Company shall issue by way of bonus to Long Grand the Subscription Warrants (in the proportion of one Subscription Warrant for every four Subscription Conversion Shares) which confer rights to subscribe in cash for up to 207,500,000 Subscription Warrant Shares upon the exercise in full of the Subscription Warrants.

The initial subscription price is HK\$0.15 subject to adjustments for subdivision or consolidation of shares, rights issues and other dilutive events which may have adverse effects on the rights of the holder(s) of the Subscription Warrants.

Based on the initial subscription price of HK\$0.15 per Subscription Warrant Share, the total subscription price will be HK\$31,125,000.

The 207,500,000 new Shares to be issued upon exercise in full of the Subscription Warrants represent:

- (i) approximately 61.57% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares;
- (ii) approximately 13.24% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares; and
- (iii) approximately 11.07% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Conversion Shares and the Warrant Shares.

The subscription rights attaching to the Subscription Warrants may be exercised in whole or in part within the period from the date of issue of the Subscription Warrants to the date falling on the first anniversary of the date of issue of the Subscription Warrants (both dates inclusive). Any subscription rights attaching to the Subscription Warrants which have not been exercised on or before the last day of the Exercise Period will lapse following such date and the Subscription Warrants will cease to be valid for all purpose. The Subscription Warrants are freely transferable but will not be listed on any stock exchange.

The Subscription Warrant Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issue of the Subscription Warrant Shares.

The Subscription Warrant Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Warrant Shares.

LETTER FROM THE BOARD

Conditions of the Long Grand Subscription Agreement

The completion of the Long Grand Subscription Agreement is conditional upon the satisfaction or waiver of the following conditions:

- (a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in, the Subscription Shares, the Subscription Conversion Shares and the Subscription Warrant Shares;
- (b) the Independent Shareholders approving at the SGM the Subscription and the transactions contemplated under the Long Grand Subscription Agreement;
- (c) there being no indication being received from the Stock Exchange or the SFC that the listing of the Shares on the Stock Exchange will be suspended, revoked or withdrawn at any time after completion of the Long Grand Subscription Agreement, whether in connection with any of the transactions contemplated by the Long Grand Subscription Agreement or otherwise;
- (d) the warranties under the Long Grand Subscription Agreement remaining true and correct in all material respects;
- (e) all necessary consents and approvals as may be required to be obtained in respect of the Subscription and the transactions contemplated under the Long Grand Subscription Agreement having been obtained by the Company and Long Grand;
- (f) the Share Purchase Agreement having become unconditional (save for the condition for the Long Grand Subscription Agreement to become unconditional);
- (g) the Placing Agreement having become unconditional (save for the condition for the Long Grand Subscription Agreement to become unconditional); and
- (h) if applicable, the Bermuda Monetary Authority granting its consent to the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants and the allotment and issue of the Subscription Conversion Shares and the Subscription Warrant Shares.

If any of the above conditions precedent is not fulfilled (or waived by Long Grand in writing) on or before the long stop date of 31 January 2008, the Long Grand Subscription Agreement shall lapse and become null and void and both the Company and Long Grand will be released from all obligations under the Long Grand Subscription Agreement (save for liabilities for any antecedent breaches thereof).

Subject to the fulfilment or waiver of the above conditions precedent, completion of the Long Grand Subscription Agreement shall take place on the next Business Day (or such other date as the Company and Long Grand may agree) after fulfilment or waiver of all the above conditions precedent.

LETTER FROM THE BOARD

Listing Rules implications

As the Share Purchase Agreement and the Long Grand Subscription Agreement are inter-conditional upon each other, Long Grand is deemed to be a connected person of the Company under Rule 14A.11(4) of the Listing Rules. As such, the Long Grand Subscription Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants, constitute non-exempted connected transaction on the part of the Company under the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements.

PLACING AGREEMENT

Date

14 November 2007

Parties

Issuer: The Company

Placing agent: The Placing Agent

The Placing Agent is principally engaged in providing financial services including brokerage for securities, underwriting and placing services and margin/initial public offering financing. It is a wholly-owned subsidiary of Emperor Capital Group Limited, a listed company in Hong Kong of which Dr. Yeung is deemed to be interested in approximately 45.09% of the issued shares.

The Placing Agent will receive a placing commission in aggregate of 2% on the total subscription price of the Placing Bonds being placed, which was determined after arm's length negotiations between the Company and the Placing Agent and with reference to prevailing placing commission charged by other placing agents in the market. Assuming all the Placing Bonds are being placed, the Placing Agent will receive a placing commission of HK\$1,200,000, which will be deducted from the subscription monies of the Placing Bonds payable to the Company on the date of completion of the Placing Agreement.

Principal terms of the Placing Bonds

Pursuant to the Placing Agreement, the Company agreed to issue and the Placing Agent agreed to place, on a best endeavours basis, the two-year zero coupon convertible bonds in an aggregate principal amount of HK\$60,000,000. The Placing Agent has procured the Placees to confirm that they are not existing Shareholders and would not become substantial Shareholders immediately after exercising the conversion rights attaching to all or part only of the Placing Bonds.

LETTER FROM THE BOARD

The principal terms of the Placing Bonds are summarised below:

Amount of issue

Up to an aggregate principal amount of HK\$60,000,000

Conversion Price

HK\$0.15 per Placing Conversion Share, which is subject to adjustments for subdivision or consolidation of shares, rights issues and other dilutive events which may have adverse effects on the rights of the Placing Bondholders. The Conversion Price:

- (i) represents a discount of approximately 97.40% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on 30 October 2007, being the last trading day of the Shares immediately before the date of the Announcement;
- (ii) represents a discount of approximately 96.96% 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 30 October 2007;
- (iii) represents a discount of approximately 96.51% to the closing price of HK\$4.30 per Share as quoted on the Stock Exchange as at 3 December 2007, being the Latest Practicable Date;
- (iv) represents a discount of approximately 96.20% to the average of the closing prices of approximately HK\$3.95 per Share for the five trading days of the Shares up to and including the Latest Practicable Date;
- (v) represents a discount of approximately 25.00% to 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 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 the Latest Practicable Date;
- (vi) is equivalent to the issue price of the Subscription Shares; and
- (vii) represents a discount of 85% to the consideration of HK\$1.00 per Sale Share.

Interest

The Placing Bonds bear no interest on the principal amount.

LETTER FROM THE BOARD

Maturity date

The maturity of the Placing Bonds will be the date falling on the second anniversary of the date of issue of the Placing Bonds. Any unredeemed and unconverted Placing Bonds will be redeemed at 100% of the outstanding principal amount in cash.

Terms of conversion

The Placing Bondholders shall have the right at any time after the date falling one month after the date of closing of the Offer to convert any outstanding amount of the Placing Bonds into the Placing Conversion Shares at the Conversion Price.

Placing Conversion Shares

Based on the Conversion Price of HK\$0.15, a maximum number of 400,000,000 Placing Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to Placing Bonds in full, which represent:

- (i) approximately 239.48% of the existing issued share capital of the Company;
- (ii) approximately 118.68% of the issued share capital as enlarged by the issue of the Subscription Shares;
- (iii) approximately 25.53% of the issued share capital as enlarged by the issue of the Subscription Shares and the Conversion Shares; and
- (iv) approximately 21.34% of the issued share capital as enlarged by the issue of the Subscription Shares, the Conversion Shares and the Warrant Shares.

As the Placing Bonds can only be converted after one month from the close of the Offer and that the Placees shall not dispose of the Placing Bonds within one month after the close after the Offer (details as set out in the paragraph headed “Transferability” below), the Board and the Placing Agent consider that the Placees will be subject to such market risk attributable by such lock-up period which is not imposed on the Sale Shares.

The Conversion Price was determined after arm’s length negotiations between the Company and the Placing Agent, after considering the Group’s existing financial position, liquidity of the Shares in the market, the intended amount of funds to be raised, the lock-up period and number of Placing Conversion Shares.

Based on the above and the reasons as set out in the section headed “Reasons for the Long Grand Subscription Agreement and the Placing Agreement” below, the Board (including the independent non-executive Directors) is of the view that the terms of the Placing are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Placing Conversion Shares, when allotted and issued, will rank pari passu in all respects among themselves and with the Shares in issue as at the date of allotment and issue of the Placing Conversion Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Placing Conversion Shares.

Voting

The Placing Bondholders will not be entitled to attend or vote at any meetings of the Company by reason only of being the Placing Bondholders.

Transferability

The Placing Bonds may be transferred or assigned to any third party at any time after the date falling one month after the close of the Offer. Save with the consent of the Stock Exchange, none of the Placing Bonds may be transferred to a connected person of the Company. The Company shall give notice to the Stock Exchange for any transfer of the Placing Bonds and shall state whether any connected person of the Company is involved.

Early redemption

At the request of the Company, the Placing Bonds may be early redeemed at an amount equal to 100% of the principal amount of the Placing Bonds.

Specific mandate

The Placing Conversion Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Placing Conversion Shares. The Placing Bonds will not be listed on any stock exchange.

Placing Warrants

Pursuant to the Placing Agreement, upon the Placing Bondholders exercising the conversion rights attaching to all or part only of the Placing Bonds, the Company shall issue by way of bonus to the Placing Bondholders the Placing Warrants (in the proportion of one Placing Warrant for every four Placing Conversion Shares) which confer rights to subscribe in cash for up to 100,000,000 new Placing Warrant Shares upon the exercise in full of the Placing Warrants.

The initial subscription price is HK\$0.15, subject to adjustments for subdivision or consolidation of shares, rights issues and other dilutive events which may have adverse effects on the rights of the holder(s) of the Placing Warrants.

Based on the initial subscription price of HK\$0.15 per Share (subject to adjustment), the total subscription price of the Placing Warrants will be HK\$15,000,000.

LETTER FROM THE BOARD

The 100,000,000 new Shares to be issued upon exercise in full of the Placing Warrants represent:

- (i) approximately 29.67% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares;
- (ii) approximately 6.38% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares; and
- (iii) approximately 5.33% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Conversion Shares and the Warrant Shares.

The subscription rights attaching to the Placing Warrants may be exercised in whole or in part within the period from the date of issue of the Placing Warrants to the date falling on the first anniversary of the date of issue of the Placing Warrants (both dates inclusive). Any subscription rights attaching to the Placing Warrants which have not been exercised on or before the last day of the Exercise Period will lapse following such date and the Placing Warrants will cease to be valid for all purpose. The Placing Warrants are freely transferable but will not be listed on any stock exchange.

The Placing Warrant Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issue of the Placing Warrant Shares.

The Placing Warrant Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Placing Warrant Shares.

Conditions of the Placing Agreement

Completion of the Placing Agreement is conditional upon the satisfaction or waiver of the following conditions:

- (i) the granting by the Listing Committee or the Stock Exchange of listing of, and permission to deal in, all of the Placing Conversion Shares and the Placing Warrant Shares;
- (ii) the passing by the Independent Shareholders at the SGM of an ordinary resolution of the Company approving the Placing Agreement and the transactions contemplated thereunder;
- (iii) if necessary, the Bermuda Monetary Authority granting its consent to the issue of the Placing Bonds and the Placing Warrants and the allotment and issue of the Placing Conversion Shares and Placing Warrant Shares; and
- (iv) the Share Purchase Agreement and the Long Grand Subscription Agreement having become unconditional (save as the Placing Agreement become unconditional).

LETTER FROM THE BOARD

If any of the above conditions precedent is not fulfilled or waived on or before the long stop date of 31 January 2008, the Placing Agreement shall lapse and become null and void and both the Company and the Placing Agent will be released from all obligations under the Placing Agreement (save for liabilities for any antecedent breaches thereof).

Subject to the fulfilment or waiver of the above conditions precedent, completion of the Placing Agreement shall take place on the next Business Day (or such other date as the Company and the Placing Agent may agree) after fulfilment or waiver of all the above conditions precedent.

The Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement are inter-conditional upon each other and completion of each of them shall take place simultaneously.

Listing Rules implications

The Placing Agent is a wholly-owned subsidiary of Emperor Capital Group Limited. Approximately 45.09% of the shares of Emperor Capital Group Limited are owned by the Albert Yeung Discretionary Trust, a discretionary trust set up by Dr. Yeung. As the Placing Agent is an associate of Dr. Yeung, the Placing Agent is a connected person (as defined in the Listing Rules) of the Company. As such, the payment of commission by the Company to the Placing Agent constitutes a connected transaction on the part of the Company under the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) in respect of the placing commission is less than 2.5% and the aggregate value of the placing commission is expected to be more than HK\$1 million, the payment of placing commission by the Company to the Placing Agent is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The Directors consider that the Placing is conducted under normal commercial terms and in the usual and ordinary course of business of the Placing Agent.

REASONS FOR THE LONG GRAND SUBSCRIPTION AGREEMENT AND THE PLACING AGREEMENT

The Group is principally engaged in garment manufacturing and trading. Set out below is the audited financial information of the Group for the two financial years ended 31 March 2006 and 31 March 2007:

	For the year ended 31 March 2007	For the year ended 31 March 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net profit before taxation	15,897	12,277
Net profit after taxation	14,556	11,052
Earnings per Share	HK\$0.087	HK\$0.066

LETTER FROM THE BOARD

	As at 31 March 2007 <i>HK\$'000</i>	As at 31 March 2006 <i>HK\$'000</i>
Net asset value	86,439	76,408
Net asset value per Share	HK\$0.518	HK\$0.457

The Group has been looking for suitable projects to diversify from its existing business in garment manufacturing and trading. 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 (哈爾濱愛達投資置業有限公司), a third party independent of the Company, its connected persons and Long Grand, pursuant to which the parties expressed the intention to form a joint venture to undertake property development and sale in the PRC. It is expected that the registered capital of the joint venture shall be RMB300 million and Surplus Rich Investments Limited shall contribute 55% thereof (i.e. RMB165 million). The formation of the joint venture is subject to the parties executing a legally binding joint venture agreement and compliance with other applicable legal and regulatory procedures. As at the Latest Practicable Date, no legally binding agreement has been entered into by the parties. The Directors consider that the signing of the letter of intent does not constitute a price sensitive information of the Company.

The net proceeds from the issue of the Subscription Shares, the Subscription Bonds and the Placing Bonds are estimated to be approximately HK\$208 million. The Directors at present intend to apply the net proceeds for general working capital and for business development under the new joint venture as described above. If no agreement can be reached in relation to the joint venture, the proceeds will be used as general working capital and investment funding for new projects of the Group.

Where the Warrants are exercised in full, the Company will be able to raise an additional of approximately HK\$46.13 million. Such amount, if received, will be applied by the Group for general working capital.

The Directors consider that the deep discount of the Subscription Price, the Conversion Price and the Exercise Price and that the issue of the Warrants by way of bonus for the Bonds are fair and reasonable in light of the fact that:

- (i) After the change in its management in mid October 2007, the Group is desirous of exploring the property development business as a diversification of its business apart from its existing garment manufacturing and trading business. As such, the Directors are expecting that a large capital outlay will be required. Despite the new business venture avails the Group an opportunity to increase its income base, a new business venture is subject to a certain degree of market risks. The Directors consider that a deeper discount to the market price and the issue of the Warrants by way of bonus is necessary to attract funding for developing a new business. The Directors also considered that the Subscription and the Placing are good opportunities to introduce new investors to the Group which are valuable for expansion of the Group's business in the future.

LETTER FROM THE BOARD

- (ii) Instead of determining the Subscription Price, the Conversion Price and the Exercise Price with reference to the consideration of the Sale Shares or to the market price, the most important determining factor considered by the Directors is the net asset value per Share of the Company, which is only approximately HK\$0.20 (based on the audited financial statement of the Group as at 31 March 2007 and after adjusting the dividends paid out in mid September 2007).
- (iii) The Subscription Shares will be subject to a one-month non-disposal lock-up period from the close of the Offer and the Subscription Bonds are not transferable and can only be exercised after one month after the close of the Offer. The Placing Bonds can only be transferred or converted into Placing Conversion Shares one month after the close of the Offer. The Directors consider that it is a fair arrangement justifying the deep discount as the future of the stock market is now subject to great uncertainty in light of its recent huge fluctuation.
- (iv) Pursuant to the Long Grand Subscription Agreement, the conversion of the Subscription Bonds are subject to restrictions as stated under the section “Principal terms of the Subscription Bonds”. The Company is given the right to control the conversion by Long Grand, and the Directors consider that such mechanism is in the interest of the Company and the Shareholders.
- (v) The liquidity of the Shares was generally thin, except those trading days before and after suspension of Shares for the reason of potential change in substantial shareholder of the Company. During the period from 31 August 2007, the day after the Company announced a price and trading volume fluctuation in light of Rich Wing entering into an agreement to acquire the Shares (details of which are stated in the announcement dated 29 August 2007), up to 12 October 2007, being the trading day before the Company suspended the trading of the Shares and announced a potential change of substantial shareholder, the daily trading volume ranges from 97,900 Shares to 3,308,000 Shares which represents 0.11% and 3.9% to the Shares held by the public. The average trading volume is 890,724 Shares during the aforesaid period, which is only approximately 1.04% of the Shares in public hand.

The Company has not conducted any equity-related fund raising exercise for the past 12 months immediately prior to the Latest Practicable Date.

LETTER FROM THE BOARD

DILUTIVE EFFECT OF THE BONDS

As there will be future dilutive effect on the Shareholders resulting from the exercise of the conversion rights attaching to all or part only of the Bonds, the Company will keep the Shareholders informed of the level of dilution effect and all relevant details of any conversion of the Bonds in the following manner:

- (i) the Company will make a monthly announcement on the website of the Stock Exchange. Such announcement will be made on or before the fifth Business Day following the end of each calendar month and will include the following details:
 - (a) details of any conversion of the Bonds during the relevant month, including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
 - (b) the principal amount of outstanding Bonds after the conversion, if any;
 - (c) the total number of Shares issued pursuant to other transactions, including the Warrant Shares and the Shares issued pursuant to exercise of options under any share option scheme(s) of the Company, if any; and
 - (d) the total issued ordinary share capital of the Company as at the commencement and the last day of the relevant month, and
- (ii) if the cumulative amount of new Shares issued pursuant to the conversion of the Bonds reaches 5% of the issued share capital of the Company as disclosed in the last monthly announcement of the Company in respect of the Bonds (and thereafter in a multiple of such 5% threshold), the Company will make a further announcement including details as stated in (i) above for the period commencing from the date of the last monthly announcement made by the Company in respect of the Bonds up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last monthly announcement made by the Company in respect of the Bonds.

LETTER FROM THE BOARD

Effects on shareholding structure

Set out below are (i) the existing shareholding structure of the Company as at the Latest Practicable Date, (ii) the shareholding structure of the Company immediately upon completion of the Share Purchase Agreement and the Share Subscription but before exercise of the conversion rights attaching to the Bonds and the subscription rights attaching to the Warrants; (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	Upon completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement							
	Existing shareholding structure as at the Latest Practicable Date	After Share		Upon full conversion		Upon full conversion		
		Subscription but before		of the Bonds but before		of the Bonds and the		
		exercise of the Bonds and the Warrants		exercise of the Warrants		exercise of the Warrants		
	% of	% of	% of	% of	% of	% of	% of	
	<i>Number of</i> <i>Shares held</i>	<i>issued</i> <i>Shares</i>	<i>Number of</i> <i>Shares held</i>	<i>issued</i> <i>Shares</i>	<i>Number of</i> <i>Shares held</i>	<i>issued</i> <i>Shares</i>	<i>Number of</i> <i>Shares held</i>	<i>issued</i> <i>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>

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.

LETTER FROM THE BOARD

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 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.

POSSIBLE UNCONDITIONAL MANDATORY CASH OFFER

Warning: The Offer is a possibility only.

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 will be interested in a total 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. Optima Capital has been appointed as the financial adviser to Long Grand in respect of the Offer. Upon completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement, Optima Capital will make 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 82.64% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on 30 October 2007, being the last trading day immediately before the date of the Announcement;
- (ii) 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 30 October 2007;
- (iii) 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 30 October 2007;

LETTER FROM THE BOARD

- (iv) 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 30 October 2007;
- (v) a discount of approximately 76.74% to the closing price of HK\$4.30 per Share as quoted on the Stock Exchange on 3 December 2007, being the Latest Practicable Date;
- (vi) a discount of approximately 74.68% to the average of the closing prices of approximately HK\$3.95 per Share for the five trading days of the Shares up to and including 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 the Latest Practicable Date.

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 cannot be converted and are not transferable 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 in respect of the Bonds. The Offeror and parties acting in concert with it will apply to the Executive for a waiver on dispensations from Rule 13.1 of the Takeovers Code.

Highest and lowest share prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the six-month period preceding the date of the Announcement were HK\$5.76 per Share recorded on 30 October 2007 and HK\$0.64 per Share recorded on 15 May 2007 respectively.

Pre-condition of making the Offer

The making of the Offer is subject to completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement which are inter-conditional upon each other. If the pre-condition of making of the Offer is satisfied, Long Grand will issue an announcement in accordance with the Takeovers Code and Listing Rules and comply with all the requirements under the Takeovers Code and Listing Rules.

LETTER FROM THE BOARD

Total consideration and financial resources

As at 16 October 2007, being the date the Offer period began, and up to the Latest Practicable Date, the Company has 167,031,016 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\$167.03 million.

The Placing Bonds cannot be converted and are not transferable until one month after the close of the Offer. Accordingly, 85,784,828 Shares are subject to the Offer and are valued at approximately HK\$85.78 million.

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 proposed acquisition of the Sale Shares and the subscription under the Long Grand Subscription Agreement, none of Long Grand nor parties acting in concert with it has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible into Shares in the six months prior to the announcement of the Company dated 16 October 2007 and up to the Latest Practicable Date. As at the Latest Practicable Date, Long Grand and parties acting in concert with it do not hold any Shares, outstanding options, derivatives, warrants or other securities convertible into Shares.

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. the date of posting of the composite offer and response document to be issued by Long Grand and the Company jointly in connection with the Offer.

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.

LETTER FROM THE BOARD

Other arrangements

As at the Latest Practicable Date, save for the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing 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.

As at the Latest Practicable Date, there were no outstanding derivatives in respect of securities in the Company entered into by Long Grand and parties acting in concert with it.

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.

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 other new Directors to the Board on such date as the Takeovers Code permits. At present, Long Grand has not decided on the other nominees to be appointed to the Board. The appointment of such directors nominated by Long Grand will not take effect earlier than the date of posting of the composite offer and response document to be issued by the Company and Long Grand. All the Directors will resign upon the close of the Offer or such date as the Takeovers Code permits.

Maintaining the listing status of the company

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.

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.

LETTER FROM THE BOARD

GENERAL

The Company and Long Grand intend to combine the offer document and the response document into a composite document if the Offer materialises. An application has been made by Long Grand for the Executive's consent under Rule 8.2 of the Takeovers Code to extend the deadline for despatch of the composite document to within 7 days of fulfilment of pre-conditions of making the Offer.

SGM

A SGM will be held to consider and if thought fit, passing the resolutions to approve the Long Grand Subscription Agreement and the Placing Agreement and the transactions contemplated thereunder including the issue of the Subscription Shares, the Bonds and the Warrants.

Rich Wing and its associates and parties acting in concert with it will abstain from voting on the relevant resolutions to approve the Long Grand Subscription Agreement and the Placing Agreement and the transactions contemplated thereunder including the issue of the Subscription Shares, the Bonds and the Warrants in view of its interests in the transactions.

The Company has formed the Independent Board Committee comprising all the independent non-executive Directors to advise the Independent Shareholders with respect to the fairness and reasonableness of the terms of the Long Grand Subscription Agreement by referring to the Share Purchase Agreement and the Placing Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants. A letter from the Independent Board Committee is set out on page 30 of this circular.

Hercules Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Long Grand Subscription Agreement. A letter from the Independent Financial Adviser is set out on pages 31 to 61 of this circular.

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and returned, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, to the Company branch share register in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the SGM if you so wish.

PROCEDURE FOR DEMANDING A POLL

Pursuant to the Bye-laws, at any general meeting, a resolution put to vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or

LETTER FROM THE BOARD

- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as demand by a Shareholder.

RECOMMENDATION

The Directors consider that the Long Grand Subscription Agreement and the Placing Agreement and the transactions contemplated thereunder including the proposed issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants are in the best interests of the Company and the Shareholders as a whole and accordingly recommend that all Shareholders should vote in favour of the ordinary resolutions in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the information set out the Appendix to this circular.

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



GRANEAGLE HOLDINGS LIMITED

鷹馳實業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

5 December 2007

To the Independent Shareholders

Dear Sirs or Madams,

We have been appointed as members of the Independent Board Committee to advise you on the fairness and reasonableness of the Long Grand Subscription Agreement and the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants, details of which are set out in the letter from the Board in the circular of the Company dated 5 December 2007 (the “Circular”) to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the letter from the Independent Financial Adviser in respect of the Long Grand Subscription Agreement and the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants, as set out in the section “Letter from the Independent Financial Adviser” in the Circular.

RECOMMENDATION

Having taken into account the principal factors and reasons considered by Hercules Capital Limited regarding Long Grand Subscription Agreement and the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants, and its conclusion and advice, we concur with the view of Hercules Capital Limited and consider that the terms of the Long Grand Subscription Agreement and the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants, are fair and reasonable so far as the Independent Shareholders are concerned and Long Grand Subscription Agreement, Placing Agreement and the issue of the Subscription Shares, Bonds and Warrants are in the interests of the Company and the Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the resolutions to be proposed at the SGM to approve both the Long Grand Subscription Agreement and the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants, and the transactions contemplated thereunder.

Yours faithfully,

Graneagle Holdings Limited

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

Independent Board Committee

* *For identification purposes only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice in connection with the Subscription from Hercules Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Hercules

Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

5 December 2007

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

PROPOSED CONNECTED TRANSACTIONS IN RELATION TO (i) SUBSCRIPTION OF SHARES AND CONVERTIBLE BONDS (WITH WARRANTS); AND (ii) PLACING OF CONVERTIBLE BONDS (WITH WARRANTS)

1. 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 Subscription, details of which are set out in the letter from the Board contained in the circular dated 5 December 2007 to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular 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, representing approximately 48.64% of the existing issued share capital of the Company, from Rich Wing at a cash consideration 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 THE INDEPENDENT FINANCIAL ADVISER

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.

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 will be interested in a total of 251,246,188 Shares, representing approximately 74.55% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. As such, Long Grand will be required under the Takeovers Code to make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by Long Grand and parties acting in concert with it). Subject to Completion having occurred, Optima Capital will make the Offer on behalf of Long Grand on the term of HK\$1.00 in cash for every Share for all of the then issued Shares not already owned or agreed to be acquired by Long Grand and parties acting in concert with it.

The Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement are inter-conditional upon each other and completion of each of them shall take place simultaneously. As such, the entering into of the Long Grand Subscription Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants, constitute non-exempted connected transaction for the Company under the Listing Rules and are subject to the requirements of reporting, announcement and Independent Shareholders' approval. Rich Wing and its associates and parties acting in concert with it will abstain from voting on the relevant resolutions for approving the Long Grand Subscription Agreement and the Placing Agreement.

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 Long Grand Subscription Agreement by referring to the Share Purchase Agreement and the Placing Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares, the Subscription Bonds and the Subscription Warrants. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription, in particular as to whether the terms of the Long Grand Subscription Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

2. BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, inter alia, the Circular, the relevant agreements, 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 Circular are true, accurate and complete in all material respects as at the date of the Circular, and will continue to be so at the date of the SGM, 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 Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

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 Circular and to provide a reasonable basis for our recommendation. We also consider that we have taken all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, 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. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

3. PRINCIPAL FACTORS AND REASONS CONSIDERED

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.1 Background and Reasons for the Subscription

The Group is principally engaged in garment manufacturing and trading. The audited financial information of the Group for the three years ended 31 March 2007 is summarized as follows:

Table 1 – Audited consolidated financial information of the Group for the three years ended 31 March 2007

	For the year ended 31 March		
	2007	2006	2005
	(audited) (HK\$'000)	(audited) (HK\$'000)	(audited) (HK\$'000)
Turnover	<u>161,850</u>	<u>152,761</u>	<u>176,258</u>
Profit before taxation	<u>15,897</u>	<u>12,277</u>	<u>11,701</u>
Net profit attributable to Shareholders	<u>14,556</u>	<u>11,052</u>	<u>10,536</u>
Dividend (per Share)	<u>HK3 cents^{Note}</u>	<u>HK3 cents</u>	<u>HK2 cents</u>
	As at 31 March		
	2007	2006	2005
	(audited) (HK\$'000)	(audited) (HK\$'000)	(audited) (HK\$'000)
Non-current assets	2,769	3,477	4,438
Current assets	<u>102,127</u>	<u>85,725</u>	<u>88,917</u>
Total assets	<u>104,896</u>	<u>89,202</u>	<u>93,355</u>
Current liabilities	<u>18,395</u>	<u>12,667</u>	<u>24,662</u>
Non-current liabilities	<u>62</u>	<u>127</u>	<u>204</u>
Total liabilities	<u>18,457</u>	<u>12,794</u>	<u>24,866</u>
Net assets	<u>86,439</u>	<u>76,408</u>	<u>68,489</u>

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 THE INDEPENDENT FINANCIAL ADVISER

For the three years ended 31 March 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 United States 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 sales volume for the market in the United States. 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 comprise 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.

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 were 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 person, for the establishment of a joint venture for undertaking property development and sale in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 believed 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 gross domestic product (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.

Pursuant to the information provided in the letter from the Board, the registered capital of the joint venture shall be RMB300 million and the Group shall contribute RMB165 million in proportion of its proposed shareholding in the joint venture. As mentioned before, the Group's cash and bank balances as at 31 March 2007 amounted to approximately RMB44.2 million, which would be insufficient for the capital contribution for the joint venture if the aforementioned investment is crystallized. Therefore, additional funding would be needed by the Group. Upon completion of the Subscription, the Group will receive gross proceeds of approximately HK\$208 million. The Directors indicated that the net proceeds from the Subscription would be applied for general working capital purpose and for business development under the new joint venture. As at the Latest Practicable Date, no legally binding agreement had been entered into by the parties. If no agreements can be reached in relation to the formation of the joint venture, the proceeds from the Subscription will be used as general working capital and investment funding for new projects of the Group. Long Grand has indicated to the Directors that it was also interested in the Group's joint venture with Ai Da and therefore it is willing to invest such large amount of capital to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We were advised by the management that they had also considered raising fund by means of rights issue, open offer or debt financing. In view of the fact that it would normally take a longer time to complete a rights issue or open offer than a subscription of new shares and debt financing would inevitably incur interest expense and thus has a negative impact on the future profitability of the Group, the management of the Company considered that the Subscription is the most appropriate financing alternative currently available to the Group.

Given that (i) the proposed investment in the joint venture provides a good opportunity for the Group to diversify its business; (ii) the proposed new business of real estate development and sale may have a promising prospect in the foreseeable future; (iii) the Group's financial position will be further improved after receipt of the proceeds from the Subscription and the improved financial position may in turn lay a foundation for the future development of the Group's businesses; (iv) the Company's capital base will be further enhanced by the Subscription; (v) the Subscription is the most appropriate financing alternative currently available to the Group; and (vi) the Subscription Bonds are non-interest bearing and thus it will not have any immediate negative impact on the working capital of the Group, we concur with the opinion of the Directors that the entering into of the Long Grand Subscription Agreement is in the interest of the Company and the Shareholders as a whole and it is in the ordinary and usual course of business of the Company.

3.2 Share Subscription

Pursuant to the Long Grand Subscription Agreement, the Company agreed to allot and issue, and Long Grand agreed to subscribe in cash of HK\$25,500,000 for the Subscription Shares (equivalent to a price of HK\$0.15 per Subscription Share).

The subscription price of HK\$0.15 per Subscription Share (the "Share Subscription Price") represents:

- (i) a discount of approximately 97.40% to the closing price of HK\$5.76 per Share as quoted on the Stock Exchange on 30 October 2007 (being the last trading date immediately prior to the publication of the Announcement) (the "Last Trading Day");
- (ii) a discount of approximately 96.96% to the average closing price of HK\$4.93 per Share as quoted on the Stock Exchange during the five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 93.39% to the average closing price of HK\$2.27 per Share as quoted on the Stock Exchange during the thirty trading days up to and including the Last Trading Day;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

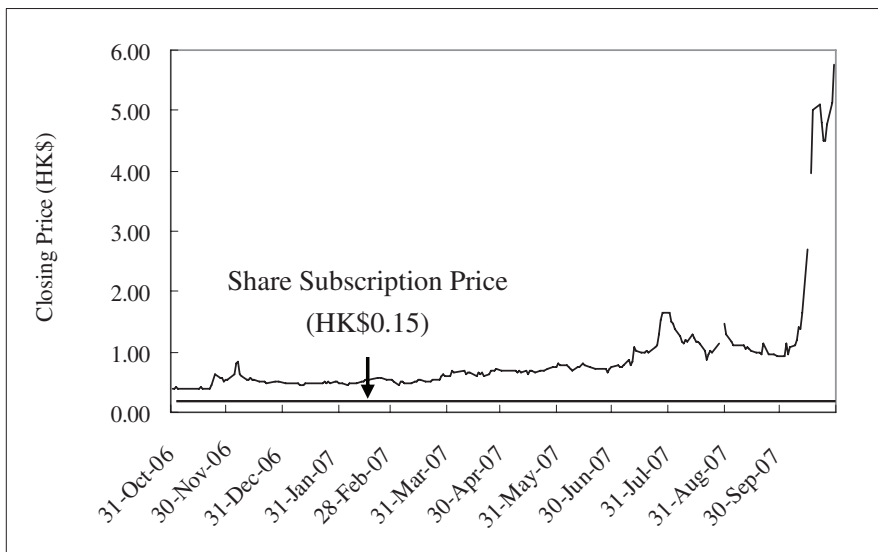
- (iv) a discount of approximately 96.51% to the closing price of HK\$4.30 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (v) a discount of approximately 25.00% to the net asset value per Share of approximately HK\$0.20 with reference to the audited financial statements 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 the Latest Practicable Date; and
- (vi) a discount of 85.00% to the consideration of HK\$1.00 per Sale Share.

According to the Directors, the Share Subscription Price was arrived at after arm's length negotiations between the Company and Long Grand after considering the Group's existing financial position, in particular, the net asset value of the Company, the liquidity of the Shares in the market, the intended amount of funds to be raised, the lock-up period and number of Subscription Shares involved in the Share Subscription. After considering the factors set out on pages 20 and 21, the Board (excluding the independent non-executive Directors) is of the view that the Share Subscription Price is fair and reasonable despite there was a deep discount to the current market price of the Shares.

3.2.1 Historical Share Price of the Shares

In order to assess the fairness and reasonableness of the Share Subscription Price, we have reviewed the movements in trading price of the Shares during the period from 31 October 2006 to the Last Trading Day (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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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 suspected that the substantial increase in trading price of the Shares might be caused by the leakage of information regarding the negotiation between Dr. Yeung, the controlling shareholder of the Company, and the potential buyer for the possible disposal of the Shares beneficially owned by Dr. Yeung. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.2.2 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	2,790,767 (Note 4)	1.6708%	3.2532%

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.
3. Represents trading volume for 31 October 2006 only.
4. Represents trading volume for the period from 1 October 2007 to 30 October 2007.
5. Trading in the Shares was suspended on 28 August 2007, 29 August 2007, the afternoon session on 15 October 2007 and 16 October 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 1.6708% as to the total number of issued Shares as at the Last Trading Day and approximately 0.0023% to 3.2532% 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.

3.2.3 Comparison with market comparables

In the absence of any material change in the financial position and trading prospects of the Group during the period from 30 August 2007 to the Last Trading Day, we consider that the fluctuations in share price during such period had relatively low correlation to the fundamentals of the Company and such price movements might have been caused purely by market speculation. Therefore, we consider that the recent market price may not truly reflect the fair value of the Shares and it is inappropriate to justify the reasonableness and fairness of the Share Subscription Price purely by comparing with the recent historical trading prices of the Shares. Therefore, we have compared the Share Subscription Price with the lowest, average and the highest closing price of the Shares of HK\$0.38, HK\$0.68 and HK\$1.66 per Share respectively during the period from 31 October 2006 to 27 August 2007 (the “Relevant Period”).

The Share Subscription Price of HK\$0.15 represents:

- a) a discount of approximately 60.53% to the lowest closing price of HK\$0.38 per Share as quoted on the Stock Exchange during the Relevant Period;
- b) a discount of approximately 77.94% to the average closing price of HK\$0.68 per Share as quoted on the Stock Exchange for the Relevant Period; and
- c) a discount of approximately 90.96% to the highest closing price of HK\$1.66 per Share as quoted on the Stock Exchange during the Relevant Period.

We have also made reference to the placements and subscriptions of new shares for cash of other companies listed on the Stock Exchange announced during the period from 15 October 2007 (being one month immediately before the date of the Announcement) to the date of the Announcement (the “Share Comparables”), details of which are summarized in Table 3 below:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 3 – Discount/premium of placing or subscription price per share to closing price per share of the Share Comparables and the Company

Date of announcement	Company (Stock code)	(Discount)/premium of placing or subscription price per share to closing price per share prior to the release of the announcement (%)
15/10/2007	Gay Giano International Group Limited (686)	(3.70)
15/10/2007	Longlife Group Holdings Limited (8037)	(2.94)
16/10/2007	Galileo Holdings Limited (8029)	(9.71)
16/10/2007	Wah Nam International Holdings Limited (159)	(10.00)
17/10/2007	Pacific Plywood Holdings Limited (767)	(5.88)
18/10/2007	Grand Field Group Holdings Limited (115)	(15.10)
22/10/2007	China Golden Development Holdings Limited (162)	(13.92)
23/10/2007	Golding Soft Limited (8190)	(12.28)
23/10/2007	Glory Future Group Limited (8071)	(12.12)
24/10/2007	ProSticks International Holdings Limited (8055)	(74.58)
25/10/2007	Hengan International Group Company Limited (1044)	(4.78)
26/10/2007	Intcera High Tech Group Limited (8041)	(88.40)
26/10/2007	Sanmenxia Tianyuan aluminum Company Limited (8253)	(21.15)
26/10/2007	Brilliant Arts Multi-media Holding Limited (8130)	(17.20)
26/10/2007	Smart Union Group (Holdings) Limited (2700)	(9.24)
29/10/2007	Sun Hung Kai Properties Limited (016)	(5.70)
30/10/2007	Unity Investments Holdings Limited (913)	(11.29)
30/10/2007	Sino Union Petroleum & Chemical International Limited (346)	(12.41)
30/10/2007	New Times Group Holdings Limited (166)	(18.42)
31/10/2007	Wafer Systems Limited (8198)	(19.28)
31/10/2007	Grandtop International Holdings Limited (2309)	(12.09)
31/10/2007	Sun Hung Kai & Co. Limited (86)	(8.00)
31/10/2007	Golden Resorts Group Limited (1031)	(11.97)
1/11/2007	China Timber Resources Group Limited (269)	(9.50)
2/11/2007	Sinofert Holdings Limited (297)	2.04
5/11/2007	Henry Group Holdings Limited (859)	(9.09)
6/11/2007	Grand Field Group Holdings Limited (115)	(18.80)
7/11/2007	REXCAPITAL Financial Holdings Limited (555)	(5.00)
8/11/2007	Kenfair International (Holdings) Limited (223)	(13.91)
13/11/2007	Shandong Luoxin Pharmacy Stock Co., Ltd (8058)	Note (31.30)
		Note (50.38)

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Date of announcement	Company (Stock code)	(Discount)/premium of placing or subscription price per share to closing price per share prior to the release of the announcement (%)
14/11/2007	Tonic Industries Holdings Limited (978)	(4.39)
14/11/2007	Tradeeasy Holdings Limited (8163)	(8.06)
14/11/2007	Wing On Travel (Holdings) Limited (1189)	2.56
	Minimum	(88.40)
	Maximum	2.56
	Average	(16.06)
	Median	(11.63)
14/11/2007	The Company (147)	
	– discount of the Share Subscription Price to the lowest closing price of the Shares during the Relevant Period	(60.53)
	– discount of the Share Subscription Price to the average closing price of the Shares for the Relevant Period	(77.94)
	– discount of the Share Subscription Price to the highest closing price of the Shares during the Relevant Period	(90.96)

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

Note: Pursuant to the placing agreement entered into between Shandong Luoxin Pharmacy Stock Co., Ltd and its placing agent, the placing price should not be more than HK\$3.60 and not less than the higher of (i) HK\$2.60, and (ii) the latest audited consolidated net asset value per share. For the placing price of HK\$3.60 and HK\$2.60 per share, discount to closing price per share prior to the release of the announcement would be 31.30% and 50.38% respectively.

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As shown in the above table, the discount/premium represented by the issue price to the closing price of the share on the last trading day prior to the date of the relevant announcement of the Share Comparables ranged from a discount of approximately 88.40% to a premium of 2.56%, with the average and median of discounts of approximately 16.06% and 11.63% respectively. The discounts represented by the Share Subscription Price to the respective lowest and average closing prices of the Shares during the Relevant Period are higher than the average and median of the Share Comparables but fall within the range of the Share Comparables. On the other hand, the discount represented by the Share Subscription Price to the highest closing price of the Shares during the Relevant Period falls outside the range of the Share Comparables.

In forming our opinion on the Share Subscription Price, we have also considered the following comparable approaches, namely price-to-earnings approach, dividends approach and net assets 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 167,031,016 Shares in issue on the Last Trading Day, the Group's basic earnings per Share for the financial year of 2007 was approximately HK\$0.0871. Therefore, the Share Subscription Price of HK\$0.15 represents a price-earning ratio (PER) of 1.72 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 and deducting from it the dividends of approximately HK\$53.45 million distributed in September 2007, the adjusted net asset value attributable to equity holders of the Company amounted to approximately HK\$32.99 million. Therefore, based on 167,031,016 Shares in issue on the Last Trading Day, the net asset value per Share amounted to approximately HK\$0.20. The price-to-book ratio (PBR) of the Group implied by the Share Subscription Price of HK\$0.15 is thus approximately 0.75 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 Share Subscription Price is approximately 0.20.

Based on the average closing price of HK\$0.68 per Share during the Relevant Period and 167,031,016 Shares in issue on the Last Trading Day, the market capitalization of the Company amounted to approximately HK\$113.6 million. 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 not exceeding HK\$400 million as at the Latest Practicable Date. On this basis and to our best knowledge, we have identified 7 comparable companies (the "Industry Comparables") and set out in Table 4 below a comparison of the valuation statistics of the Company implied by the Share Subscription Price with the market valuations at which the Industry Comparables are currently trading.

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Table 4: 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
Crocodile Garments Ltd. (122)	Manufacture and sale of garments; property investment	299.31	13.88	0.53	2.11
Carry Wealth Holdings Ltd. (643)	Manufacture, export and trading of knit tops, woven bottoms and sweater tops	337.62	4.96	1.09	10.23
Benefun International Holdings Ltd. (1130)	Manufacturing, retailing and distribution of apparel and property development	160.23	N/A	1.68	0.00
Veeko International Holdings Ltd. (1173)	Manufacture and sale of ladies fashion and sale of cosmetics	394.99	10.69	1.40	7.39
Easyknit International Holdings Ltd. (1218)	Garment sourcing and export, property investment, investment in securities and loan financing	218.41	N/A	0.16	0.00

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Company Name (Stock code)	Principal Business Activities	Market capitalization as at the Latest Practicable Date <i>(HK\$' million)</i>	PER <i>(times)</i>	PBR <i>(times)</i>	Dividend yield
Pak Tak International Ltd. (2668)	Manufactures, on an OEM basis, and exports of knitted garments mainly to the US and Europe; manufactures non-knitted garments for international airlines and non-knitted clothing for a retail store in the US	96.92	93.56 <i>(Note 1)</i>	0.65	0.00
Theme International Holdings Limited (990)	Manufacturing, retailing trading of garments	367.55	N/A	8.20	0.00
Minimum			4.96	0.16	0.00
Maximum			13.88	8.20	10.23
Average			9.84	1.96	2.82
The Company (147)	Garment manufacture and trading		1.72	0.76	0.20

Notes:

- The PER of Pak Tak International Ltd. is extremely high among the Industry Comparables and is considered as an outlier. Therefore, it is excluded from the calculation of the average PER of the Industry Comparables.*
- The trading statistics of the Comparables were quoted from ThomsonOneBanker as at the Latest Practicable Date.*

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As shown in Table 4, the PER of the Industry Comparables ranged from 4.96 times to 13.88 times, with an average of approximately 9.84 times. The PER implied by the Share Subscription Price is 1.72 times, which falls outside the range of the PER of the Industry Comparables.

The PBR of the Industry Comparables ranged from approximately 0.16 times to 8.20 times, with an average of approximately 1.96 times. The PBR implied by the Share Subscription Price is 0.76 times, which is within the range of the PBR of the Industry Comparables but lower than the average of the Industry Comparables of 1.96 times.

The dividend yield of the Industry Comparables ranged from 0.00 to 10.23, with an average of approximately 2.82. The dividend yield implied by the Share Subscription Price of 0.20 is therefore within the range of the dividend yield of the Industry Comparables but lower than the average of the Industry Comparables of 2.82.

In summary, the PBR and dividend yield as implied by the Share Subscription Price fall within the range of that of the Industry Comparables although the PER implied by the Share Subscription Price are outside the range of that 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.

3.2.4 Comparison with cash consideration of the Sale Shares

Pursuant to the Share Purchase Agreement, Long Grand has agreed to purchase from Rich Wing 81,246,188 Shares at a cash consideration of HK\$1.00 per Sale Share. The Sale Shares are not subject to any lock-up period and are freely transferable at any time.

The Share Subscription Price of HK\$0.15 represents a discount of 85% to the consideration of HK\$1.00 per Sale Share. The Directors consider that a lower price for the Share Subscription is justifiable due to the presence of a lock-up restriction on the Subscription Shares. As disclosed in the letter from the Board in the Circular, Long Grand has irrevocably undertaken not to dispose of (including without limitation by the creation of any option, charge or other encumbrance or rights over or in respect of) any of the Subscription Shares or any interest therein owned by it until one month after the date of closing of the Offer.

As it normally takes about one to two months to complete a general offer, the Subscription Shares will be traded freely in the market only after about three months from the date of completion of the Share Subscription. In light of the recent high price volatility in the Hong Kong stock market and the thin trading volume of the Shares, we concur with the Directors that the non-disposal lock-up restriction will significantly increase the market risk of Long Grand and a deep discount on the Share Subscription Price is justifiable.

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Having considered that:–

- (a) the discount implied by the Share Subscription Price to the average and lowest closing price of the Shares during the Relevant Period falls within the range of the Share Comparables;
- (b) the PBR implied by the Share Subscription Price is within the market range of the Industry Comparables;
- (c) the dividend yield implied by the Share Subscription Price is within the market range of the Industry Comparables;
- (d) the trading volume of the Shares is relatively thin and it is reasonable for the subscriber to bargain for a larger discount in subscribing illiquid shares; and
- (e) the discount of the Share Subscription Price to the consideration of the Sale Share is justifiable due to the non-disposal lock-up constraint,

we consider that the Share Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned and it is on normal commercial terms.

3.3 Bond Subscription

Pursuant to the Long Grand Subscription Agreement, Long Grand has also agreed to subscribe in cash of the two-year zero coupon convertible bonds in an aggregate principal amount of HK\$124,500,000 (the “Bond Subscription”).

3.3.1 Principal Terms of the Subscription Bonds

The principal terms of the Subscription Bonds are summarized as follows:

Issuer: the Company

Principal amount: HK\$124,500,000

Conversion right: Long Grand has the right to convert the whole or part of the outstanding principal amount of the Subscription Bonds into Subscription Conversion Shares at the Conversion Price at any time during the conversion period, except that Long Grand shall not exercise the conversion rights attaching to the Subscription Bonds to the extent less than 25% of the issued share capital of the Company will be in public hands after the conversion

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Mandatory conversion: Upon the Placing Bondholders exercising the conversion rights attaching to all or part only of the Placing Bonds, Long Grand shall be mandatorily required to exercise the conversion rights attaching to the Subscription Bonds in an amount equivalent to the converted Placing Bonds

Upon maturity of the Subscription Bonds, any unredeemed and unconverted Subscription Bonds, shall, at the option of the Company, be converted into Subscription Conversion Shares or be redeemed at 100% of the outstanding principal amount in cash

Conversion Price: HK\$0.15 per Subscription Conversion Share, which is subject to adjustments for subdivision or consolidation of shares, rights issues and other dilutive events which may have adverse effects on the rights of Long Grand

Conversion Period: any time after the date falling on one month after the date of closing of the Offer to the maturity date of the Subscription Bonds

Maturity: the date falling on the second anniversary of the date of issue of the Subscription Bonds

Interest rate: Nil

Early redemption: At the request of the Company, the Subscription Bonds may be early redeemed at an amount equal to 100% of the principal amount of the Subscription Bonds

Voting rights: Long Grand will not have any voting right at any meeting of the Company in the capacity of the holder of the Subscription Bonds

Transferability: The Subscription Bonds may not be transferred or assigned to any third party

3.3.2 Comparison with other issuance of convertible bonds/notes

To evaluate the fairness and reasonableness of the terms of the Subscription Bonds, we have identified transactions that involved the issue of convertible bonds/notes by companies listed on the Stock Exchange during the period from 15 October 2007 (being one month immediately before the date of the Announcement) to the date of the Announcement (the “CB Comparables”), details of which are summarized in Table 5 below:

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Table 5 – Principal Terms of the CB Comparables and the Subscription Bonds

Date of announcement	Company (Stock code)	Maturity (Year)	Coupon rate (%)	Any mandatory conversion right for the issuer	Premium/ (discount) of conversion price per share to closing price per share prior to the release of the announcement (%)
15/10/2007	China Photar Electronics Group Limited (8220)	2.0	5.0	No	(20.00)
15/10/2007	Termerary Industries International (Holdings) Limited (93)	3.0	0.0	No	(21.10)
15/10/2007	Hycomm Wireless Limited (499)	3.0	5.0	No	(24.24)
16/10/2007	Shenzhen International Holdings Limited (152)	3.0	0.0	No	1.69
18/10/2007	Wafer Systems Limited (8198)	5.0	0.1	No	(48.48)
23/10/2007	Tradeeasy Holdings Limited (8163)	3.0	0.0	No	(16.67)
23/10/2007	Paradise Entertainment Limited (1180)	2.0	7.0	No	28.21
23/10/2007	China Green (Holdings) Limited (904)	3.0	0.0	No	35.00
23/10/2007	China power new Energy Development Company Limited (735)	5.0	0.0	No	0.00
24/10/2007	Wah Yuen Holdings Limited (2349)	3.0	3.0	No	(4.03)
24/10/2007	ProSticks International Holdings Limited (8055)	3.0	0.0	No	(66.10)
25/10/2007	New Times Group Holdings Limited (166)	5.0	0.0	No	54.60
26/10/2007	Kenfair International (Holdings) Limited (223)	5.0	0.0	No	(69.70)

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Date of announcement	Company (Stock code)	Maturity (Year)	Coupon rate (%)	Any mandatory conversion right for the issuer	Premium/ (discount) of conversion price per share to closing price per share prior to the release of the announcement (%)
30/10/2007	U-Right International Holdings Limited (627)	3.0	HIBOR +1%	No	10.00
31/10/2007	China Nickel Resources Holdings Company Limited (2889)	10.0	0.0	No	36.00
2/11/2007	Kanhon Technologies Group Limited (8175)	3.0	1.0	No	6.38
6/11/2007	DBA Telecommunication (Asia) Holdings Limited (3335)	4.33	1.0	No	21.00
7/11/2007	Bestway International Holdings Limited (718)	6.0	1.0	No	(19.60)
12/11/2007	Palmpay China (Holdings) Limited (8047)	3.0	0.0	No	25.0
14/11/2007	New Times Group Holdings Limited (166)	5.0	0.0	No	161.20
	Minimum	2.0	0.0		(69.70)
	Maximum	10.0	7.0		161.20
	Average	4.0	1.2		4.46
	Median	3.0	0.0		0.85

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Date of announcement	Company (Stock code)	Maturity (Year)	Coupon rate (%)	Any mandatory conversion right for the issuer	Premium/ (discount) of conversion price per share to closing price per share prior to the release of the announcement (%)
14/11/2007	The Company (147)	2.0	0.0	Yes	
	- discount of the Share Subscription Price to the lowest closing price of the Shares during the Relevant Period				(60.53)
	- discount of the Share Subscription Price to the average closing price of the Shares for the Relevant Period				(77.94)
	- discount of the Share Subscription Price to the highest closing price of the Shares during the Relevant Period				(90.96)

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

Maturity

As shown in Table 5, the maturity of the CB Comparables ranged from two years to ten years, with an average and median terms of approximately four years and three years respectively. The term to maturity of the Subscription Bonds of two years thus falls within the range of the CB Comparables and considered to be in line with the normal market practice.

Coupon rate

The coupon rate of the CB Comparables ranged from 0.0% to 7.0% per annum, with an average and median rates of 1.2% and 0.0% per annum respectively. As the Subscription Bonds are interest-free, we are of the view that the term is in the interest of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned.

Mandatory conversion

The Subscription Bonds are subject to mandatory conversion. Upon maturity of the Subscription Bonds, the Company has the right to request Long Grand to convert all or part only of the outstanding principal amount into Subscription Conversion Shares.

Furthermore, upon the Placing Bondholders exercising the conversion rights attaching to all or part only of the Placing Bonds, Long Grand shall also be mandatorily required to exercise the conversion rights attaching to the Subscription Bonds in an amount equivalent to the converted Placing Bonds.

As shown in Table 5, none of the CB Comparables has any similar mandatory conversion provision, which is unfavorable to the note/bond holders.

Transferability

The Subscription Bonds may not be transferred or assigned to any third party. This may significantly affect the flexibility of Long Grand in realizing its investment in the Subscription Bonds and the market value of the Subscription Bonds.

Conversion Period

The conversion rights of the Subscription Bonds can only be exercised after the date falling one month after the date of closing of the Offer. As it normally takes about one to two months to complete a general offer, the Subscription Bonds can only be exercised by Long Grand after about three months from the date of completion of the Subscription. In light of the recent high price volatility in the Hong Kong stock market and the thin trading volume of the Shares, we concur with the Directors that such restriction on the conversion rights of the Subscription Bonds will significantly increase the market risk of Long Grand.

Conversion Price

The discount/premium represented by the conversion price of the CB Comparables to their respective closing price of the share on the last trading day prior to the date of the relevant announcement ranged from a discount of approximately 69.70% to a premium of 161.20%, with the average of premium and median of discount of approximately 4.46% and 0.85% respectively. The discount represented by the Conversion Price to the lowest closing price of the Shares during the Relevant Period falls within the range of the CB Comparables although it is greater than the average discount of the CB Comparables. On the other hand, the discount represented by the Conversion Price to the respective average and the highest closing price of the Shares during the Relevant Period falls outside the range of the CB Comparables.

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3.3.3 Comparison with the Placing Bonds

Table 6 – Principal terms of the Subscription Bonds and the Placing Bonds

	Subscription Bonds	Placing Bonds
Identity of the bondholders	Long Grand	Independent third parties
Principal amount	HK\$124,500,000	HK\$60,000,000
Restrictions on conversion	Long Grand shall not exercise the conversion rights to the extent less than 25% of the issued share capital of the Company will be in public hands after the conversion	No restrictions
Mandatory conversion	Mandatory conversion upon (i) the Placing Bondholders exercising the conversion rights attaching to the Placing Bonds; and (ii) at the discretion of the Company, upon maturity of the Subscription Bonds	Not subject to mandatory conversion
Conversion Price	HK\$0.15 per Share	HK\$0.15 per Share
Conversion period	Any time after the date falling one month after the date of closing of the Offer	Any time after the date falling one month after the date of closing of the Offer
Maturity	2 years	2 years
Coupon rate	Nil	Nil
Transferability	Not transferable	Transferable at any time after the date falling one month after the close of the Offer
Early redemption	May be early redeemed at an amount equal to 100% of the principal amount of the Subscription Bonds	May be early redeemed at an amount equal to 100% of the principal amount of the Placing Bonds

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Given that (i) the conversion rights of the Subscription Bonds are subject to the extent of public float of the Shares while the Placing Bonds are not; (ii) the Subscription Bonds are subject to mandatory conversion upon specific conditions while the Placing Bonds are not; (iii) the Subscription Bonds are not transferable to any third party while the Placing Bonds can be transferred freely to any third party after the lock-up period; and (iv) the Subscription Bonds and Placing Bonds have the same conversion price, conversion period, maturity and coupon rate, we consider that the terms of the Subscription Bonds are less favorable to Long Grand as compared to that of the Placing Bonds.

Having considered that (i) the discount represented by the Conversion Price to the lowest closing price of the Shares during the Relevant Period falls within the range of the CB Comparables; (ii) the conversion rights of the Subscription Bonds are subject to the extent of public float of the Shares; (iii) the Subscription Bonds are subject to mandatory conversions; and (iv) the Subscription Bonds have zero coupon rate thus the Group can enjoy great savings in interest expense, we consider that it is reasonable and justifiable for the Company to offer a deeper discount in conversion price as an incentive for the subscription of the Subscription Bonds. Further, as the terms of the Subscription Bonds are less favorable to Long Grand as compared to that of the Placing Bonds, we consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

3.4 Subscription Warrants

Pursuant to the Long Grand Subscription Agreement, upon Long Grand exercising the conversion rights attaching to all or part only of the Subscription Bonds, the Company shall issue by way of bonus to Long Grand the Subscription Warrants in the proportion of one Subscription Warrant for every four Subscription Conversion Shares. The Subscription Warrants confer the holders of which the rights to subscribe in cash for the Subscription Warrant Shares at an initial subscription price of HK\$0.15 per Subscription Warrant Share.

3.4.1 *Principal Terms of the Subscription Warrants*

The principal terms of the Subscription Warrants are summarized as follows:

Entitlement:	one Subscription Warrant for every four Subscription Conversion Shares held
Subscription price:	nil
Exercise Price:	HK\$0.15 per Subscription Warrant Share
Exercise period:	any time within the period from the date of issue of the Subscription Warrants to the date falling on the first anniversary of the date of issue of the Subscription Warrants (both days inclusive)
Transferability:	the Subscription Warrants are freely transferable but will not be listed on any stock exchange

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3.4.2 Comparison with other issuance of warrants

To evaluate the fairness and reasonableness of the terms of the Subscription Warrants, we have identified transactions that involved the issue of warrants by companies listed on the Stock Exchange during the period from 15 October 2007 (being one month immediately before the date of the Announcement) to the date of the Announcement (the “Warrant Comparables”), details of which are summarized in Table 7 below:

Table 7 – Principal Terms of the Warrant Comparables and the Subscription Warrants

Date of announcement	Company (Stock code)	Length of exercise period (Year)	Transferability	Premium/ (discount) of aggregate warrant issue price and exercise price to closing price per share prior to the release of the announcement (%)
15/10/2007	Byford International Limited (8272)	1.5	Freely transferable	(39.25)
30/10/2007	U-Right International Holdings Limited (627)	3.0	Freely transferable	14.84
31/10/2007	Sino-Tech International Holdings Limited (724)	2.0	Freely transferable	20.30
1/11/2007	Culturecom Holdings Limited (343)	2.0	Freely transferable	6.67
1/11/2007	Coastal Greenland Limited (1224)	5.0	Freely transferable	8.40
7/11/2007	Long Success International (Holdings) Limited (8017)	1.0	Freely transferable	(81.97)
7/11/2007	Heritage International Holdings Limited (412)	1.5	Freely transferable	(6.98)
9/11/2007	Asia Telemedia Limited (376)	3.0	Freely transferable	3.45
12/11/2007	Sunny Global Holdings Limited (1094)	1.5	Freely transferable	(42.17)
	Minimum	1.0		(81.97)
	Maximum	5.0		20.30
	Average	2.3		(12.97)
	Median	2.0		3.45

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Date of announcement	Company (Stock code)	Length of exercise period (Year)	Transferability	Premium/ (discount) of aggregate warrant issue price and exercise price to closing price per share prior to the release of the announcement (%)
14/11/2007	The Company (147)	1.0	Freely transferable	
	– discount of the Share Subscription Price to the lowest closing price of the Shares during the Relevant Period			(60.53)
	– discount of the Share Subscription Price to the average closing price of the Shares for the Relevant Period			(77.94)
	– discount of the Share Subscription Price to the highest closing price of the Shares during the Relevant Period			(90.96)

Maturity

As shown in Table 7, the length of exercise period of the Warrant Comparables ranged from one year to five years, with an average and median terms of approximately 2.3 years and 2.0 years respectively. The length of exercise period of the Subscription Warrants of one year thus falls within the range of the Warrant Comparables and considered to be in line with the normal market practice.

Transferability

The Subscription Warrants are freely transferable and such term is in line with all the Warrant Comparables.

Exercise Price

The discount/premium represented by the aggregate of subscription price and exercise price of the Warrant Comparables to their respective closing price of the share on the last trading day prior to the date of the relevant announcement ranged from a discount of approximately 81.97% to a premium of 20.30%, with the average discount of approximately 12.97% and a median premium of 3.45%. The discounts represented by the Exercise Price to the lowest and average closing prices of the Shares during the Relevant Period fall within the range of the Warrant Comparables although they are greater than the average discount of the Warrant Comparables. On the other hand, the discount represented by the Exercise Price to the highest closing price of the Shares during the Relevant Period falls outside the range of the Warrant Comparables.

3.4.3 Comparison with the Placing Warrants

The terms of the Subscription Warrants are exactly the same as those of the Placing Warrants.

Having considered that (i) the Exercise Price is the same as the Subscription Price of the Subscription Shares, the Conversion Price of the Bonds and the exercise price of the Placing Warrants; and (ii) the discounts represented by the Exercise Price to the lowest and average closing prices of the Shares during the Relevant Period fall within the range of the Warrant Comparables, we consider that the Exercise Price is fair and reasonable so far as the Independent Shareholders are concerned.

3.5 Financial effects of the Subscription

3.5.1 Earnings

The Subscription shall not have any significant immediate impact on the Group's earnings.

3.5.2 Cashflow

The proceeds from the Subscription shall bring in a net cash inflow to the Group upon Completion. Upon the maturity of the Subscription Bonds, which will be the date falling two years from the date of issue of the Subscription Bonds, the Group shall have a total cash outflow of HK\$124.5 million in the event that the Group choose to redeem the Subscription Bonds in full at maturity. If the Group opts for mandatory full conversion of the Subscription Bonds, there shall be no effects on the cashflow upon maturity. Upon exercise of the subscription rights attaching to the Subscription Warrants, there shall be an additional cash inflow from the proceeds of the issue of the Subscription Warrant Shares.

3.5.3 Net Asset Value

Upon Completion, the Share Subscription shall have a positive effect on the Group's net asset value while the issue of the Subscription Bonds shall have no significant impacts on the Group's net asset value (assuming no conversions of the Subscription Bonds) as it will increase both the assets and liabilities of the Group in the same extent.

Upon full conversion of the Subscription Bonds and the exercises of the Subscription Warrants, the net asset value of the Group shall be further improved.

3.5.4 Gearing

Upon Completion, the Share Subscription shall have a positive effect on the Group's gearing while the issue of the Subscription Bonds shall increase the Group's liabilities and have a negative impact on the Group's gearing (assuming no conversions of the Subscription Bonds).

On the other hand, upon full conversion of the Subscription Bonds and the exercises of the Subscription Warrants, the gearing of the Group shall be improved.

Concluding from the above, the Subscription will have a positive financial effect on the Group's cashflow, net asset value and gearing.

3.6 Dilution to the Shareholdings of the Independent Shareholders

As the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement are inter-conditional upon each other, we consider that the dilution effects of both the Subscription and the Placing should be considered together.

As at the Latest Practicable Date, 167,031,016 Shares were in issue. The 170,000,000 Subscription Shares represent (i) approximately 101.78% of the existing issued share capital of the Company; and (ii) 50.44% of the Group's issued share capital as enlarged by the issue of the Subscription Shares.

Upon the full conversion of the Subscription Bonds, a total of 830,000,000 Subscription Conversion Shares will be issued, representing (i) approximately 246.27% of the Company's issued share capital as enlarged by the issue of the Subscription Shares; (ii) approximately 71.12% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Subscription Conversion Shares; and (iii) approximately 52.97% of the Company's issued share capital as enlarged by the issue of the Subscription Shares and the Conversion Shares.

Furthermore, upon full exercise of the Subscription Warrants, an additional 207,500,000 new Shares will be issued, representing (i) approximately 61.57% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares; (ii) approximately 13.24% of the issue share capital of the Company as enlarged by the issue of the Subscription Shares and the Conversion Shares; and (iii) approximately 11.07% of the issue share capital of the Company as enlarged by the issue of the Subscription Shares, the Conversion Shares and the Warrant Shares.

As shown in the shareholding table set out on page 23 of this Circular, the shareholding interests of the existing Independent Shareholders will be reduced from 51.36% to (i) approximately 25.45% after Share Subscription but before exercise of the Bonds and the Warrants; (ii) approximately 5.47% upon full conversion of the Bonds but before exercise of the Warrants; and (iii) approximately 4.58% upon full conversion of the Bonds and the exercise of the Warrants.

Based on the average closing price of the Shares for the Relevant Period of HK\$0.68 and 167,031,016 Shares in issue, the total market capitalization of the Company amounted to approximately HK\$113.6 million. Therefore, the market value of the shareholdings held by the existing Independent Shareholders amounted to approximately HK\$58.3 million.

Immediately following completion of the Share Purchase Agreement, the Long Grand Subscription Agreement and the Placing Agreement, Optima Capital will make the Offer on behalf of Long Grand on the term of HK\$1.00 in cash for every Share for all of the then issued Shares not already owned or agreed to be acquired by the Long Grand and parties acting in concert with it.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the Offer Price of HK\$1.00 and 1,874,531,016 Shares then in issue, after the issue of the Subscription Shares and upon conversion of the Bonds and exercise of the Warrants, the total market capitalization of the Company shall be amounted to approximately HK\$1,874.5 million. Therefore, the market value of the shareholdings held by the existing Independent Shareholders shall then be amounted to approximately HK\$85.9 million.

As shown in the above analysis, although there will be a substantial dilution effect on the shareholdings of the Independent Shareholders, the market value of the Shares held by the Independent Shareholders shall increase after Completion and full conversion of the Bonds and exercise of the Warrants. In light of the above, we consider that the aforementioned dilution effects are acceptable.

4 RECOMMENDATION

Having considered the principal factors and reasons stated above, we are of the view that the Subscription is in the interest of the Company and the Independent Shareholders as a whole and the terms of which are in normal commercial terms and they are fair and reasonable so far as the Independent Shareholders are concerned. As such, we recommend the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favor of the resolutions to be proposed at the SGM to approve the Long Grand Subscription Agreement and transactions contemplated therein. As the Long Grand Subscription Agreement and the Placing Agreement are inter-conditional, Independent Shareholders are also advised to vote in favor of the resolutions for approving the Placing Agreement and transactions contemplated therein.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo
Managing Director

Amilia Tsang
Director

1. SHARE CAPITAL

Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Subscription and the Placing, and upon exercise of the rights under the Bonds and the Warrants as follows:

Shares		<i>HK\$</i>
<i>Authorised:</i>		
50,000,000,000	Authorised share capital of HK\$500,000,000 divided into 50,000,000,000 Shares as at the Latest Practicable Date	500,000,000
<i>Issued and fully paid:</i>		
167,031,016	Shares in issue as at the Latest Practicable Date	1,670,310
170,000,000	Subscription Shares to be issued upon Completion	1,700,000
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>
1,874,531,016	Total issued Shares after Completion and upon conversion of the Bonds and subscription of the Warrants	<u>18,745,310</u>

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

As at the Latest Practicable Date:

1. 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.
2. None of the Directors has any direct or indirect interest in any assets which have been, since 31 March 2007, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any members of the Group, or are proposed to be acquired or disposed of by, or leased to any members of the Group.
3. None of the Directors is materially interested in any contracts or arrangements entered into by any members of the Group which is subsisting at the date of this circular and which is significant in relation to the business of the Group.
4. None of the Directors or their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(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
Rich Wing (<i>Note 1</i>)	Beneficial owner	81,246,188	48.64%
Long Grand (<i>Note 2</i>)	Beneficial owner	1,288,746,188 (<i>Note 3</i>)	772.00%

Notes:

- (1) Rich Wing is wholly-owned by Dr. Yeung and therefore Dr. Yeung is deemed to be interested in the 81,246,188 Shares held by Rich Wing. Ms. Luk Siu Man Semon, the spouse of Dr. Yeung, is also deemed to be interested in the 81,246,188 Shares held by Rich Wing.
- (2) Long Grand is owned as to 70% by Mr. Yam and as to 30% by Mr. Yuen.
- (3) The 1,288,746,188 Shares comprise of (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) 207,000,000 Shares being the Subscription Warrant Shares.

Save as disclosed above, as at the Latest Practicable Date, no other person (other than a director or chief executive of the Company) 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.

3. MATERIAL CHANGES

The Directors confirm that there are no material adverse changes in the financial or trading position of the Group since 31 March 2007, being the date to which the latest published audited consolidated accounts of the Group have been made up.

4. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or is proposing to enter, into any service contract with the Company or its subsidiaries which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

6. EXPERT

- (a) The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Hercules Capital Limited	licensed by the SFC for type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, the Independent Financial Adviser 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 or any member of the Group.
- (c) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and references to its name in the form and context in which it is included.
- (d) As at the Latest Practicable Date, the Independent Financial Adviser 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.

7. MISCELLANEOUS

- (a) As at the date of this circular, the Board consists of Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa as executive Directors and Mr. Leung Shu Yin, William, Mr. Law Ka Ming, Michael and Ms. Yip Kam Man as independent non-executive Directors.
- (b) The secretary of the Company is Ms. Chan Yuk Chun and the qualified accountant is Mr. Ho Koon Man.
- (c) The registered office of the Company is situated at Clarendon House, Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is situated at Suite 1114, Lippo Sun Plaza, 28 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

- (d) The Hong Kong branch share registrar of the Company is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Long Grand Subscription Agreement and the Placing Agreement are available for inspection during normal business hours of the Company at the principal place of business of the Company at Suite 1114, Lippo Sun Plaza, 28 Canton Road, Tsimshatsui, Kowloon, Hong Kong up to and including 21 December 2007.



GRANEAGLE HOLDINGS LIMITED

鷹馳實業有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

NOTICE IS HEREBY GIVEN that the special general meeting (the “Meeting”) of Graneagle Holdings Limited (the “Company”) will be held at 28/F, Emperor Group Centre, 288 Hennessy Road, Wan Chai, Hong Kong on Friday, 21 December 2007 at 10:30 a.m. to consider and, if thought fit, pass the following resolutions:

ORDINARY RESOLUTIONS

- (1) **“THAT** the terms and conditions, execution, delivery, performance and implementation of the Long Grand Subscription Agreement (as defined and described in the circular (the “Circular”) of the Company dated 5 December 2007), a copy of which is produced to the meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification, and the transactions contemplated in or incidental to the Long Grand Subscription Agreement be and are hereby approved, confirmed and ratified and any of the directors of the Company (“Director”) or the secretary of the Company be and is hereby authorised on behalf of the Company:
 - (a) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Long Grand Subscription Agreement and the transactions contemplated thereunder;
 - (b) subject to completion of the Long Grand Subscription Agreement, to issue and allot the Subscription Shares (as defined and described in the Circular) in accordance with the terms of the Long Grand Subscription Agreement;
 - (c) subject to completion of the Long Grand Subscription Agreement, to create and issue the Subscription Bonds (as defined and described in the Circular) and the Subscription Warrants (as defined and described in the Circular) in accordance with the terms of the Long Grand Subscription Agreement and to issue and allot the Subscription Conversion Shares (as defined and described in the Circular) and Subscription Warrant Shares (as defined and described in the Circular) upon exercise of the conversion rights attaching to the Subscription Bonds and the subscription rights attaching to the Subscription Warrants respectively, in accordance with the terms and conditions attaching thereto;

* *For identification purposes only*

NOTICE OF SGM

- (d) to exercise or enforce all the rights of the Company under the Long Grand Subscription Agreement; and
 - (e) to complete the Long Grand Subscription Agreement in accordance with its terms.”
- (2) “**THAT** the terms and conditions, execution, delivery, performance and implementation of the Placing Agreement (as defined and described in the Circular), a copy of which is produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification, and the transactions contemplated in or incidental to the Placing Agreement be and are hereby approved, confirmed and ratified and any of the Directors or the secretary of the Company be and is hereby authorised on behalf of the Company:
- (a) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Placing Agreement and all transactions contemplated thereunder;
 - (b) subject to completion of the Placing Agreement, to create and to issue the Placing Bonds (as defined and described in the Circular) and the Placing Warrants (as defined and described in the Circular) in accordance with the terms of the Placing Agreement and to issue and allot the Placing Conversion Shares (as defined and described in the Circular) and the Placing Warrant Shares (as defined and described in the Circular) upon exercise of the conversion rights attaching to the Placing Bonds and the subscription rights attaching to the Placing Warrants respectively in accordance with the terms and conditions attaching thereto;
 - (c) to exercise or enforce all the rights of the Company under the Placing Agreement; and
 - (d) to complete the Placing Agreement in accordance with its terms.”

By Order of the Board
Graneagle Holdings Limited
Chan Yuk Chun
Company Secretary

Hong Kong, 5 December 2007

NOTICE OF SGM

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Suite 1114
Lippo Sun Plaza
28 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Notes:

- (i) A shareholder of the Company (“Shareholder”) entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint a proxy in respect of the whole or any part of his holding of shares to attend and vote in his stead. A proxy need not be a Shareholder.
- (ii) In order to be valid, the form of proxy must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney, not less than 48 hours before the time for holding the Meeting or adjourned meeting.
- (iii) Completion and delivery of the form of proxy will not preclude a Shareholder from attending and voting in person at the Meeting if the Shareholder so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) As at the date of this notice, the executive Directors are Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa and the independent non-executive Directors are Mr. Leung Shu Yin, William, Mr. Law Ka Ming, Michael and Ms. Yip Kam Man.
- (v) Ordinary resolutions numbered 1 and 2 shall be voted by the Independent Shareholders (as defined in the Circular) by way of poll.