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

If you have sold or transferred all your shares in Crocodile Garments Limited, you should at once hand this document together with the accompanying forms of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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Notice to investors residing in the United States of America ("U.S."): The Scheme (as defined herein) relates to the shares of a Hong Kong company and is being made by means of a scheme of arrangement provided for under Hong Kong company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the U.S. Securities Exchange Act of 1964, as amended. Accordingly, the Scheme is subject to the disclosure requirements and practices applicable in Hong Kong to schemes of arrangement, which differ from the disclosure requirements of U.S. tender offer and proxy solicitation rules. Financial information included in the Joint Announcement (as defined herein) and this document has been or will have been prepared in accordance with accounting standards applicable in Hong Kong that may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the U.S.

RICH PROMISE LIMITED
*(Incorporated in the British Virgin Islands
with limited liability)*

CROCODILE  **Crocodile Garments Limited**
*(Incorporated in Hong Kong with limited liability)
(Stock Code: 122)*

PROPOSED PRIVATISATION OF CROCODILE GARMENTS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND PROPOSED WITHDRAWAL OF LISTING OF CROCODILE GARMENTS LIMITED

Financial adviser to Rich Promise Limited



**Independent Financial Adviser to
the Independent Board Committee of Crocodile Garments Limited**



PLATINUM
Securities

A letter from the Board is set out on pages 9 to 14 of this document. An Explanatory Statement regarding the Scheme is set out on pages 39 to 54 of this document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders and the Independent Optionholder in relation to the Proposal is set out on pages 15 to 16 of this document. A letter from the Independent Financial Adviser is set out on pages 17 to 38 of this document.

The actions to be taken by the Shareholders are set out on pages 51 to 52 of this document.

The actions to be taken by the Independent Optionholder are set out on pages 52 to 53 of this document.

Notices convening the Court Meeting and the EGM both to be held on Thursday, 23 April 2009 are set out on pages 141 to 144 of this document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon and deposit them with the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding of the Court Meeting or the EGM or the adjourned Court Meeting or EGM at which the person named in such instrument proposes to vote. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so lodged. Completion and delivery of the forms of proxy will not preclude you from attending and voting at the Court Meeting or the EGM if you so wish, but in the event of you attending and voting at the Court Meeting or the EGM, the relevant form of proxy will be deemed to have been revoked. If you complete and deliver the forms of proxy, but do not attend and vote in person at the Court Meeting or the EGM, a vote given in accordance with the terms of an instrument of proxy or power of attorney shall be valid notwithstanding the revocation of the proxy or the power of attorney or other authority under which the proxy was executed provided no intimation in writing of such revocation shall have been received (i) in the case of the Court Meeting, by the company secretary of the Company or the Chairman of the Court Meeting on the day and at the place, but before commencement, of the Court Meeting or adjourned Court Meeting at which the proxy is used; and (ii) in the case of the EGM, by the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at least 2 hours before the commencement of the EGM or the adjourned EGM at which the proxy is used.

This document is issued jointly by the Offeror and the Company.

In the event of any inconsistency, the English language text of this document shall prevail over the Chinese language text.

27 March 2009

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DEFINITIONS

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

“Access Capital”	means Access Capital Limited, the financial adviser to the Offeror in respect of the Proposal, which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Announcement Date”	means 17 February 2009, being the date of the Joint Announcement
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Authorisations”	means all the necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal
“Board”	means the board of Directors
“Cancellation Consideration”	means HK\$0.40 per Scheme Share
“CCASS”	means the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	means the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	means Crocodile Garments Limited, a company incorporated in Hong Kong with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
“Conditions”	means the conditions to which the Proposal is subject, which are set out in the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 42 to 43 of this document
“Court Meeting”	means a meeting of the Independent Shareholders to be convened at the direction of the High Court for the purposes of approving the Scheme which will be held in Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong on Thursday, 23 April 2009 at 10:00 a.m., notice of which is set out on pages 141 to 142 of this document, or any adjournment thereof
“Director(s)”	means the director(s) of the Company

DEFINITIONS

“Effective Date”	means the date on which the Scheme, if approved, becomes effective in accordance with its terms
“EGM”	means the extraordinary general meeting of the Company to be convened for the approval and implementation of the Scheme which will be held in Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong on Thursday, 23 April 2009 at 10:30 a.m. (or as soon thereafter as the Court Meeting convened for the same date and place has concluded or adjourned), notice of which is set out on pages 143 to 144 of this document, or any adjournment thereof
“Explanatory Statement”	means the explanatory statement set out on pages 39 to 54 of this document in compliance with Section 166A of the Companies Ordinance
“Group”	means the Company and its subsidiaries
“High Court”	means the High Court of the Hong Kong Special Administrative Region, Court of First Instance
“HK\$”	means Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	means Hong Kong Securities Clearing Company Limited
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	means an independent committee of the Board comprising Mr. Wan Yee Hwa, Edward, Mr. Yeung Sui Sang and Mr. Chow Bing Chiu, being all the independent non-executive Directors, and Mr. Tong Ka Wing, Carl, a non-executive Director, which has been established to advise the Independent Shareholders and the Independent Optionholder in relation to the Proposal
“Independent Optionholder”	means the only Optionholder other than the Relevant Optionholders as at the Latest Practicable Date, being an employee of the Group
“Independent Shareholders”	means Shareholders other than the Offeror and parties acting in concert with it including Mr. Lam
“Joint Announcement”	means the announcement dated the Announcement Date jointly issued by the Company and the Offeror relating to, inter alia, the Proposal

DEFINITIONS

“Last Trading Date”	means 10 February 2009, being the last full trading day before the suspension of trading in the Shares pending the issue of the Joint Announcement
“Latest Practicable Date”	means 24 March 2009, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lam”	means Mr. Lam Kin Ming, the chairman and chief executive officer of the Company, an executive Director and the sole beneficial shareholder of the Offeror
“New Shares”	means the new Shares to be issued to the Offeror pursuant to the Scheme, the number of which is equal to the number of Scheme Shares to be cancelled pursuant to the Scheme
“Offeror”	means Rich Promise Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Mr. Lam
“Option Offer”	means the conditional cash offer by the Offeror to the Independent Optionholder to cancel his outstanding Options on the terms and subject to the conditions contained in this document and the Option Offer Form
“Option Offer Form”	means the yellow form setting out the terms and conditions of the Option Offer to be completed by the Independent Optionholder for acceptance of the Option Offer, a sample of which is set out in Appendix IV to this document
“Option Payment”	means the payment by the Offeror to the Independent Optionholder, if he completes an Option Offer Form, of an amount of HK\$0.01 for every 10,000 Option Shares underlying the Options in respect of which the Option Offer is accepted, as consideration for the cancellation of those Options
“Option Share(s)”	means the underlying Share(s) in respect of which an Option is granted
“Optionholders”	means holders of the Options
“Options”	means options granted under the Share Option Scheme which remain unexercised

DEFINITIONS

“Platinum” or “Independent Financial Adviser”	means Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee in relation to the Proposal, which is licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“PRC”	means the People’s Republic of China which, for the purposes of this document, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposal”	means the proposal for the privatisation of the Company by the Offeror by way of the Scheme and including the Option Offer
“Record Time”	means 4:30 p.m. Hong Kong time on the business day immediately preceding the day when the Scheme becomes effective, being the record time for determining entitlements of the Independent Shareholders under the Scheme
“Relevant Optionholders”	means Mr. Lam, Ms. Lam Wai Shan, Vanessa, an executive Director and deputy chief executive officer of the Company, and Ms. Lam Wai Kei, Vicky, an employee of the Group, both being daughters of Mr. Lam, all being persons acting in concert with the Offeror
“Relevant Period”	means the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date
“Savills”	means Savills Valuation and Professional Services Limited, the independent professional valuer
“Scheme”	means a scheme of arrangement under Section 166 of the Companies Ordinance for the implementation of the Proposal between the Company and the Independent Shareholders, as set out on pages 133 to 140 of this document, with or subject to any modification thereof or addition thereto or condition approved or imposed by the High Court
“Scheme Share(s)”	means the Share(s) in issue as at the Record Time other than those beneficially owned by the Offeror and parties acting in concert with it including Mr. Lam
“SFC”	means the Securities and Futures Commission of Hong Kong
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share Option Scheme”	means the share option scheme of the Company which was adopted at the annual general meeting of the Company held on 22 December 2006
“Share(s)”	means ordinary share(s) of HK\$0.25 each in the share capital of the Company
“Shareholder(s)”	means holder(s) of the Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Takeovers Code”	means The Code on Takeovers and Mergers
“%”	means per cent.

All references in this document to times and dates are references to Hong Kong times and dates.

EXPECTED TIMETABLE

The following timetable takes into account the High Court procedures for the Scheme. The expected timetable set out below is indicative only and subject to change. Further announcement(s) will be made in the event that there is any such change.

2009

Latest time for lodging transfers of the Shares to
qualify for attending and voting at the Court Meeting
and the EGM. 4:30 p.m. on Friday, 17 April

Closure of the register of members of the Company
for determination of entitlements of the Independent
Shareholders to attend and vote at the Court
Meeting and of the Shareholders to attend and vote at
the EGM (*Note 1*) Monday, 20 April to
Thursday, 23 April
(both dates inclusive)

Latest time for lodging forms of proxy in respect of:

the Court Meeting (*Note 2*) 10:00 a.m. on Tuesday, 21 April

the EGM (*Note 2*) 10:30 a.m. on Tuesday, 21 April

Suspension of trading in the Shares 9:30 a.m. on Thursday, 23 April

Court Meeting (*Note 3*) 10:00 a.m. on Thursday, 23 April

EGM (*Note 3*) 10:30 a.m. on Thursday, 23 April
(or as soon thereafter as the Court Meeting
shall have been concluded or adjourned)

Announcement of the results of the Court Meeting
and the EGM not later than 7:00 p.m. on Thursday, 23 April

Resumption of trading in the Shares 9:30 a.m. on Friday, 24 April

High Court hearing of the summons for directions
in respect of the capital reduction Tuesday, 5 May

Latest time for dealing in the Shares 4:00 p.m. on Monday, 11 May

Latest time for lodging transfers of the Shares to
qualify for entitlements of the Independent Shareholders
under the Scheme 4:30 p.m. on Thursday, 14 May

EXPECTED TIMETABLE

2009

Closure of the register of members of the Company for determination of entitlements of the Independent Shareholders under the Scheme	Friday, 15 May to Tuesday, 19 May (both dates inclusive)
High Court hearing of the petition to sanction the Scheme	Tuesday, 19 May
Latest time for lodging the Option Offer Form by the Independent Optionholder (<i>Note 4</i>)	4:30 p.m. on Tuesday, 19 May
Record Time	4:30 p.m. on Tuesday, 19 May
Announcement of results of the High Court hearing of the petition to sanction the Scheme	no later than 11:00 p.m. on Tuesday, 19 May
Effective Date (<i>Note 5</i>)	Wednesday, 20 May
Withdrawal of the listing of the Shares on the Stock Exchange	after close of business on Wednesday, 20 May
Cheques for the payment of the Cancellation Consideration and monies under the Option Offer to be despatched	on or before Friday, 29 May

Shareholders and the Independent Optionholder should note that the above timetable, which is dependent on all Conditions being fulfilled and/or otherwise waived (as the case may be) and the availability of the dates of the High Court to hear the proceedings for the sanctioning of the Scheme, is subject to change. Further announcement(s) will be made in the event that there is any such change.

Notes:

1. The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Independent Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM. For the avoidance of doubt, this period of closure is not for determining entitlements under the Scheme.
2. Forms of proxy should be deposited with the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and by the times and dates stated above. Completion and delivery of the forms of proxy will not preclude you from attending and voting at the Court Meeting or the EGM if you so wish, but in the event of you attending and voting at the Court Meeting or the EGM, the relevant form of proxy will be deemed to have been revoked. If you complete and deliver the forms of proxy, but do not attend and vote in person at the Court Meeting or the EGM, a vote given in accordance with the terms of an instrument of proxy or power of attorney shall be valid notwithstanding the revocation of the proxy or the power of attorney or other authority under which the proxy was executed provided no intimation in writing of such revocation shall have been received (i) in the case of the Court Meeting, by the company secretary of the Company or the Chairman of the Court Meeting on the day and at the place, but before commencement, of the Court Meeting or adjourned Court Meeting at which the proxy is used; and (ii) in the case of the EGM, by the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at least 2 hours before the commencement of the EGM or the adjourned EGM at which the proxy is used. In the case of any beneficial owner of Shares whose Shares are held upon trust by and registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, or in the case of any beneficial owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, your attention is drawn to the section headed "Shareholders who hold their Shares through trust or CCASS" in the "Explanatory Statement" set out on page 52 of this document.

EXPECTED TIMETABLE

3. Both the Court Meeting and the EGM will be held in Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong at the time and dates specified above.
4. The Option Offer Form, duly completed in accordance with the instructions thereon, must be lodged with the Company at its registered office, at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong marked “Crocodile Option Offer” on the envelope, for the attention of the company secretary of the Company, so as to reach the Company no later than 4:30 p.m. on Tuesday, 19 May 2009 or such later date and time as may be notified through press announcement, failing which the Independent Optionholder will not receive any consideration under the Option Offer.
5. The Scheme will become effective upon all the Conditions being fulfilled and/or otherwise waived (as the case may be).

LETTER FROM THE BOARD



Crocodile Garments Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 122)

Executive Directors:

Lam Kin Ming

(Chairman and Chief Executive Officer)

Lam Wai Shan, Vanessa

(Deputy Chief Executive Officer)

Lam Kin Ngok, Peter

Lam Kin Hong, Matthew

Cheng Suet Fei, Sophia

Registered office:

11th Floor, Lai Sun Commercial Centre,
680 Cheung Sha Wan Road,
Kowloon,
Hong Kong

Non-executive Directors:

Lam Suk Ying, Diana

Tong Ka Wing, Carl

Independent Non-executive Directors:

Wan Yee Hwa, Edward

Yeung Sui Sang

Chow Bing Chiu

27 March 2009

To the Shareholders and Optionholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF CROCODILE GARMENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 166 OF THE COMPANIES ORDINANCE
AND
PROPOSED WITHDRAWAL OF LISTING OF
CROCODILE GARMENTS LIMITED**

INTRODUCTION

On 17 February 2009, the Company and the Offeror jointly announced that on 13 February 2009, the Offeror requested the Board to put forward the Proposal to the Independent Shareholders regarding the proposed privatisation of the Company by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Following a meeting of the Board on 13 February 2009, the Board has agreed to put forward the Proposal for consideration by the Independent Shareholders.

The attention of the Shareholders is drawn to the fact that the Offeror and Mr. Lam have indicated that if the Scheme is withdrawn, not approved or lapses, the Offeror, Mr. Lam and parties acting in concert with any of them will not make another proposal to privatise the Company or any offer for the securities of the Company under the Takeovers Code until after 31 December 2018, but even after such date, they are not obliged to make such proposal.

LETTER FROM THE BOARD

The Offeror has appointed Access Capital as its financial adviser in connection with the Proposal. The Independent Board Committee was formed, comprising Mr. Wan Yee Hwa, Edward, Mr. Yeung Sui Sang and Mr. Chow Bing Chiu, being all the independent non-executive Directors, and Mr. Tong Ka Wing, Carl, a non-executive Director, to advise the Independent Shareholders and the Independent Optionholder in respect of the Proposal. The other non-executive Director, Ms. Lam Suk Ying, Diana is a sister of Mr. Lam and since Mr. Lam is deemed to be a party acting in concert with the Offeror under the Takeovers Code, the Company considers that Ms. Lam Suk Ying, Diana does not have the necessary degree of independence required to serve on the Independent Board Committee. Platinum has been appointed, with the approval of the Independent Board Committee, as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this document is to provide you with, among other things, further details of the Proposal, the expected timetable, the Explanatory Statement, further information regarding the Company, the recommendations of the Independent Board Committee with respect to the Proposal, the letter from Platinum to the Independent Board Committee and to give you notices of the Court Meeting and the EGM. In this regard, your attention is also drawn to:

- (i) the letter from the Independent Board Committee set out on pages 15 to 16 of this document;
- (ii) the letter from Platinum to the Independent Board Committee set out on pages 17 to 38 of this document;
- (iii) the Explanatory Statement set out on pages 39 to 54 of this document; and
- (iv) the Scheme set out on pages 133 to 140 of this document.

SUMMARY OF THE PROPOSAL

Scheme Shares

The Scheme provides that the Scheme Shares will be cancelled and, in consideration thereof, holders of the Scheme Shares will be entitled to receive the Cancellation Consideration of HK\$0.40 in cash for each Scheme Share.

As at the Latest Practicable Date, there were 617,127,130 Shares in issue. The Offeror and Mr. Lam, who is deemed to be a party acting in concert with the Offeror under the Takeovers Code, were collectively interested in 318,212,000 Shares, representing approximately 51.56% of the issued share capital of the Company and the Independent Shareholders were interested in 298,915,130 Shares, representing approximately 48.44% of the issued share capital of the Company. The Shares owned by the Offeror and Mr. Lam will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. Further, only Independent Shareholders may vote at the Court Meeting.

The Offeror has confirmed that as at the Latest Practicable Date, Mr. Lam is the only party having a beneficial interest in the Shares and deemed to be acting in concert with the Offeror under the Takeovers Code.

LETTER FROM THE BOARD

Options

The Offeror is also making the Option Offer to the Independent Optionholder to cancel his Options in consideration of the Option Payment. The Option Offer is open for acceptance by the Independent Optionholder from the date of despatch of this document, which includes the Option Offer Form, up to 4:30 p.m. on Tuesday, 19 May 2009 or such later date and time as may be notified to the Independent Optionholder by the Offeror. The validity of any agreement constituted by any acceptance by the Independent Optionholder of the Option Offer is subject to the Scheme becoming effective in accordance with its terms. Normally, the amount of the cash offer to cancel an Option will be determined as being the “see-through price” in accordance with the Takeovers Code and represents the difference between the Cancellation Consideration per Scheme Share payable under the Scheme and the exercise price per Share payable on exercise of an Option. As the exercise price of all the Options is above the Cancellation Consideration, the Option Payment offered by the Offeror for the cancellation of the Options held by the Independent Optionholder is nominal.

As at the Latest Practicable Date, there were a total of 14,837,000 Options comprising of 12,587,000 Options with an exercise price of HK\$0.68 per Share and 2,250,000 Options with an exercise price of HK\$0.72 per Share. The Options consist of (i) 617,000 Options granted to Mr. Lam; (ii) 6,170,000 Options granted to Ms. Lam Wai Shan, Vanessa, an executive Director and deputy chief executive officer of the Company, and daughter of Mr. Lam; (iii) 5,800,000 Options granted to Ms. Lam Wai Kei, Vicky, an employee of the Group and daughter of Mr. Lam; and (iv) 2,250,000 Options granted to the Independent Optionholder.

Terms of the Proposal

Detailed terms of the Proposal are set out in the Explanatory Statement on pages 39 to 54 of this document and, in the case of the Option Offer, also in the Option Offer Form a sample of which is set out in Appendix IV to this document.

The attention of the Independent Optionholder is drawn, in particular, to the sections headed “Option Offer” and “Provisions under the Share Option Scheme in the context of the Option Offer” in the Explanatory Statement on pages 49 to 51 of this document.

COMPARISON OF VALUE

The Cancellation Consideration represents:

- a premium of approximately 92.3% over the closing price of HK\$0.208 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 95.1% over the average closing price of HK\$0.205 per Share based on the daily closing prices as quoted on the Stock Exchange for the one-month period ended on the Last Trading Date;
- a premium of approximately 95.1% over the average closing price of HK\$0.205 per Share based on the daily closing prices as quoted on the Stock Exchange for the three-month period ended on the Last Trading Date;

LETTER FROM THE BOARD

- a premium of approximately 83.5% over the average closing price of HK\$0.218 per Share based on the daily closing prices as quoted on the Stock Exchange for the six-month period ended on the Last Trading Date;
- a premium of approximately 1.3% over the closing price of the Shares of HK\$0.395 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 59.3% to the audited consolidated net asset value per Share of approximately HK\$0.983 as at 31 July 2008.

Highest and lowest prices

During the six-month period preceding the Last Trading Date, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$0.35 per Share on 20 August 2008 and HK\$0.14 per Share on 27 October 2008, respectively.

FINANCIAL RESOURCES

Total consideration

At the Cancellation Consideration, the Proposal values the entire issued share capital of the Company at approximately HK\$246,851,000.

Assuming none of the Options are exercised before the Effective Date, the maximum amount of cash consideration required to effect the Proposal will be approximately HK\$119,566,000. Assuming all the Options (other than those granted to the Relevant Optionholders) are exercised before the Effective Date, the maximum amount of cash consideration required to effect the Proposal will be approximately HK\$120,466,000. The Offeror will finance the cash consideration payable under the Scheme and the Option Offer from bank borrowings.

Confirmation of financial resources

Access Capital, the Offeror's financial adviser, is satisfied that sufficient financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

As at the Latest Practicable Date, Access Capital did not hold any voting rights or other rights over the Shares.

CONDITIONS OF THE PROPOSAL

The Proposal will become effective and binding on the Company, the Offeror, Mr. Lam and all holders of the Scheme Shares, subject to the fulfillment or waiver (as applicable) of the Conditions set out in the section headed "Conditions of the Proposal" in the Explanatory Statement on pages 42 to 43 of this document.

LETTER FROM THE BOARD

All the Conditions will have to be fulfilled or waived, as applicable, on or before 31 August 2009 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), failing which the Proposal will lapse. If the Proposal is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

Shareholders and potential investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable. Thus, the Proposal may or may not become effective. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

REASONS FOR AND BENEFITS OF THE PROPOSAL

Your attention is drawn to the section headed “Reasons for and benefits of the Proposal” in the Explanatory Statement on pages 43 to 44 of this document.

INFORMATION ON THE COMPANY AND THE OFFEROR

Your attention is drawn to the sections headed “Information on the Company” and “Information on the Offeror” in the Explanatory Statement on pages 44 to 45 of this document. Your attention is also drawn to the section headed “Financial Information of the Group” in Appendix I to this document and the “Property Valuation” in Appendix II to this document.

FUTURE PLANS FOR THE GROUP

Your attention is drawn to the section headed “Future Plans for the Group” in the Explanatory Statement on page 45 of this document.

WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange under Rule 6.15 of the Listing Rules with effect from the date on which the Scheme becomes effective. Holders of the Scheme Shares will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is withdrawn, not approved or lapses.

THE COURT MEETING AND THE EGM

In accordance with the direction of the High Court, the Court Meeting has been convened to be held on Thursday, 23 April 2009 for the purposes of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). The Scheme is subject to approval by a majority in number of the Independent Shareholders present and voting either in

LETTER FROM THE BOARD

person or by proxy at the Court Meeting representing not less than three-fourths in value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting, provided that the Scheme is not disapproved by the Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by all of the Independent Shareholders.

The EGM will be held immediately following the Court Meeting for the purposes of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme by the Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme at the EGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths in value of the votes cast by the Shareholders present and voting in person or by proxy at the EGM.

Notices of the Court Meeting and the EGM are set out on pages 141 to 144 of this document. The Court Meeting and the EGM will be held on Thursday, 23 April 2009 at the respective times specified in such notices in Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong.

EXPLANATORY STATEMENT

Your attention is drawn to the Explanatory Statement for detailed information in relation to the Proposal and an explanation of the effects of the Proposal.

RECOMMENDATIONS OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to the letter from the Independent Board Committee on pages 15 to 16 of this document which sets out its recommendations in relation to the Proposal.

ADVICE OF PLATINUM

Your attention is drawn to the advice of Platinum, set out in the letter from Platinum to the Independent Board Committee on pages 17 to 38 of this document.

FURTHER INFORMATION

Your attention is also drawn to all the appendices to this document set out on pages 55 to 132 of this document, the Scheme set out on pages 133 to 140 of this document and the notices of the Court Meeting and the EGM set out on pages 141 to 144 of this document.

Yours faithfully,
For and on behalf of the Board of
Crocodile Garments Limited
Cheng Suet Fei, Sophia
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Crocodile Garments Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 122)

27 March 2009

To the Independent Shareholders and the Independent Optionholder

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF CROCODILE GARMENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 166 OF THE COMPANIES ORDINANCE
AND
PROPOSED WITHDRAWAL OF LISTING OF
CROCODILE GARMENTS LIMITED**

We refer to the document dated 27 March 2009 jointly issued by the Company and the Offeror in relation to the Proposal (the “**Scheme Document**”) of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein have the same meanings as defined in the Scheme Document.

On 17 February 2009, the Company and the Offeror jointly announced that on 13 February 2009, the Offeror requested the Board to put forward the Proposal to the Independent Shareholders regarding the proposed privatisation of the Company by way of a scheme of arrangement under Section 166 of the Companies Ordinance.

Details of the Proposal are set out in the letter from the Board on pages 9 to 14 of the Scheme Document, and the Explanatory Statement on pages 39 to 54 of the Scheme Document.

We have been appointed as members of the Independent Board Committee to make a recommendation to the Independent Shareholders in respect of the Scheme and the Independent Optionholder in respect of the Option Offer. Platinum has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal.

Having considered the terms of the Proposal and taken into account the opinion of Platinum, in particular, the factors, reasons and recommendations set out in the letter from Platinum on pages 17 to 38 of the Scheme Document, we consider that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and to vote in favour of the special resolution to approve and implement the Scheme at the EGM.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

In respect of the Option Offer, having considered the terms of the Option Offer and the advice from Platinum, we consider that the terms of the Option Offer are also fair and reasonable so far as the Independent Optionholder is concerned as the Options are considered out-of-the money based on both the Cancellation Consideration and recent market prices. We recommend that the Independent Optionholder accepts the Option Offer.

Yours faithfully,

For and on behalf of the Independent Board Committee of

Crocodile Garments Limited

Tong Ka Wing, Carl

Non-executive Director

LETTER FROM PLATINUM

The following is the text of the letter of advice from the independent financial adviser to the Independent Board Committee for the purpose of incorporation into this document.



PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building
4 Des Voeux Road Central
Hong Kong

Telephone	(852) 2841 7000
Facsimile	(852) 2522 2700
Website	www.platinum-asia.com

27 March 2009

To the Independent Board Committee

Dear Sirs,

**PROPOSED PRIVATISATION OF CROCODILE GARMENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 166 OF THE COMPANIES ORDINANCE
AND
PROPOSED WITHDRAWAL OF LISTING OF
CROCODILE GARMENTS LIMITED**

INTRODUCTION

We refer to the Joint Announcement. On 27 March 2009, the Offeror and the Company jointly despatched a Scheme document in relation to the Proposal (the “Scheme Document”) to the Independent Shareholders and the Independent Optionholder, of which this letter forms part. Details of the Proposal are contained in the letter from the Board, the Explanatory Statement and the appendices to the Scheme Document, which you should read carefully.

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee as to whether the Proposal is, or is not, fair and reasonable and as to acceptance and voting. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

We are independent from, and are not connected with the Offeror, the Company or any other party to the Proposal or any of their respective associates, connected persons or parties acting in concert with any of them, save for the fact that as at the Latest Practicable Date, our fellow subsidiaries held in aggregate approximately 0.09% of eSun Holdings Limited (“eSun”), a company listed on the Stock Exchange which Mr. Lam Kin Ngok, Peter, an executive director of eSun and the Company and the brother of Mr. Lam, has certain equity interest; and that one of our directors had in the past been a non-executive director of Media Asia Entertainment Group Limited, a wholly-owned

LETTER FROM PLATINUM

subsidiary of eSun, but that such directorship had ceased in mid 2007. Given the de minimis amount of shareholding and that the directorship had ceased, such relationships do not present any conflict of interest in respect of our role as the independent financial adviser and accordingly, we are considered eligible to give independent advice to the Independent Board Committee.

We will receive a fee from the Company for our role as the independent financial adviser in relation to the Proposal. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Offeror, the Company or any other party to the Proposal or any of their respective associates, connected persons or parties acting in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: (i) the annual report of the Group for the financial year ended 31 July 2006 (the “2006 Annual Report”); (ii) the annual report of the Group for the financial year ended 31 July 2007 (the “2007 Annual Report”); (iii) the annual report of the Group for the financial year ended 31 July 2008 (the “2008 Annual Report”); (iv) the interim report of the Group for the six months ended 31 January 2007 (the “2007 Interim Report”); (v) the interim report of the Group for the six months ended 31 January 2008 (the “2008 Interim Report”); and (vi) the property valuation (the “Property Valuation”) in connection with the property interests of the Group as at 28 February 2009 prepared by Savills as set out in Appendix II to the Scheme Document.

We have assumed that all information, facts, opinions and representations contained in the Scheme Document are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Scheme Document and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Scheme Document and of the information and representations provided to us by the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Company and/or the Directors which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Proposal.

The Independent Board Committee, comprising the independent non-executive Directors, namely, Mr. Wan Yee Hwa, Edward, Mr. Yeung Sui Sang and Mr. Chow Bing Chiu and the non-executive Director, Mr. Tong Ka Wing, Carl, has been established to advise the Independent Shareholders and the Independent Optionholder in relation to the Proposal.

LETTER FROM PLATINUM

TERMS OF THE PROPOSAL

The terms of the Proposal are set out in the letter from the Board and the Explanatory Statement. In summary, the Proposal involves the following:

1. Scheme Shares

The Scheme provides that the Scheme Shares will be cancelled and, in consideration thereof, holders of the Scheme Shares will be entitled to receive the Cancellation Consideration of HK\$0.40 in cash for each Scheme Share.

2. Options

The Offeror is also making the Option Offer to the Independent Optionholder to cancel his Options in consideration of the Option Payment. The validity of any agreement constituted by any acceptance by the Independent Optionholder of the Option Offer is subject to the Scheme becoming effective in accordance with its terms.

3. Conditions of the Proposal

The Proposal will become effective and binding on the Company, the Offeror, Mr. Lam and all holders of the Scheme Shares, subject to the fulfilment or waiver (as applicable) of the Conditions set out in the section headed “Conditions of the Proposal” in the Explanatory Statement. All the Conditions will have to be fulfilled or waived, as applicable, on or before 31 August 2009 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), failing which the Proposal will lapse.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the Proposal and giving our independent financial advice to the Independent Board Committee, we have considered the following principal factors:

1. Business of the Group

The principal business activities of the Group are the manufacture and sale of garments and property investment.

LETTER FROM PLATINUM

2. Operating and financial position of the Group

(i) Financial performance of the Group

The following is a summary of the audited consolidated income statements of the Group for the three financial years ended 31 July 2008 and the unaudited consolidated income statements of the Group for the six months ended 31 January 2007 and 2008.

Table 1: Summary of consolidated income statements

	For the financial year ended 31 July			For the six months ended 31 January	
	2008	2007	2006	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	450,007	441,155	385,809	230,739	218,690
Gross profit	274,492	270,714	232,797	140,581	132,741
Gross profit margin	61%	61%	60%	61%	61%
Fair value gain on investment property	10,000	7,000	146,593	10,000	2,000
Gain on disposal of investment property	30,000	—	—	—	—
Profit attributable to Shareholders	21,216	21,559	110,019	2,265	2,140
Underlying (loss)/profit ^{Note}	(18,784)	14,559	(36,574)	(7,735)	140

Note: Underlying (loss)/profit is calculated as profit attributable to Shareholders excluding fair value gain on investment property and gain on disposal of investment property.

Sources: The 2006 Annual Report, the 2007 Annual Report, the 2008 Annual Report, the 2007 Interim Report and the 2008 Interim Report.

Revenue

Revenue of the Group grew approximately 14% to approximately HK\$441.2 million for the financial year ended 31 July 2007 from approximately HK\$385.8 million for the financial year ended 31 July 2006 and a further 2% to approximately HK\$450.0 million for the financial year ended 31 July 2008. The Group also recorded an approximately 6% year-on-year growth in revenue for the six months ended 31 January 2008.

LETTER FROM PLATINUM

Set out below is a summary of the segment revenue and results of the Group for the three financial years ended 31 July 2008.

Table 2: Segment revenue and results of the Group

	For the financial year ended 31 July		
	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Segment revenue			
Garment and related accessories	447,416	437,649	379,222
Property investment	2,591	3,506	6,587
Segment results			
Garment and related accessories	(35,432)	6,846	(2,656)
Property investment	47,354	17,423	152,556

Sources: The 2006 Annual Report, the 2007 Annual Report and the 2008 Annual Report.

The growth in total revenue of the Group was contributed by the increase in revenue from the garment and related accessories segment for the three financial years ended 31 July 2008. As the Group had disposed of certain investment properties in the financial years ended 31 July 2007 and 2008, revenue from the property investment segment has been decreasing since the financial year ended 31 July 2006.

Gross profit margin

The gross profit margin of the Group remained at a level of approximately 60% to 61% for the three financial years ended 31 July 2008 and the six months ended 31 January 2007 and 2008.

Underlying profit and loss

For the financial year ended 31 July 2008, the Group recorded a profit attributable to Shareholders of approximately HK\$21.2 million compared to approximately HK\$21.6 million for the financial year ended 31 July 2007 and approximately HK\$110.0 million for the financial year ended 31 July 2006. These profits attributable to Shareholders were mainly contributed by the revaluation gains of certain investment properties held by the Group and the disposal gain of an investment property of the Group.

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However, if these revaluation and disposal gains were excluded, the underlying losses of the Group would be approximately HK\$36.6 million and HK\$18.8 million for the financial years ended 31 July 2006 and 2008, respectively; whilst for the financial year ended 31 July 2007, the underlying profit would be HK\$14.6 million. We note from Table 1 above and have confirmed with the management of the Company that these underlying losses and the decrease in underlying profit comparing to the respective profits attributable to shareholders were resulted from the unsatisfactory performance of the garment and related accessories segment. Based on the discussion with the management of the Company, we understand that although the revenue of the garment and related accessories segment has been growing since 2006, the contribution from this segment has been adversely impacted by the escalating retail rent in both Hong Kong and the PRC.

(ii) Outlook of the industry and of the Group

Both the PRC and Hong Kong had experienced a strong economic growth in 2006 and 2007. The PRC economy achieved double-digit growth in annual gross domestic product (“GDP”) in both 2006 and 2007; while Hong Kong recorded an average annual increase in GDP of approximately 8.1% for 2006 and 2007 according to information released by the Hong Kong Census and Statistics Department (the “CSD”).

The present global financial crisis has been particularly severe and wide spreading, affecting economies across the globe, including the PRC and Hong Kong. According to information from the National Bureau of Statistics of China (the “NBS”), growth in GDP in the PRC had slowed down to 9.0% in the third quarter and 6.8% in the fourth quarter of 2008, as compared to the GDP growth of 10.6% and 10.1% for the first and second quarter of 2008, respectively. Although the NBS reported that the retail sales of wholesale and retail trades from January to February 2009 remained at a year-on-year increase of 14.8%, the consumer confident index had dropped to 86.8 in January 2009 from 95.6 a year earlier. Confronted with the deteriorating consumer sentiment, we understand from discussion with the management of the Company that department stores have been launching more frequent promotion campaigns with substantial discounts, which inevitably would squeeze the profit margin of retailers. Under such weakening economy and industry outlook, market conditions for retailers are expected to be adversely impacted in the near-term.

Hong Kong is also facing a weakening economy, with data published by the CSD showing that GDP growth had dropped to 3.5% in the third quarter of 2008 and a negative growth of 2.6% had been recorded for the fourth quarter of 2008. The retail market is contracting, evident from the decline of 3.6% in the volume of total retail sales in the fourth quarter of 2008 as compared to the preceding quarter as recorded by the CSD. In particular, data from the CSD further shows that the volume of sales of footwear, allied products and other clothing accessories contracted by 5.6% in December 2008 compared with a year earlier. With unemployment rate rising to 5.0% for the period from December 2008 to February 2009, the retail market condition for Hong Kong would be challenging in the near-term.

As for the property investment segment, apart from the redevelopment of an investment property situated at 79 Hoi Yuen Road, Kwun Tong, Hong Kong (the “KT Property”), the Group did not have any other investment property interests as at 31 July 2008 up to and including the

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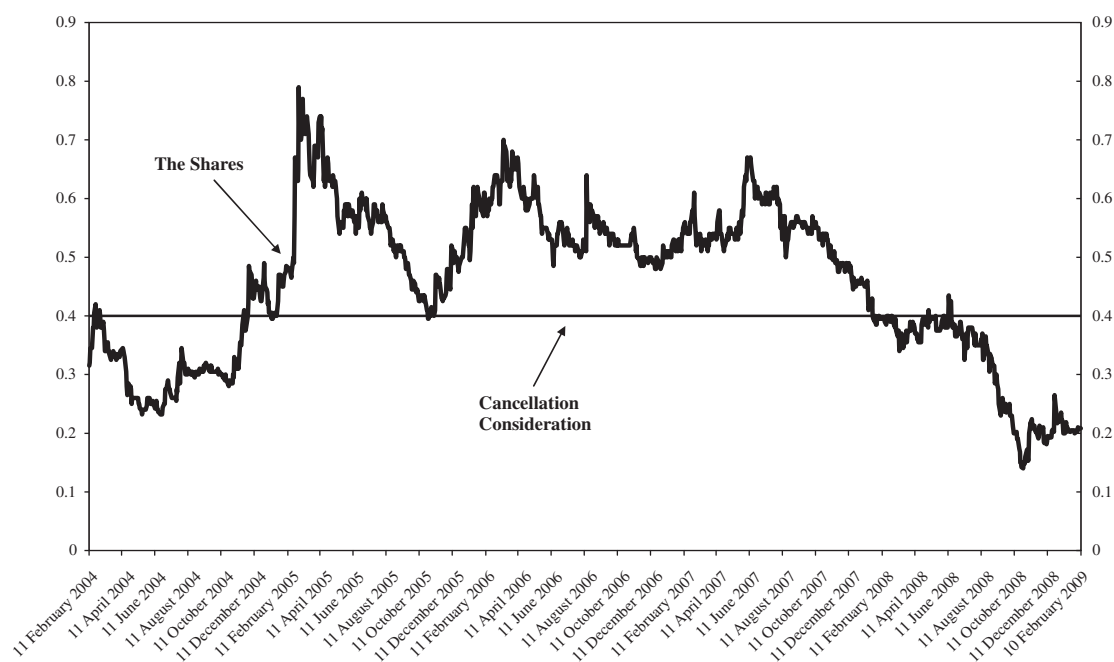
Latest Practicable Date. Based on our discussion with the management of the Company, we understand that the KT Property is still under construction and is not expected to generate any revenue for the Group for the current financial year ending 31 July 2009. Based on our discussion with Savills and the management of the Company, we understand that there will be an expected increasing supply of office space in the Kowloon East area, where the KT Property is located, which already has a relatively high vacancy rate as compared to other areas in Hong Kong. This is likely to place a pressure on the office leasing market in Kowloon East such that rents in the area are likely to remain competitive in the near future.

As the retail markets in both the PRC and Hong Kong are adversely impacted by the significant downturn in the global economy and given the lack of rental revenue contribution to the Group at least for the short-term, the Shareholders may be concerned about the profitability and growth prospects of the Group in the near-term.

3. Historical price performance of the Shares

To evaluate whether the Proposal is fair and reasonable, we have compared the Cancellation Consideration to the historical price performance of the Shares. Chart 1 below illustrates the historical daily closing prices of the Shares during the 5-year period prior to and including the Last Trading Date. We note that the Share price had increased from HK\$0.208 as at the Last Trading Date to HK\$0.395 as at the Latest Practicable Date. Given that such increase might possibly be influenced by the making of the Joint Announcement regarding the current Proposal under consideration, we are of the view that it would not be appropriate to include the period from the Last Trading Date to the Latest Practicable Date in our analysis of Share price performance.

Chart 1: 5-year historical Share price performance



Source: Bloomberg as at the Latest Practicable Date.

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As shown in Chart 1, the highest closing price at which the Shares had been traded at during the period was HK\$0.79 on 3 March 2005; whilst the lowest closing price at which the Shares had been traded at during the period was HK\$0.14 on 27 October 2008. We note that the Cancellation Consideration of HK\$0.40 falls within this trading range and that the Shares had been consistently trading below the Cancellation Consideration since 17 June 2008.

4. Comparable companies analysis

In assessing whether the Proposal is fair and reasonable, we have analysed the Company or the Cancellation Consideration against a pool of comparable companies by examining a number of commonly used methodologies as follows:

- (i) relative share price performance;
- (ii) price-to-earnings ratio (“PER”);
- (iii) enterprise value to earnings before interest, taxation, depreciation and amortisation (“EV/EBITDA”);
- (iv) liquidity;
- (v) price-to-book ratio (“PBR”); and
- (vi) dividend policy.

Our selection criteria for each of the comparable companies are as follows:

- (i) listed on the Stock Exchange;
- (ii) has a market capitalisation of HK\$400 million or less as at the Latest Practicable Date;
- (iii) more than half of its revenue is generated from the retail sale of garment and related accessories;
- (iv) more than half of its revenue is derived from Hong Kong, PRC or both; and
- (v) its products mainly consist of casual wear, smart casual wear, business wear or a combination of the same.

One should recognise that due to the unique business strategy and position of each company, it is not practicable to identify a company with the same proportion of revenue contribution from each geographic segment as the Group. As such, in accordance with our selection criteria above, we have reviewed the following seven comparable companies (the “Comparable Companies”), namely, Bauhaus International (Holdings) Limited (“Bauhaus”), Bossini International Holdings Limited (“Bossini”), ENM Holdings Limited (“ENM”), Joyce Boutique Holdings Limited (“Joyce”), Moisselle

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International Holdings Limited (“Moiselle”), Theme International Holdings Limited (“Theme”) and Veeko International Holdings Limited (“Veeko”). The list of Comparable Companies is an exhaustive list of companies selected based on our above-mentioned criteria, which have been identified, to our best endeavour, in our research through published information.

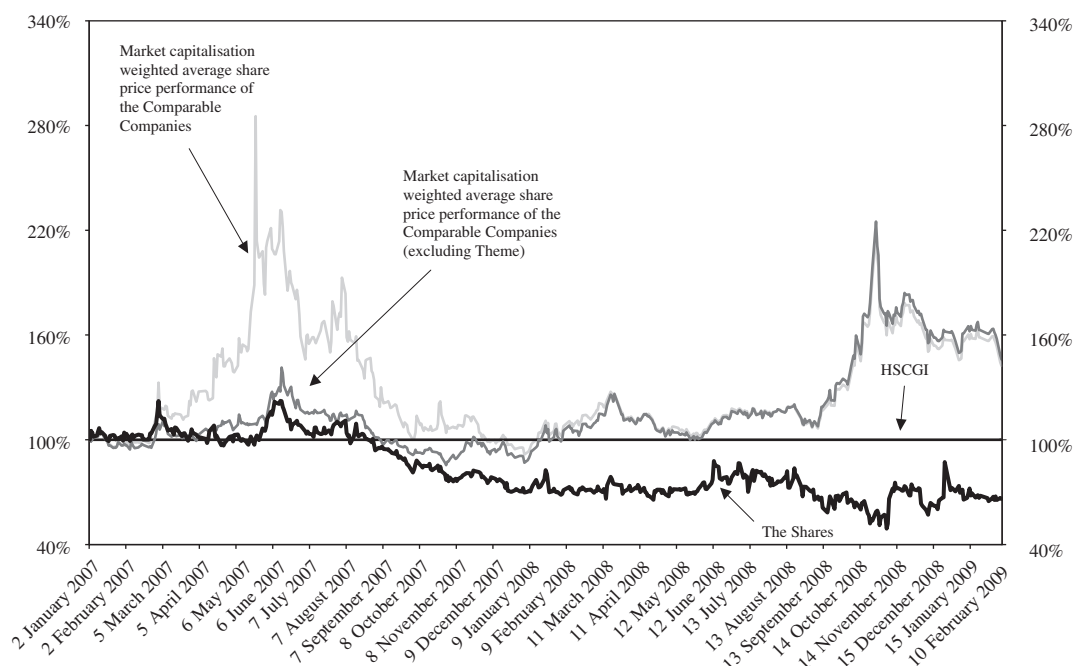
(i) Relative share price performance

To evaluate how the Share price performed relative to the Comparable Companies, we have compared the Share price performance of the Company and the Comparable Companies relative to the Hang Seng Composite Industry Index for consumer goods (the “HSCGI”) for the period from 1 January 2007 up to and including the Last Trading Date (the “Review Period”). Given that an industry benchmark is not readily available for the garment retail industry, we consider it appropriate to use the HSCGI as the benchmark for comparison as it measures the share price performance in the consumer goods industry, which is the broader industry group in which the garment retail industry falls under.

However, as we note that both the share price and trading volume of Theme had suddenly surged in 2007, which might have been caused by market speculation that Theme might be involved in a possible corporate transaction and as we further note that Theme had also made numerous unusual price and volume movements announcements throughout 2007, we are of the view that Theme should be excluded from our analysis. As such, we have compared the closing prices of the Shares relative to the HSCGI against the average closing prices of all of the Comparable Companies excluding Theme weighted by market capitalisation relative to the HSCGI, as presented in the following Chart 2. Please note that we have also presented the average closing prices of all of the Comparable Companies including Theme relative to the HSCGI for reference only.

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Chart 2: Performance of the closing prices of the Shares and shares of the Comparable Companies relative to the HSCGI



Source: Bloomberg as at the Latest Practicable Date.

As illustrated in Chart 2 above, the closing prices of the Shares had generally underperformed both the HSCGI and the Comparable Companies excluding Theme for most of the Review Period.

(ii) PER

In our opinion, valuations of consumer retail stocks, which the Company is classified under, are more appropriately assessed by reference to their profitability rather than to their assets. Accordingly, the Company should be valued on an earnings multiple basis. As such, we are of the view that PER and EV/EBITDA would be appropriate valuation parameters for the Company.

However, although the Company made a net profit in its latest financial year ended 31 July 2008, as shown in Table 1 above, the Group made an underlying loss after taking into account the fair value gain on investment property and the gain on disposal of investment property. Given the circumstances, we are of the opinion that PER analysis would not be meaningful in this instance.

(iii) EV/EBITDA

Our analysis of the EV/EBITDA of the Group as implied by the Proposal against that of the Group without the Proposal and that of the Comparable Companies is set forth in the following table.

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Table 3: EV/EBITDA of the Comparable Companies, the Group and the Group as implied by the Proposal

Company	EV/EBITDA based on <i>Notes 1, 2 and 3</i>	
	Latest financial year <i>Times</i>	Preceding financial year <i>Times</i>
Bauhaus	2.3	2.7
Bossini	0.8	1.1
ENM	n.m.	n.m.
Joyce	n.m.	n.m.
Moiselle	1.5	1.2
Theme	n.m.	3.4
Veeko	1.9	3.7
Simple average	1.6	2.4
Minimum	0.8	1.1
Maximum	2.3	3.7
The Group as at Last Trading Date ^{<i>Note 4</i>}	16.8	0.6
The Group under the Proposal ^{<i>Note 5</i>}	100.9	3.6

Notes:

1. EV/EBITDA is calculated by dividing the enterprise value ("EV") by the earnings before interest, taxation, depreciation and amortisation ("EBITDA").
2. EV is calculated as market capitalisation as at Latest Practicable Date plus borrowings and overdraft minus cash from the latest financial statement.
3. EBITDA is calculated as net profit plus interest, taxation, depreciation and amortisation for the respective financial years. Gain or loss from disposal of property, plant and equipment and investment property has been excluded.
4. In calculating EV/EBITDA of the Group as at the Last Trading Date, market capitalisation as at the Last Trading Date has been used in calculating EV.
5. In calculating EV/EBITDA of the Group under the Proposal, the Cancellation Consideration has been used to compute market capitalisation in arriving at the EV.
6. Where EV or EBITDA is negative, EV/EBITDA is denoted as not meaningful ("n.m.").

Sources: Bloomberg as at the Latest Practicable Date, the respective financial statements of the Comparable Companies, the 2007 Annual Report and the 2008 Annual Report.

As presented in Table 3 above, the Cancellation Consideration represents an EV/EBITDA of 100.9 times for the Group based on the Group's EBITDA in its latest financial year, which is significantly higher than the range of EV/EBITDA exhibited by the Comparable Companies from 0.8 times to 2.3 times as at the Latest Practicable Date. Without the Proposal, the Group also has an EV/EBITDA that is higher than the Comparable Companies based on its latest financial year

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results. We note that the significantly higher EV/EBITDA in both instances is due to the weaker performance of the Group's garment business in its latest financial year as mentioned in the above section headed "Financial performance of the Group". As such, we have also conducted an EV/EBITDA analysis based on the preceding financial year for reference and we found that the EV/EBITDA of the Group without the Proposal is significantly lower than the range of the EV/EBITDA of the Comparable Companies; whereas the EV/EBITDA of the Group based on the Cancellation Consideration is higher than the average EV/EBITDA of the Comparable Companies. As such, we consider that the valuation to the Group offered by the Proposal assessed on an EV/EBITDA basis is favourable to the Independent Shareholders.

(iv) Liquidity

In order to assess the liquidity of the Shares compared to its peers in the same industry, we have compared the average monthly trading volume of the Shares as a percentage of the total issued Shares with that of the Comparable Companies as set out in Table 4 below.

As noted in the above section headed "Relative share price performance", Theme had experienced exceptionally high trading volume in 2007 due to market speculation that Theme might be involved in a possible corporate transaction and that it had also made numerous unusual price and volume movements announcements throughout 2007. As such, we have excluded Theme in our liquidity analysis and the presentation of Theme is for reference only.

Table 4: Average monthly trading volume as a percentage of total issued shares of the Company and the Comparable Companies

Company	Simple average for		
	2007 %	2008 %	The Review Period %
Bauhaus	2.97	2.27	2.52
Bossini	3.16	0.65	1.84
ENM	12.79	0.71	6.49
Joyce	3.35	0.72	1.98
Moiselle	2.18	1.05	1.56
Theme	52.23	1.53	25.81
Veeko	6.91	0.89	3.75
Minimum (excluding Theme)	2.18	0.65	1.56
Maximum (excluding Theme)	12.79	2.27	6.49
The Company	4.36	0.84	2.53

Source: Bloomberg as at the Latest Practicable Date.

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As exhibited in Table 4 the average monthly trading volume of the shares of the Comparable Companies excluding Theme based on their respective numbers of total issued shares ranged from 2.18% to 12.79% for 2007; from 0.65% to 2.27% for 2008; and from 1.56% to 6.49% for the Review Period. In comparison, the average monthly trading volume of the Shares based on the number of total issued Shares for 2007 and the Review Period were 4.36% and 2.53%, respectively, both of which are within the respective ranges exhibited by the Comparable Companies excluding Theme; whilst the average monthly trading volume of the Shares for 2008 of 0.84% sits towards the lower end of the range.

In addition, we have also analysed the liquidity of the Shares by comparing their monthly trading volume as a percentage of Shares held in public hands, as represented by the number of free float Shares as defined by Bloomberg, against that of the Comparable Companies. Again, we have excluded Theme from our analysis for the same reasons given above and its presentation is for reference only. The results of our analysis are shown in Table 5 below.

Table 5: Average monthly trading volume as a percentage of free float shares of the Company and the Comparable Companies

Company	Simple average for		
	2007 %	2008 %	The Review Period %
Bauhaus	9.15	7.30	7.90
Bossini	10.36	2.14	6.05
ENM	19.57	1.08	9.93
Joyce	6.10	2.77	4.37
Moiselle	6.65	2.90	4.64
Theme	155.07	3.91	76.34
Veeko	21.11	2.62	11.42
Minimum (excluding Theme)	6.10	1.08	4.37
Maximum (excluding Theme)	21.11	7.30	11.42
The Company	8.90	1.72	5.17

Source: Bloomberg as at the Latest Practicable Date.

As illustrated in Table 5 above, the average monthly trading volume of the Comparable Companies excluding Theme evaluated with reference to their respective numbers of free float shares ranged from 6.10% to 21.11% for 2007; from 1.08% to 7.30% for 2008; and from 4.37% to 11.42% for the Review Period. On the other hand, the average monthly trading volume of the Shares based on the number of free float Shares for 2007, 2008 and the Review Period were 8.90%, 1.72% and 5.17%, respectively, all of which are at the lower end of the respective ranges.

LETTER FROM PLATINUM

As such, based on our above analysis, we are of the view that the trading volume of the Shares has generally been low, which would render any substantial disposal of the Shares on the open market difficult, as there may be insufficient amount of liquidity to absorb any disposal of a high volume. In addition, any substantial disposal of the Shares on the open market may have a negative impact on the Share price. Therefore, we consider that the Proposal provides an opportunity to the Independent Shareholders to realise their investments in the Company via another means other than by the open market at a price fixed at the Cancellation Consideration regardless of the size of their disposal.

(v) PBR

Our next analysis involves the comparison of the PBR of the Group as implied by the Proposal with that of the Comparable Companies and the results of our analysis are set forth in the table below.

Table 6: PBR of the Comparable Companies and the Group as implied by the Proposal

Company	PBR as at the Latest Practicable Date <i>Note</i> Times
Bauhaus	0.85
Bossini	0.55
ENM	0.32
Joyce	0.39
Moiselle	0.47
Theme	0.29
Veeko	0.37
Simple average	0.46
Minimum	0.29
Maximum	0.85
The Group under the Proposal	0.41

Note: PBR is calculated by dividing market capitalisation as at the Latest Practicable Date by net asset value after excluding minority interest from the latest financial statement.

Sources: Bloomberg as at the Latest Practicable Date, the respective financial statements of the Comparable Companies and the 2008 Annual Report.

According to Table 6 above, the PBR of the Comparable Companies as at the Latest Practicable Date ranged from 0.29 times to 0.85 times. We note that the PBR of the Group as implied by the Proposal of 0.41 times is below the average, but nevertheless within the range, of the PBR of the Comparable Companies.

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(vi) **Dividend policy**

In order to assess the dividend policy of the Company, we have also reviewed and compared the historical annual dividend payout ratios and dividend yields of the Group with that of the Comparable Companies. Details of our analysis are set out in the following table.

Table 7: Historical annual dividend payout ratios and dividend yields of the Company and the Comparable Companies

Company	Dividend payout ratio		Dividend yield	
	<i>Notes 1 and 3</i>		<i>Notes 2 and 3</i>	
	Latest financial year	Preceding financial year	Latest financial year	Preceding financial year
	%	%	%	%
Bauhaus	40.2	34.2	9.3	6.7
Bossini	25.0	n/a	4.2	n/a
ENM	n/a	n/a	n/a	n/a
Joyce	43.7	44.6	12.8	12.8
Moiselle	59.3	61.3	16.7	25.8
Theme	n/a	n/a	n/a	n/a
Veeko	26.0	44.9	13.9	11.4
Simple average	38.8	46.2	11.4	14.2
Minimum	25.0	34.2	4.2	6.7
Maximum	59.3	61.3	16.7	25.8
The Group as at Last Trading Date	87.3	28.6	14.4	4.8
The Group under the Proposal	n/a	n/a	7.5	2.5

Notes:

- Dividend payout ratio is calculated by dividing annual dividend by annual profit attributable to shareholders.*
- Dividend yield is calculated by dividing annual dividend by market capitalisation as at the Last Trading Date for the Company and by market capitalisation as at the Latest Practicable Date for the Comparable Companies.*
- Special and scrip dividends are excluded.*
- Where no dividend had been paid, dividend payout ratio and dividend yield are denoted as not applicable ("n/a").*

Sources: Bloomberg as at the Latest Practicable Date, the respective financial statements of the Comparable Companies, the 2007 Annual Report and the 2008 Annual Report.

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As demonstrated in Table 7, we note that the dividend payout ratio of the Group in its latest financial year is above the range of that of the Comparable Companies; whilst its dividend payout ratio in its preceding financial year is below the range of that of the Comparable Companies. In addition, we further note that the dividend yield of the Group in its latest financial year is above the average of that of the Comparable Companies; whilst that in its preceding financial year is below the range of that of the Comparable Companies. Furthermore, the dividend yields of the Group under the Proposal in its latest financial year and its preceding financial year are lower than the average and below the range of that of the Comparable Companies, respectively.

5. Comparable transactions analysis

In our assessment of the fairness and reasonableness of the Proposal, we have reviewed a number of comparable transactions (the “Comparable Transactions”) selected according to the following criteria:

- (i) privatisation of a company listed on the Stock Exchange regardless of whether the privatisation was successful or not and completed or not;
- (ii) the privatisation was not triggered by a mandatory general offer as defined under the Takeovers Code;
- (iii) circular for the privatisation was despatched during the period from 1 January 2008 up to and including the Latest Practicable Date; and
- (iv) the consideration for the privatisation was or will be purely in cash.

The list of Comparable Transactions is an exhaustive list of transactions selected based on our above-mentioned criteria. Our analysis of the Comparable Transactions and their comparisons to the Proposal is summarised in the following table.

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Table 8: Comparable Transactions analysis

Company	Announcement date	Premium/(discount) of the offer price or cancellation consideration over/(to) the average closing price for			
		One-month period ended on the Last trading date %	Three-month period ended on the respective last trading date %	Six-month period ended on the respective last trading date %	
Pacific Century Premium Developments Limited	13 February 2008	26.11	23.38	16.33	15.38
Mirabell International Holdings Limited	28 February 2008	15.16	15.61	18.34	19.52
PCCW Limited	4 November 2008	55.17	36.36	2.04	(2.81)
Natural Beauty Bio-Technology Limited	25 November 2008	(15.49)	(7.69)	(20.53)	(26.38)
Shaw Brothers (Hong Kong) Limited	22 December 2008	64.21	73.38	53.98	(4.51)
Nam Tai Electronic & Electrical Products Limited	24 February 2009	163.16	134.38	134.38	105.48
Minimum		(15.49)	(7.69)	(20.53)	(26.38)
Maximum		163.16	134.38	134.38	105.48
The Proposal	17 February 2009	92.31	90.48	90.48	73.91

Source: The respective circulars for the Comparable Transactions.

As shown in Table 8 above, the premiums which the Cancellation Consideration represent over the closing Share price on the Last Trading Date, the average closing Share prices for the one-month, three-month and six-month period ended on the Last Trading Date are at the high end of the respective ranges of the Comparable Transactions.

6. Other considerations

(i) Impact of the KT Property on the PBR

In view of the expected completion of the redevelopment of the KT Property in 2009, we consider it appropriate to examine the possible consequential effect it may have on the net asset value of the Group.

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On 4 March 2006, the Company and Lai Sun Garment (International) Limited (“LSG”) jointly announced the entering into a conditional development agreement (the “Development Agreement”) to jointly redevelop a then existing building on the KT Property into a new building (the “New Building”). According to a valuation report annexed to the Company’s circular dated 29 April 2006 in relation to the redevelopment of the KT Property, the market value of the KT Property assuming the New Building was fully completed and available for immediate occupation with vacant possession as at 24 February 2006 was HK\$1,282 million. After taking into account the total gross floor area which the Company would own upon completion of the redevelopment and its usage, the Company’s proportionate share of the market value of the KT Property was approximately HK\$571 million as at 24 February 2006.

As the fair value of the KT Property is not reliably determinable for the duration of the redevelopment, the KT Property was stated in the accounts of the Group at its previous carrying amount of approximately HK\$350 million in the 2008 Annual Report. According to the Property Valuation, the Company’s proportionate share of the market value of the KT Property assuming the New Building was fully completed and available for immediate occupation with vacant possession was approximately HK\$619 million as at 28 February 2009, representing an increase of approximately 8.41% from the valuation as at 24 February 2006.

Although upon completion of the redevelopment of the KT Property, the Company’s proportionate share of its fair value would be booked into the accounts of the Group, we note that the consequential impact it may have on the net asset value of the Group and the timing of such impact, if any, cannot be ascertained with certainty at present until the completion of the redevelopment. In this regard, we further note that the Property Valuation is only an estimated market value of the KT Property as at 28 February 2009 on the assumption that the New Building was fully completed and available for immediate occupation with vacant possession and accordingly, may deviate from the fair value adjustment that may ultimately be booked into the accounts of the Group upon completion of the redevelopment.

Additionally, we note that information regarding the fact that the KT Property would be redeveloped and the estimated valuation of the KT Property upon completion has been disseminated to the public as well as the Shareholders for approximately 3 years and that the Company has not announced any significant change in the redevelopment plan since it was first announced in March 2006. Accordingly, we are of the view that the redevelopment should have already been factored into the Share price.

(ii) **Market factors**

As noted in the above section headed “Liquidity”, trading volume of the Shares has generally been low in recent years. In addition, as noted in the Explanatory Statement, the Shares had been traded at a significant discount to the audited consolidated net asset value of the Company during the twelve-month period ended on the Last Trading Date.

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In light of the uncertainties in the Hong Kong stock market which has experienced exceptional volatility and declined to a significant extent in recent times as well as the deterioration in the Hong Kong economy as a whole amid the global financial crisis, market sentiment for equity investments may remain negative in the near term. Moreover, there is no certainty as to whether the Hong Kong stock market and economy will deteriorate further or when they will recover.

(iii) Lack of use of equity capital market

Although the Company has long been listed on the Stock Exchange since 1971, it has not utilised its listing status to raise any funds from the equity capital market for more than a decade since its issue of 102,800,000 Shares in 1992; whilst on the other hand, the Company has continued to be burdened with the costs and the incurring of other resources in association with maintaining its listing status. As such, we are of the view that such costs burden on the Company to keep its listing status is not warranted.

(iv) Opportunity to realise investments

As noted in the Explanatory Statement, the Group faces challenging and difficult outlook for its garment and related accessories business, there is currently limited opportunity for the Independent Shareholders to divest their investment in the Company due to the low liquidity of the Shares, as well as the Shares had consistently traded below the audited consolidated net asset value of the Company during the twelve-month period ended on the Last Trading Date. We concur with the Directors' view that the Proposal provides an opportunity for the Independent Shareholders to realise their investment in the Company for cash during current poor market conditions at a significant premium over the prevailing Share price immediately prior to the Joint Announcement and that the Proposal allows the Independent Shareholders the opportunity to invest such cash in other investment opportunities that they may consider more attractive.

(v) Chances of receiving another offer unlikely

We note that as at the Last Practicable Date, the Offeror and parties acting in concert with it were interested in 318,212,000 Shares, representing approximately 51.56% of the issued Share capital of the Company. As such, it is unlikely that the Independent Shareholders will receive another offer or proposal from a third party without the support of the Offeror and parties acting in concert with it. We note that at present, there has been no indication that the Offeror and parties acting in concert with it have any intention to sell their interests in the Company. Moreover, as stated in the letter from the Board in the Scheme Document, the Offeror and Mr. Lam have indicated that if the Scheme is withdrawn, not approved or lapses, the Offeror, Mr. Lam and parties acting in concert with any of them will not make another proposal to privatise the Company or any offer for the securities of the Company under the Takeovers Code until after 31 December 2018, but even after such date, they are not obliged to make such proposal. In any event, we note that if the Proposal is not approved by the Independent Shareholders and therefore

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lapses, the Offeror and parties acting in concert with it are precluded by the Takeovers Code to announce another offer or possible offer for the Company within 12 months from the date on which the Proposal lapses, except with the consent of Executive as defined under the Takeovers Code (the “Executive”).

7. Option Offer

Under the Proposal, the Offeror proposes to make the Option Offer to the Independent Optionholder to cancel his Options in consideration of the Option Payment, which is of a nominal value. As stated in the Explanatory Statement, as at the Latest Practicable Date, the Independent Optionholder held 2,250,000 Options. As the Cancellation Consideration is below the exercise price of all of these Options, the Independent Optionholder would not be able to profit by exercising his Options at the relevant exercise price to convert them into Shares and then taking the Cancellation Consideration. As the exercise price of the Options is fixed and in the lack of an increase in the Cancellation Consideration, the Independent Optionholder would not be able to take advantage of the Scheme under the Proposal. Furthermore, we note that the Options were all out-of-money as at the Latest Practicable Date.

MARKET CONDITION

Notwithstanding our recommendation set out below, the recent exceptional volatility and decline in the Hong Kong stock market as well as the impact of the global financial crisis may cause the Independent Shareholders to reconsider their exposure to equity investments generally and result in a decision to divest themselves of their shareholding in the Company.

Those Independent Shareholders who wish to realise part or all of their Shares should have regard to the market price of the Shares before the Scheme becomes effective and consider selling their Shares in the open market rather than accepting the Proposal. Although the Independent Shareholders who sell at below the Cancellation Consideration would run the risk of foregoing the full Cancellation Consideration should the Scheme become effective, the Independent Shareholders may prefer the certainty of selling in the market.

Should such Independent Shareholders find that they cannot sell their Shares in the market at their target price due to the poor liquidity of the Shares, they may consider accepting the Proposal. We draw the Independent Shareholders’ attention to the Conditions and remind them that if the Conditions are not satisfied, the Proposal will lapse.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

1. the unsatisfactory performance of the Company’s main line business of retail sale of garment and related accessories;
2. the grim outlook of the retail industry in Hong Kong and the PRC;

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3. the Cancellation Consideration of HK\$0.40 falls within the trading range of the Shares in the 5-year period prior to and including the Last Trading Date and that the Shares had been consistently trading below the Cancellation Consideration since 17 June 2008;
4. in comparison with its peers as represented by the Comparable Companies or industry benchmark:
 - (i) the closing prices of the Shares had generally underperformed both the HSCGI and the Comparable Companies for most of the Review Period;
 - (ii) PER analysis would not be meaningful due to the underlying loss of the Group in its latest financial year;
 - (iii) the Cancellation Consideration represents an EV/EBITDA for the Group that is significantly higher than the range of EV/EBITDA exhibited by the Comparable Companies;
 - (iv) the trading volume of the Shares has generally been low;
 - (v) the PBR of the Group as implied by the Proposal is below the average, but nevertheless within the range, of the PBR of the Comparable Companies; and
 - (vi) the dividend payout ratios and dividend yields of the Company assessed against those of the Comparable Companies fluctuate from year to year and does not portray a clear trend;
5. the premiums offered by the Cancellation Consideration over the historical Share prices are at the high end of the respective ranges of the Comparable Transactions at varying intervals of time;
6. Other considerations including:
 - (i) the consequential impact which the KT Property redevelopment may have on the net asset value of the Group and the timing of such impact are uncertain at present and we consider that the redevelopment should have already been factored into the Share price since the redevelopment itself and its estimated valuation upon completion had been announced to the public as well as the Shareholders for approximately 3 years in the absence of any announcement by the Company of any significant change in the redevelopment plan since it was first announced;
 - (ii) market sentiment for equity investments may remain negative in the near term and it is uncertain whether the Hong Kong stock market and economy will deteriorate further or when they will recover;
 - (iii) the Company has not accessed the equity capital market for more than a decade whilst having to incur costs to maintain its listing status which we are of the view is unjustified;

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- (iv) the Proposal provides an opportunity for the Independent Shareholders to realise their investment in the Company for cash during current poor market conditions at a significant premium over the prevailing Share price immediately prior to the Joint Announcement and that the Proposal allows the Independent Shareholders the opportunity to invest such cash in other investment opportunities that they may consider more attractive;
- (v) the chances of receiving another offer is remote without the support of the Offeror and parties acting in concert with it; whilst if the Proposal lapses, the Offeror and parties acting in concert with it are precluded from announcing another offer for 12 months except with the consent of the Executive; and
- (vi) the Independent Optionholder would not be able to profit from the Scheme under the Proposal; whilst his Options were all out-of-money as at the Latest Practicable Date.

we conclude that when the above factors are evaluated on an overall basis, the Proposal is fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept and vote in favour of the Proposal and the Independent Optionholder to accept the Option Offer.

Yours faithfully,

For and on behalf of

Platinum Securities Company Limited

Larry Chan
Director

Lenny Li
Assistant Director

EXPLANATORY STATEMENT

This explanatory statement constitutes the statement required under Section 166A of the Companies Ordinance.

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES

INTRODUCTION

On 17 February 2009, the Company and the Offeror jointly announced that on 13 February 2009, the Offeror requested the Board to put forward the Proposal to the Independent Shareholders regarding the proposed privatisation of the Company by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Following a meeting of the Board on 13 February 2009, the Board has agreed to put forward the Proposal for consideration by the Independent Shareholders.

The attention of the Shareholders is drawn to the fact that the Offeror and Mr. Lam have indicated that if the Scheme is withdrawn, not approved or lapses, the Offeror, Mr. Lam and parties acting in concert with any of them will not make another proposal to privatise the Company or any offer for the securities of the Company under the Takeovers Code until after 31 December 2018, but even after such date, they are not obliged to make such proposal.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal, which is to be implemented by the Scheme and to give the Shareholders other relevant information.

The attention of the Shareholders is drawn to the following sections of this document: (a) the letter from the Board set out on pages 9 to 14 of this document; (b) the letter from the Independent Board Committee set out on pages 15 to 16 of this document, (c) the letter from Platinum set out on pages 17 to 38 of this document; and (d) the Scheme set out on pages 133 to 140 of this document.

TERMS OF THE PROPOSAL

Scheme Shares

The Scheme provides that the Scheme Shares will be cancelled and, in consideration thereof, holders of the Scheme Shares will be entitled to receive the Cancellation Consideration of HK\$0.40 in cash for each Scheme Share.

As at the Latest Practicable Date, there were 617,127,130 Shares in issue. The Offeror and Mr. Lam, who is deemed to be a party acting in concert with the Offeror under the Takeovers Code, were collectively interested in 318,212,000 Shares, representing approximately 51.56% of the issued share capital of the Company and the Independent Shareholders were interested in 298,915,130 Shares, representing approximately 48.44% of the issued share capital of the Company. The Shares owned by the Offeror and Mr. Lam will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. Further, only Independent Shareholders may vote at the Court Meeting.

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The Offeror has confirmed that as at the Latest Practicable Date, Mr. Lam is the only party having a beneficial interest in the Shares and deemed to be acting in concert with the Offeror under the Takeovers Code.

Options

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making the Option Offer to the Independent Optionholder to cancel his Options in consideration of the Option Payment. The Option Offer is open for acceptance by the Independent Optionholder from the date of despatch of this document, which includes the Option Offer Form, up to 4:30 p.m. on Tuesday, 19 May 2009 or such later date and time as may be notified to the Independent Optionholder by the Offeror. The validity of any agreement constituted by any acceptance by the Independent Optionholder of the Option Offer is subject to the Scheme becoming effective in accordance with its terms. Normally, the amount of the cash offer to cancel an Option will be determined as being the “see-through price” in accordance with the Takeovers Code and represents the difference between the Cancellation Consideration per Scheme Share payable under the Scheme and the exercise price per Share payable on exercise of an Option. As the exercise price of all the Options is above the Cancellation Consideration, the Option Payment offered by the Offeror for the cancellation of the Options held by the Independent Optionholder is nominal.

Any acceptance by the Independent Optionholder of the Option Offer will only result in a binding agreement for the cancellation of his Options if the Scheme becomes effective. The attention of the Independent Optionholder is drawn to the sections headed “Option Offer” and “Provisions under the Share Option Scheme in the context of the Option Offer” in the Explanatory Statement on pages 49 to 51 of this document.

As at the Latest Practicable Date, there were a total of 14,837,000 Options outstanding comprising of 12,587,000 Options with an exercise price of HK\$0.68 per Share and 2,250,000 Options with an exercise price of HK\$0.72 per Share. The Options consist of (i) 617,000 Options granted to Mr. Lam; (ii) 6,170,000 Options granted to Ms. Lam Wai Shan, Vanessa, an executive Director and deputy chief executive officer of the Company, and daughter of Mr. Lam; (iii) 5,800,000 Options granted to Ms. Lam Wai Kei, Vicky, an employee of the Group and daughter of Mr. Lam; and (iv) 2,250,000 Options granted to the Independent Optionholder.

As at the Latest Practicable Date, other than the Options granted to Mr. Lam, Ms. Lam Wai Shan, Vanessa and Ms. Lam Wai Kei, Vicky, there were no options, warrants or convertible securities in respect of the Shares held by the Offeror and parties acting in concert with it nor were there outstanding derivatives in respect of the Shares entered into by the Offeror and parties acting in concert with it.

As at the Latest Practicable Date, other than the Shares and the Options, the Company does not have any shares, warrants, options, derivatives, convertible securities or other securities in issue.

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UNDERTAKINGS

Undertakings from the Company

The Company has undertaken to the Offeror that it will not grant any further Options under the Share Option Scheme unless and until after the Proposal is withdrawn, not approved or lapses.

Undertakings from the Offeror and Mr. Lam

Each of the Offeror and Mr. Lam has undertaken that in relation to the 314,800,000 Shares and the 3,412,000 Shares respectively in which it/he is beneficially interested, each of such Shares shall remain so registered and beneficially interested in the manner as set out in paragraph (D) of the Scheme until the date on which the Scheme becomes effective, is withdrawn or lapses.

Undertakings from the Relevant Optionholders

Each of the Relevant Optionholders has undertaken to the Company not to exercise their respective Options until:

- (a) if the Scheme is effective, the Effective Date, at which time such Options shall lapse automatically pursuant to the terms of the Share Option Scheme; or
- (b) if the Proposal is withdrawn, not approved or lapses, the date of such withdrawal, non-approval or lapse.

COMPARISON OF VALUE

The Cancellation Consideration represents:

- a premium of approximately 92.3% over the closing price of HK\$0.208 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 95.1% over the average closing price of HK\$0.205 per Share based on the daily closing prices as quoted on the Stock Exchange for the one-month period ended on the Last Trading Date;
- a premium of approximately 95.1% over the average closing price of HK\$0.205 per Share based on the daily closing prices as quoted on the Stock Exchange for the three-month period ended on the Last Trading Date;
- a premium of approximately 83.5% over the average closing price of HK\$0.218 per Share based on the daily closing prices as quoted on the Stock Exchange for the six-month period ended on the Last Trading Date;
- a premium of approximately 1.3% over the closing price of the Shares of HK\$0.395 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

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- a discount of approximately 59.3% to the audited consolidated net asset value per Share of approximately HK\$0.983 as at 31 July 2008.

A summary of the closing prices of the Shares as quoted on the Stock Exchange (i) on the last trading day of each of the calendar months during the Relevant Period; (ii) on the Last Trading Date; and (iii) on the Latest Practicable Date is set out in Appendix III to this document.

FINANCIAL RESOURCES

Total consideration

As at the Latest Practicable Date, there were 617,127,130 Shares in issue and the Independent Shareholders were interested in 298,915,130 Shares, representing approximately 48.44% of the issued share capital of the Company.

At the Cancellation Consideration, the Proposal values the entire issued share capital of the Company at approximately HK\$246,851,000.

Assuming none of the Options are exercised before the effective date of the Scheme, the maximum amount of cash consideration required to effect the Proposal will be approximately HK\$119,566,000. Assuming all the Options (other than those granted to the Relevant Optionholders) are exercised before the effective date of the Scheme, the maximum amount of cash consideration required to effect the Proposal will be approximately HK\$120,466,000. The Offeror will finance the cash consideration payable under the Scheme and the Option Offer from bank borrowings.

Confirmation of financial resources

Access Capital, the Offeror's financial adviser, is satisfied that sufficient financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on the Company, the Offeror, Mr. Lam and all holders of the Scheme Shares, subject to the fulfillment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of a poll) by a majority in number of the Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting, provided that the Scheme is not disapproved by the Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by all of the Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares, the reduction of the authorised and issued share capital of the Company and the issue of the same number of Shares as is equal to the number of Scheme Shares cancelled) by not less than three-fourths in value of the votes cast by the Shareholders present and voting in person or by proxy at the EGM;

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- (c) the sanction of the Scheme (with or without modifications) and confirmation of the reduction of the share capital of the Company involved in the Scheme by the High Court;
- (d) an office copy of the order of the High Court, together with a minute containing the particulars required by Section 61 of the Companies Ordinance, being registered by the Registrar of Companies in Hong Kong;
- (e) all Authorisations in connection with the Proposal having been obtained or made from, with or by (as the case may be) the relevant authorities in Hong Kong or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any relevant authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective; and
- (g) all necessary consents which may be required under any existing contractual obligations of the Company being obtained.

The Offeror reserves the right to waive conditions (e), (f) and/or (g), either in whole or in part, and whether generally or in respect of any particular matter. Conditions (a) to (d) cannot be waived in any event. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before 31 August 2009 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), failing which the Proposal will lapse. If the Proposal is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

Assuming that the above Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on Wednesday, 20 May 2009. Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme by the High Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Shareholders and potential investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable. Thus, the Proposal may or may not become effective. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

REASONS FOR AND BENEFITS OF THE PROPOSAL

As mentioned in the Company's annual report for the year ended 31 July 2008, despite the increase in turnover and gross profit, the escalating retail rental expenses had adversely affected the performance of the Group's garment and related accessories business. A segment loss of approximately

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HK\$35.4 million was recorded for the garment and related accessories business. In view of the prevailing uncertainties in the local and PRC retail market due to the recent global financial turmoil, the Company expects that the outlook for this line of business will be more challenging and difficult in coming years.

The Directors note that the trading volume of the Shares on the Stock Exchange in recent years has generally been low. The average daily traded volume of the Shares over the twelve-month period prior to the Joint Announcement was approximately 333,900 Shares, representing approximately 0.05% of the issued share capital of the Company as at the Announcement Date. Given the low liquidity of the Shares traded on the Stock Exchange, the sole director of the Offeror and the Directors believe that there is currently limited opportunity for the Independent Shareholders to divest their investment in the Company. The Directors also note that the Shares had been traded at a significant discount to the audited consolidated net asset value of the Company (approximately HK\$0.983 per Share as at 31 July 2008) during the twelve-month period ended on the Last Trading Date with the highest closing price of the Shares as quoted on the Stock Exchange of HK\$0.425 per Share on 16 June 2008.

In view of the above, the Directors consider that the Proposal provides an opportunity for the Independent Shareholders to realise their investment in the Company for cash during current poor market conditions at a significant premium over the prevailing Share price. Furthermore, the Proposal allows the Independent Shareholders the opportunity to invest such cash in other investment opportunities that they may consider more attractive.

INFORMATION ON THE COMPANY

The Company is a company incorporated in Hong Kong with limited liability, the shares of which have been listed on the Stock Exchange since 1971. The principal business activities of the Group are the manufacture and sale of garments and property investment.

An extract of the audited consolidated results of the Company for the financial years ended 31 July 2007 and 2008 is set out below:

	For the year ended	
	31 July 2008	31 July 2007
	HK\$'000	HK\$'000
Revenue	450,007	441,155
Fair value gain on investment property	10,000	7,000
Gain on disposal of investment property	30,000	—
Profit before taxation	10,770	23,139
Profit after taxation	21,216	21,559
Profit attributable to Shareholders	21,216	21,559
Dividends — proposed final dividend	18,514	6,171
Basic earnings per Share (<i>HK cents</i>)	3.44	3.49

EXPLANATORY STATEMENT

The audited consolidated net assets attributable to the Shareholders were approximately HK\$606 million as at 31 July 2008 and approximately HK\$572 million as at 31 July 2007.

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands with limited liability. Mr. Lam is the sole director and sole shareholder of the Offeror. The Offeror is an investment holding company.

FUTURE PLANS FOR THE GROUP

It is the intention of the Offeror to continue the existing businesses of the Group upon the successful privatisation of the Company and the withdrawal of the listing of the Shares on the Stock Exchange. The Offeror does not have any intention to introduce any significant changes to the existing operations and management of the Group including any redeployment of the fixed assets of the Company outside its ordinary course of business, nor does it have any intention to make any changes to the continued employment of the Group's employees. On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group.

The Board notes that the Offeror has stated its intention in respect of the businesses, assets and employees of the Group upon the successful privatisation of the Company as described above in this section, and welcomes such intention.

The Board also notes that property prices and shop rentals have stood high in the past which has resulted in high operating costs and eroded the net profit of the Company. Now, in times of economic downturn and given the difficulties faced by banks and financial institutions, it will be a challenging task to raise funds through traditional bank financing or in the capital markets. The Company intends to preserve cash to take opportunities that may arise to acquire retail shops at affordable prices, and also to meet the forthcoming difficult environments. Accordingly, the Company is seeking every means to achieve such purpose, including considering the possibility of not paying dividend in the coming two to three years.

FUTURE AGREEMENTS OR ARRANGMENTS

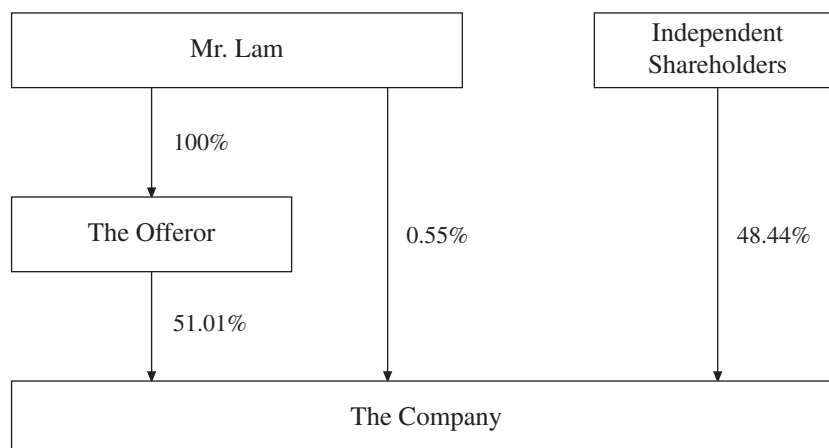
Under a loan agreement entered into between the Offeror and The Bank of East Asia, Limited (the "Bank") in relation to the banking facilities extended by the Bank to the Offeror to finance the Offeror's acquisition of 298,915,130 Shares pursuant to the Proposal ("Acquired Shares"), the Offeror is required to charge all the Acquired Shares in favour of the Bank upon completion of the Proposal. Save for this, no Shares acquired by the Offeror pursuant to the Proposal will be transferred, charged or pledged to any other person, and there is no agreement, arrangement or understanding to do the same, nor are there any related charges or pledges which may result in the transfer of voting rights attached to the Shares so acquired by the Offeror.

EXPLANATORY STATEMENT

EFFECTS OF THE SCHEME

Shareholding structure of the Company

An overview of the shareholding structure of the Company as at the Latest Practicable Date is set out below:



The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal (Note 2)	
	Number of Shares	%	Number of Shares	%
The Offeror and Mr. Lam (Note 1)	318,212,000	51.56	617,127,130	100.00
Independent Shareholders	<u>298,915,130</u>	<u>48.44</u>	<u>—</u>	<u>—</u>
Total	<u><u>617,127,130</u></u>	<u><u>100.00</u></u>	<u><u>617,127,130</u></u>	<u><u>100.00</u></u>

Notes:

1. Among the 318,212,000 Shares, 314,800,000 Shares are held directly by the Offeror and 3,412,000 Shares are held by Mr. Lam, who is deemed to be a party acting in concert with the Offeror under the Takeovers Code.
2. Under the Scheme, the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Forthwith upon such reduction, the share capital of the Company will be increased to its former amount by the issue of the same number of Shares as is equal to the Scheme Shares cancelled and the credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the 298,915,130 New Shares to be issued, credited as fully paid, to the Offeror or as the Offeror may direct.

EXPLANATORY STATEMENT

As at the Latest Practicable Date, save for the Options set out on page 120 of this document, the Company did not have in issue any outstanding options, warrants, derivatives or convertible securities.

As at the Latest Practicable Date, Access Capital did not hold any voting rights or other rights over Shares.

Material interests of the Directors and effects of the Scheme on such interests

Details of the interest of the Directors in Shares as at the Latest Practicable Date are set out on page 121 of this document.

As at the Latest Practicable Date, the Offeror was beneficially interested in 314,800,000 Shares, representing approximately 51.01% of the issued share capital of the Company. The Offeror is wholly-owned by Mr. Lam, the chairman and chief executive officer of the Company and an executive Director. As at the Latest Practicable Date, Mr. Lam, who is deemed to be a party acting in concert with the Offeror under the Takeovers Code, held 3,412,000 Shares, representing approximately 0.55% of the issued share capital of the Company. The Shares beneficially owned by the Offeror and Mr. Lam will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting.

The Option Offer will not be available to the Options held by Mr. Lam and Ms. Lam Wai Shan, Vanessa, an executive Director and deputy chief executive officer of the Company, and daughter of Mr. Lam. Details of such Options are disclosed on page 120 of this document.

Binding effect of the Scheme

Notwithstanding that there may be a dissenting minority, if the Scheme is approved at the Court Meeting in accordance with the requirements of the Companies Ordinance and the Takeovers Code and at the EGM, and is sanctioned by the High Court and the other Conditions are either fulfilled or waived, as applicable, then the Scheme will become binding on the Company, the Offeror, Mr. Lam and the Independent Shareholders.

If the Scheme becomes effective:

- (i) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
- (ii) subject to and forthwith upon the said reduction of share capital taking effect, the authorised share capital of the Company shall be increased to its former amount by the creation of such number of New Shares as is equal to the number of Scheme Shares cancelled; and
- (iii) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up the New Shares in full at par and those New Shares shall be allotted and issued, credited as fully paid, to the Offeror.

EXPLANATORY STATEMENT

WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange under Rule 6.15 of the Listing Rules with effect from the date on which the Scheme becomes effective. Holders of the Scheme Shares will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Monday, 11 May 2009, and the listing of the Shares on the Stock Exchange is expected to be withdrawn after the close of business on Wednesday, 20 May 2009.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is withdrawn, not approved or lapses.

OVERSEAS INDEPENDENT SHAREHOLDERS

The making of the Proposal to and acceptance of the Proposal by Independent Shareholders not resident in Hong Kong may be subject to the laws of other jurisdictions. Such persons should observe and inform themselves appropriately of any applicable legal or regulatory requirements in their respective jurisdictions. It is the responsibility of overseas Independent Shareholders (and others having an interest in the Scheme Shares) who wish to accept the Proposal to satisfy themselves as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

THE COURT MEETING AND THE EGM

In accordance with the direction of the High Court, the Court Meeting has been convened to be held on Thursday, 23 April 2009 for the purposes of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). The Scheme is subject to approval by a majority in number of the Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting, provided that the Scheme is not disapproved by the Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by all of the Independent Shareholders.

The EGM will be held immediately following the Court Meeting for the purposes of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme by the Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme at the EGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths in value of the votes cast by the Shareholders present and voting in person or by proxy at the EGM.

EXPLANATORY STATEMENT

Notices of the Court Meeting and the EGM are set out on pages 141 to 144 of this document. The Court Meeting and the EGM will be held on Thursday, 23 April 2009 at the respective times specified in such notices in Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong.

PROCEDURES FOR DEMANDING A POLL AT THE EGM

Pursuant to Article 74 of the Company's Articles of Association, save that a poll is required by the Listing Rules or any applicable laws, at any general meeting of the Company a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) any Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (iv) a Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The special resolution to be proposed at the EGM will, in any event, be taken on a poll. The resolution to be proposed at the Court Meeting will also be taken on a poll.

OPTION OFFER

Pursuant to Rule 13 of the Takeovers Code, the Offeror is also making the Option Offer to the Independent Optionholder to cancel his Options in consideration of the Option Payment. The Option Offer is open for acceptance by the Independent Optionholder from the date of despatch of this document, which includes the Option Offer Form, up to 4:30 p.m. on Tuesday, 19 May 2009 or such later date and time as may be notified to the Independent Optionholder by the Offeror. The validity of any agreement constituted by any acceptance by the Independent Optionholder of the Option Offer is subject to the Scheme becoming effective in accordance with its terms. Normally, the amount of the cash offer to cancel an Option will be determined as being the "see-through price" in accordance with

EXPLANATORY STATEMENT

the Takeovers Code and represents the difference between the Cancellation Consideration per Scheme Share payable under the Scheme and the exercise price per Share payable on exercise of an Option. As the exercise price of all the Options is above the Cancellation Consideration, the Option Payment offered by the Offeror for the cancellation of the Options held by Independent Optionholder is nominal.

After the Scheme becomes effective, the Offeror will pay the Option Payment to the Independent Optionholder provided that he has not exercised his Options and has accepted the Option Offer in respect of his Options by returning a duly completed and executed Option Offer Form in accordance with the instructions contained in the section headed “Actions to be taken” on pages 51 to 53 of this document and in the Option Offer Form.

As at the Latest Practicable Date, the Independent Optionholder held 2,250,000 Options. The Company has undertaken to the Offeror that it will not grant any further Options under the Share Option Scheme unless the Proposal is withdrawn, not approved or lapses.

Not later than ten days after the Effective Date, the Offeror shall send or cause to be sent to the Independent Optionholder, if he has accepted the Option Offer, cheques for payment of the Option Payment. On the basis that the Scheme becomes effective on or about Wednesday, 20 May 2009, cheques for payment of the Option Payment under the Option Offer are expected to be despatched on or before Friday, 29 May 2009.

Settlement of the Option Payment to which the Independent Optionholder accepting the Option Offer is entitled will be implemented in full in accordance with the terms of the Option Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against the Independent Optionholder.

PROVISIONS UNDER THE SHARE OPTION SCHEME IN THE CONTEXT OF THE OPTION OFFER

If the Scheme becomes effective

Pursuant to paragraph 6.3 of the Share Option Scheme, the grantee of an Option may exercise that Option at any time during the option period i.e. the period within which the Board determines that the Options Shares must be taken up under the Option, provided that if a general offer is made to all shareholders of the Company (or all shareholders other than the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, the grantee of an Option shall be entitled to exercise the Option (to the extent which has become exercisable and not already exercised) in whole or in part at any time before the close of such offer (or any revised offer).

As the exercise price of the Options held by the Independent Optionholder of HK\$0.72 per Option Share is above the Cancellation Consideration, the Independent Optionholder has indicated to the Company that he will not exercise his Options unless the Proposal is withdrawn, not approved or lapses (but for the avoidance of doubt, if the Proposal is withdrawn, not approved or lapses, he may but will not be obliged to exercise his Options). In view of this, the abovementioned provisions of the Share Option Scheme have no practical application.

EXPLANATORY STATEMENT

On the Effective Date, all Options granted under the Share Option Scheme which remain outstanding will lapse automatically, to the extent not already exercised, pursuant to the provisions of paragraph 7.1 of the Share Option Scheme.

If the Scheme does not become effective

If the Scheme is not sanctioned by the High Court or does not become effective for any other reason, all unexercised Options granted under the Share Option Scheme will remain unaffected and will be exercisable during the relevant exercise periods in accordance with the terms of the Share Option Scheme and the terms of grant of the relevant Options.

ACTIONS TO BE TAKEN

Shareholders

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM are enclosed with this document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the respective instructions printed thereon, and to deposit them with the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged so as to reach the above address not later than 10:00 a.m. on Tuesday, 21 April 2009 but if it is not so lodged, it may be handed to the Chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the EGM should be lodged so as to reach the above address not later than 10:30 a.m. on Tuesday, 21 April 2009. A vote given in accordance with the terms of an instrument of proxy or power of attorney shall be valid notwithstanding the revocation of the proxy or the power of attorney or other authority under which the proxy was executed provided no intimation in writing of such revocation shall have been received (i) in the case of the Court Meeting, by the company secretary of the Company or the Chairman of the Court Meeting on the day and at the place, but before commencement, of the Court Meeting or adjourned Court Meeting at which the proxy is used; and (ii) in the case of the EGM, by the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at least 2 hours before the commencement of the EGM or the adjourned EGM at which the proxy is used.

For the purposes of determining (i) the Independent Shareholders who are entitled to attend and vote at the Court Meeting and (ii) the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 20 April 2009 to Thursday, 23 April 2009 (both dates inclusive). During such period no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting or the EGM, all transfers accompanied by the relevant share certificates (if applicable) must be lodged with the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 17 April 2009.

Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme by the High Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

EXPLANATORY STATEMENT

Shareholders who hold their Shares through trust or CCASS

No person shall be recognised by the Company as holding any Shares on trust. Any beneficial owner of Shares (“**Beneficial Owner**”) whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party (“**Registered Owner**”) should contact the Registered Owner to give instructions to and/or to make arrangements with the Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM. A Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM in accordance with the Articles of Association of the Company and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the Articles of Association of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (“**Investor Participant**”), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant (“**Other CCASS Participant**”) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

Optionholders

This document is sent to the Independent Optionholder together with an Option Offer Form. If the Independent Optionholder wishes to accept the Option Offer, he must complete and return the duly completed and executed Option Offer Form together with the relevant certificate(s) or other document(s) evidencing the grant of the Options to him, and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof), for the aggregate number of Options in respect of which the Independent Optionholder wishes to accept the Option Offer by 4:30 p.m. on Tuesday, 19 May 2009 or such later date and time as may be notified to the Independent Optionholder by the Offeror. The completed and executed Option Offer Form and accompanying documents must be delivered to the Company at its registered office at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong, marked “Crocodile Option Offer” on the envelope, for the attention of the company secretary of the Company so as to reach the Company no later than 4:30 p.m., on Tuesday, 19 May 2009 or such later date and time as may be notified to the Independent Optionholder by the Offeror. No acknowledgement of receipt of any Option Offer Form or other document evidencing the grant of the Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will

EXPLANATORY STATEMENT

be given. The consideration payable for the Option Offer is the Option Payment. If the Independent Optionholder does not lodge the duly completed and executed Option Offer Form at or before 4:30 p.m. on Tuesday, 19 May 2009 or such later date and time as may be notified to the Independent Optionholder by the Offeror, he will not receive the Option Payment.

The Option Offer is made conditional upon the Scheme becoming effective. The Independent Optionholder should also note the instructions printed on the Option Offer Form.

The Independent Optionholder should be aware that, as described in the section above headed “Provisions under the Share Option Scheme in the context of the Option Offer”, after the Scheme becomes effective, the Options will no longer be convertible into Shares and will lapse.

REGISTRATION AND PAYMENT OF THE CANCELLATION CONSIDERATION

If the Scheme becomes effective, cheques for the Cancellation Consideration will be despatched to the Independent Shareholders whose names appear on the register of members of the Company at the Record Time as soon as possible but in any event within ten days after the Effective Date. For the purpose of establishing the entitlements of the Independent Shareholders under the Scheme, it is proposed that the register of the members of the Company be closed from Friday, 15 May 2009 to Tuesday, 19 May 2009 (both dates inclusive), or such other period as may be notified to the Independent Shareholders by way of an announcement. The Independent Shareholders and/or their respective successors in title should ensure that all transfers of their Shares accompanied by the relevant share certificates (if applicable) are registered or lodged for registration in their names or in the names of their nominees with the registrar of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong by 4:30 p.m. on Thursday, 14 May 2009.

Assuming that the Scheme becomes effective on Wednesday, 20 May 2009, cheques for cash entitlements to the Cancellation Consideration are expected to be despatched to the Independent Shareholders and/or their respective successors on or before Friday, 29 May 2009.

As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheques which have not then been cashed or have been returned uncashed, and shall place all monies represented thereby in an account in the Offeror’s name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums to persons who satisfy the Offeror that they are entitled thereto and that the cheques of which they are payees have not been cashed. Payments made by the Offeror shall include any interest accrued on the sums to which the respective persons are entitled under the Scheme subject, if applicable, to the deduction of any interest or withholding tax or any other deductions required by law. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall thereafter retain the balance (if any) of the sums then standing to the credit of the account in its name, including accrued interest (if any) subject, if applicable, to the deduction of any interest or withholding tax or any expenses incurred in effecting the transfer.

EXPLANATORY STATEMENT

In the absence of any specific instructions to the contrary received in writing by the Company's share registrar Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, cheques will be despatched to the persons entitled thereto at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither the Company nor the Offeror will be liable for any loss or delay in transmission. Payment of the Cancellation Consideration will be effected by cheques and implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any Independent Shareholder.

TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Independent Shareholders and the Independent Optionholder are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Proposal. It is emphasized that none of the Company, the Offeror or any of their respective directors or any persons involved in the Proposal accepts responsibility for any tax effects or liabilities of any person or persons as a result of the implementation of the Proposal.

EXPENSES OF THE SCHEME

The expenses of the Scheme incurred or to be incurred by the Company, which primarily consist of fees for financial advisers, legal advisers, printing and other related charges, are expected to amount to approximately HK\$4 million. In the event that the Scheme becomes effective, the Company will bear its own expenses incurred in connection with the Scheme. In the event that the Scheme is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with the Scheme will be borne by the Offeror.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee on pages 15 to 16 of this document and the letter from Platinum to the Independent Board Committee on pages 17 to 38 of this document, which set out their respective recommendations in relation to the Proposal and the principal factors considered by them in arriving at their recommendations.

ADDITIONAL INFORMATION

Additional information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

I. THREE-YEAR FINANCIAL SUMMARY

Set out below is the financial information of the Group for each of the three years ended 31 July 2008, 2007 and 2006, which are extracted from the audited consolidated financial statements of the Company for the years then ended. The auditor's reports in respect of the Company's audited consolidated financial statements for each of the three years ended 31 July 2008, 2007 and 2006 did not contain any qualifications.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue	450,007	441,155	385,809
Fair value gains on investment properties	10,000	7,000	146,593
Gain on disposal of investment property	30,000	—	—
Profit before tax	10,770	23,139	150,550
Tax credit/(charge)	10,446	(1,580)	(40,531)
Profit for the year attributable to equity holders of the Company	21,216	21,559	110,019
Dividend			
Proposed final dividend	18,514	6,171	—
Dividend per share (HK cents)	3.00	1.00	—
Earnings per share attributable to equity holders of the Company			
— basic (HK cents)	3.44	3.49	17.83

Note: There is no minority interests, extraordinary or exceptional items.

II. AUDITED FINANCIAL INFORMATION

Set out below are the audited financial statements together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 July 2008.

Consolidated Balance Sheet

At 31 July 2008

(Expressed in Hong Kong dollars)

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	31,489	27,944
Investment properties	16	349,628	439,628
Construction in progress	17	3,326	—
Land lease prepayments	18	15,524	14,443
Rental and utility deposits		20,271	19,231
Deposits for land lease prepayments	19	<u>32,539</u>	<u>29,685</u>
		<u>452,777</u>	<u>530,931</u>
Current assets			
Inventories	21	81,344	82,546
Trade receivables, deposits and prepayments	22	71,917	52,648
Amounts due from related companies	35(c)	845	710
Cash and cash equivalents	23	<u>149,371</u>	<u>58,676</u>
		303,477	194,580
Assets classified as held for sale	24	<u>4,857</u>	<u>—</u>
		<u>308,334</u>	<u>194,580</u>
Current liabilities			
Short-term borrowings	25	44,664	30,197
Trade and other payables	26	70,339	61,367
Amounts due to related companies	35(c)	200	76
Tax payable		<u>3,285</u>	<u>9,498</u>
		<u>118,488</u>	<u>101,138</u>
Net current assets		<u>189,846</u>	<u>93,442</u>
Total assets less current liabilities		<u>642,623</u>	<u>624,373</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current liabilities			
Provision for long service payments	27	1,192	1,989
Deferred tax liabilities	28	<u>35,016</u>	<u>50,046</u>
		<u>36,208</u>	<u>52,035</u>
Net assets		<u><u>606,415</u></u>	<u><u>572,338</u></u>
EQUITY			
Issued capital	30	154,282	154,282
Reserves	31	292,486	331,369
Retained profits		<u>159,647</u>	<u>86,687</u>
Total equity		<u><u>606,415</u></u>	<u><u>572,338</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Company Balance Sheet**

At 31 July 2008

(Expressed in Hong Kong dollars)

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	21,651	9,674
Interests in subsidiaries	20	387,579	509,251
Rental and utility deposits		<u>19,272</u>	<u>18,411</u>
		<u>428,502</u>	<u>537,336</u>
Current assets			
Inventories	21	51,967	40,628
Trade receivables, deposits and prepayments	22	27,893	17,431
Amounts due from related companies	35(c)	845	710
Cash and cash equivalents	23	<u>83,547</u>	<u>11,842</u>
		<u>164,252</u>	<u>70,611</u>
Current liabilities			
Short-term borrowings	25	44,664	29,827
Trade and other payables	26	29,166	25,901
Amounts due to related companies	35(c)	<u>57</u>	<u>76</u>
		<u>73,887</u>	<u>55,804</u>
Net current assets		<u>90,365</u>	<u>14,807</u>
Total assets less current liabilities		<u>518,867</u>	<u>552,143</u>
Non-current liabilities			
Provision for long service payments	27	<u>1,192</u>	<u>1,989</u>
Net assets		<u><u>517,675</u></u>	<u><u>550,154</u></u>
EQUITY			
Issued capital	30	154,282	154,282
Reserves	31	165,927	164,957
Retained profits		<u>197,466</u>	<u>230,915</u>
Total equity		<u><u>517,675</u></u>	<u><u>550,154</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Income Statement**

For the year ended 31 July 2008

(Expressed in Hong Kong dollars)

		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	6	450,007	441,155
Cost of sales		<u>(175,515)</u>	<u>(170,441)</u>
Gross profit		274,492	270,714
Fair value gain on investment property	16	10,000	7,000
Gain on disposal of investment property		30,000	—
Other income and gains	6	49,612	42,415
Selling and distribution costs		(284,095)	(243,048)
Administrative expenses		(57,389)	(50,640)
Other operating expenses, net	7	(10,194)	(1,568)
Finance costs	11	<u>(1,656)</u>	<u>(1,734)</u>
Profit before tax	7	10,770	23,139
Tax	12	<u>10,446</u>	<u>(1,580)</u>
Profit for the year	13	<u>21,216</u>	<u>21,559</u>
Dividend — proposed final dividend	8	<u>18,514</u>	<u>6,171</u>
Earnings per share			
— basic (HK cents)	14	<u>3.44</u>	<u>3.49</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Statement of Changes in Equity**

For the year ended 31 July 2008

(Expressed in Hong Kong dollars)

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 August 2006	154,282	164,921	—	283	172,110	60,023	551,619
Exchange differences on translating foreign operations recognised directly in equity	—	—	—	6,924	—	—	6,924
Deferred tax unprovided in respect of revaluation of properties in 2001 or before	—	—	—	—	(7,800)	—	(7,800)
Transfer to profit or loss on disposal of investment property	—	—	—	—	(5,105)	5,105	—
Total income and expenses recognised directly in equity	—	—	—	6,924	(12,905)	5,105	(876)
Profit for the year	—	—	—	—	—	21,559	21,559
Total recognised income and expenses for the year	—	—	—	6,924	(12,905)	26,664	20,683
Recognition of equity-settled share-based payment	—	—	36	—	—	—	36
At 31 July 2007	154,282	164,921*	36*	7,207*	159,205*	86,687	572,338

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 July 2007	154,282	164,921*	36*	7,207*	159,205*	86,687	572,338
Exchange differences on translating foreign operations recognised directly in equity	—	—	—	10,262	—	—	10,262
Reversal of deferred tax liabilities directly in equity on disposal of investment property	—	—	—	—	7,800	—	7,800
Transfer to profit or loss on disposal of investment property	—	—	—	—	(57,915)	57,915	—
Total income and expenses recognised directly in equity	—	—	—	10,262	(50,115)	57,915	18,062
Profit for the year	—	—	—	—	—	21,216	21,216
Total recognised income and expenses for the year	—	—	—	10,262	(50,115)	79,131	39,278
Recognition of equity-settled share-based payment	—	—	970	—	—	—	970
Dividend paid	—	—	—	—	—	(6,171)	(6,171)
At 31 July 2008	<u>154,282</u>	<u>164,921*</u>	<u>1,006*</u>	<u>17,469*</u>	<u>109,090*</u>	<u>159,647</u>	<u>606,415</u>

* These reserve accounts comprise the consolidated reserves of HK\$292,486,000 (2007: HK\$331,369,000) in the consolidated balance sheet.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Cash Flow Statement**

For the year ended 31 July 2008

(Expressed in Hong Kong dollars)

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Operating activities		
Profit before tax	10,770	23,139
Adjustments for:		
Finance costs	1,656	1,734
Interest income	(521)	(622)
Share-based payment expenses	970	36
Depreciation of property, plant and equipment	14,160	14,592
Amortisation of land lease prepayments	290	82
Loss on disposal/write-off of property, plant and equipment, net	4,533	82
Provision for bad and doubtful debts, net	171	301
Bad debts written off	267	21
Gain on disposal of investment property	(30,000)	—
Provision for royalty receivable	3,743	—
Provision/(write-back of provision) for slow-moving inventories, net	4,450	(2,316)
Write-back of long outstanding trade payables	(1,788)	(843)
Fair value gain on investment property	<u>(10,000)</u>	<u>(7,000)</u>
Operating cash flows before working capital changes	(1,299)	29,206
(Increase)/decrease in inventories	(3,248)	4,102
Increase in trade receivables, deposits and prepayments	(24,490)	(18,321)
Increase/(decrease) in trade and other payables	10,760	(16,889)
Movements in balances with related companies	(11)	535
Decrease in provision for long service payments	(797)	(1,857)
Exchange differences on working capital	<u>(11)</u>	<u>700</u>
Cash used for operations	(19,096)	(2,524)
Dividend paid	(6,171)	—
Interest paid	(1,656)	(1,734)
Tax paid	<u>(2,997)</u>	<u>(6,295)</u>
Net cash used in operating activities	<u>(29,920)</u>	<u>(10,553)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Investing activities		
Interest received	521	622
Purchases of property, plant and equipment	(26,187)	(11,220)
Payments for land lease prepayments	—	(8,911)
Proceeds from disposal of investment property	130,000	12,000
Proceeds from disposal of property, plant and equipment	38	—
Payments for construction in progress	<u>(3,326)</u>	<u>—</u>
Net cash generated from/(used in) investing activities	<u>101,046</u>	<u>(7,509)</u>
Financing activities		
New bank loans	19,100	5,000
Repayment of bank loans	(25,000)	(4,250)
Movements in trust receipt loans	<u>20,737</u>	<u>(6,852)</u>
Net cash generated from/(used in) financing activities	<u>14,837</u>	<u>(6,102)</u>
Net increase/(decrease) in cash and cash equivalents	85,963	(24,164)
Cash and cash equivalents at beginning of year	58,306	78,713
Effect of foreign exchange rate changes	<u>5,102</u>	<u>3,757</u>
Cash and cash equivalents at end of year	<u><u>149,371</u></u>	<u><u>58,306</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	79,365	58,676
Non-pledged time deposits with original maturity of less than 1 month when acquired	70,006	—
Bank overdrafts	<u>—</u>	<u>(370)</u>
	<u><u>149,371</u></u>	<u><u>58,306</u></u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. CORPORATE INFORMATION

Crocodile Garments Limited (the “Company”) is a company incorporated in Hong Kong with limited liability. The registered office of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Group was involved in the manufacture and sale of garments and property investment and letting.

In the opinion of the directors of the Company (the “Directors”), Rich Promise Limited, a company incorporated in the British Virgin Islands, is considered as the parent and ultimate holding company of the Group.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies.

The impact of the adoption of HKFRS 7, *Financial Instruments: Disclosures* and HKAS 1 (Amendment), *Capital Disclosures* has been to expand the disclosures provided in these financial statements regarding the Group’s financial instruments and management of capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	1 January 2009
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets	1 July 2008
HKFRS 2 (Amendment)	Share-based payment — vesting conditions and cancellation	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) — Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
HK(IFRIC) — Int 15	Agreements for the construction of real estate	1 January 2009
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation	1 October 2008

The directors of the Company have considered these standards or interpretations and anticipate that these standards or interpretations will have no material impact on the results of operations and financial position of the Group in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with HKFRSs and accounting principles generally accepted in Hong Kong. The financial statements also comply with the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

(b) Basis of preparation of financial statements

They have been prepared under the historical cost convention, except for certain investment properties which have been measured at fair value as further explained in Note 4(b)(i).

These financial statements are presented in Hong Kong dollars (“HK\$”) except otherwise indicated.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All significant intercompany transactions and balances within the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

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

(d) Subsidiaries

A subsidiary is an enterprise in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another enterprise.

The results of subsidiaries are included in the Company’s income statement to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

(e) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture’s operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as a subsidiary when the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

(f) Property, plant and equipment and depreciation

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

The cost of an item of property, plant and equipment comprises its purchase price, any directly attributable costs of bringing the asset to its working condition and location for its intended use and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the items of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	2% - 4.5%
Plant and machinery	10%
Furniture and fixtures, including leasehold improvements	10% to 20% or over the lease terms
Computer equipment	20%
Motor vehicles	20%

Upon a transfer of an asset to investment properties, a valuation is performed to determine the fair value of the asset to be transferred. Any revaluation surplus/deficit so arising, being the difference between the valuation and the net carrying value of the asset at the date of transfer, is credited/charged to the asset revaluation reserve of the related asset. The remaining asset revaluation reserve attached to that asset, if any, is frozen and remains as an asset revaluation reserve until that asset is sold.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(g) Impairment of assets (other than financial assets)

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount

is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined on an individual asset basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(h) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rentals or for capital appreciation or both, and which include those existing investment properties being redeveloped by the Group for continued future use. Such properties are not depreciated, and are measured initially at cost including all transaction costs and, after initial recognition, carried at fair values, being their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the fair values of investment properties are recognised in the income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of an investment property, calculated as the differences between the net disposal proceeds and the carrying amount of the investment property, is recognised in the income statement in the period of the retirement or disposal.

(i) Non-current assets held for sale

Non-current assets and disposed groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost includes the cost of materials computed using the first-in, first-out method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of production overheads. Net realisable value is determined by reference either to the net sale proceeds of items in the ordinary course of business subsequent to the balance sheet date, or to management estimates based on the prevailing market conditions.

(k) Financial instruments

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

i) Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

For certain categories of financial asset, such as trade and other receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. In determining whether there is any impairment for a portfolio of receivables, the Group considers past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and other observable changes in national or local economic conditions that correlate with default on receivables. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effect interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

ii) ***Financial liabilities and equity***

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

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including trade and other payables and borrowings, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(l) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(m) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment. Deposits for prepaid land lease payments represent the deposits paid for acquisition of the land pending registration of title with the relevant authority. No recognition of the land lease payments is made until the registration is completed.

(n) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(p) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 3(n) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(q) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(r) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(s) Employee benefits

(i) *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

(iii) *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees of subsidiaries operating in Mainland China are members of the Central Pension Scheme operated by the People's Republic of China (the "PRC") government. The subsidiaries are required to contribute a certain percentage of their covered payroll costs to the Central Pension Scheme to fund the benefits. The only obligation of the Group with respect to the Central Pension Scheme is to make the required contributions, which are charged to the income statement in the year to which they relate.

(iv) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve in equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(t) *Borrowing costs*

Borrowing costs represented interest on bank overdrafts and short-term borrowings. Borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

(u) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) rental income, on the straight-line basis over the terms of the lease;
- (iii) royalty income, when the right to receive the income has been established and on the straight-line basis over the terms of the relevant agreement;
- (iv) Compensation income, on the straight-line basis over the terms of the relevant agreement; and
- (v) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(v) Related parties

A party is related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries:
 - (i) controls, is controlled by, or is under common control with, the Group;
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) the party is a joint venture in which the entity is a venturer;
- (c) the party is an associate;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d) above;
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e) above; or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**(a) Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) *Impairment of assets*

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

(ii) *Income tax*

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors is also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which the estimated tax losses can be utilised.

(iii) *Provision for obsolete and slow-moving inventories*

The Group's inventories are stated at the lower of cost and net realisable value. The Group makes provisions based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories are reviewed annually for obsolescence provisions, if appropriate.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) *Estimation of fair value of investment properties*

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, management determines the amount within a range of reasonable fair value estimates. In making such estimation, management considers information from current prices in an active market for properties of a different nature, condition or location. This conclusion is supported by an independent professional valuer who was engaged by the Group to perform a valuation on the Group's investment properties.

(ii) *Impairment testing of assets*

Management determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(iii) *Income tax*

The carrying amounts of deferred tax assets and related financial models and budgets are reviewed by management at each balance sheet date. To the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses carried forward, the asset balance will be reduced and charged to the income statement.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the garment and related accessories segment engages in the manufacture and sale of garments and related accessories; and
- (b) property investment segment invests in land and buildings for their rental income potential.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(a) Business segments**

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 July 2008 and 2007.

	Garment and related accessories		Property investment		Consolidated	
	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue						
Sales to/income from external customers	447,416	437,649	2,591	3,506	450,007	441,155
Other revenue	<u>40,571</u>	<u>33,269</u>	<u>8,520</u>	<u>8,524</u>	<u>49,091</u>	<u>41,793</u>
Total	<u>487,987</u>	<u>470,918</u>	<u>11,111</u>	<u>12,030</u>	<u>499,098</u>	<u>482,948</u>
Segment results	<u>(35,432)</u>	<u>6,846</u>	<u>47,354</u>	<u>17,423</u>	11,922	24,269
Unallocated corporate income and expenses					<u>(17)</u>	<u>(18)</u>
Interest income					11,905	24,251
Finance costs					<u>(1,656)</u>	<u>(1,734)</u>
Profit before tax					10,770	23,139
Tax					<u>10,446</u>	<u>(1,580)</u>
Profit for the year					<u>21,216</u>	<u>21,559</u>

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	Garment and related accessories		Property investment		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities						
Segment assets	260,852	225,132	350,888	441,703	611,740	666,835
Unallocated assets					149,371	58,676
Total assets					<u>761,111</u>	<u>725,511</u>
Segment liabilities	70,957	62,419	774	1,011	71,731	63,430
Unallocated liabilities					82,965	89,743
Total liabilities					<u>154,696</u>	<u>153,173</u>
Other segment information:						
Depreciation of property, plant and equipment	13,982	14,413	178	179	14,160	14,592
Amortisation of land lease prepayments	290	82	—	—	290	82
Provision for bad and doubtful debts	171	301	—	—	171	301
Provision/(write-back of provision) for slow-moving inventories, net	4,450	(2,316)	—	—	4,450	(2,316)
Capital expenditure	29,513	25,459	—	7	29,513	25,466
Loss on disposal/write-off of property, plant and equipment, net	4,136	66	397	16	4,533	82
Provision for royalty receivable	3,743	—	—	—	3,743	—
Write-back of long outstanding trade payables	(1,788)	(843)	—	—	(1,788)	(843)
Bad debts written off	267	21	—	—	267	21
Gain on disposal of investment property	—	—	(30,000)	—	(30,000)	—
Fair value gain on investment property	<u>—</u>	<u>—</u>	<u>(10,000)</u>	<u>(7,000)</u>	<u>(10,000)</u>	<u>(7,000)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(b) Geographical segments**

The following table presents revenue, certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 July 2008 and 2007.

	Hong Kong		Mainland China		Consolidated	
	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue						
Sales to/income from						
external customers	286,164	283,036	163,843	158,119	450,007	441,155
Other revenue	<u>9,914</u>	<u>8,743</u>	<u>39,177</u>	<u>33,050</u>	<u>49,091</u>	<u>41,793</u>
Total	<u>296,078</u>	<u>291,779</u>	<u>203,020</u>	<u>191,169</u>	<u>499,098</u>	<u>482,948</u>
Other segment information:						
Segment assets	472,269	532,542	139,471	134,293	611,740	666,835
Unallocated assets					<u>149,371</u>	<u>58,676</u>
Total assets					<u>761,111</u>	<u>725,511</u>
Capital expenditure	<u>22,097</u>	<u>3,898</u>	<u>7,416</u>	<u>21,568</u>	<u>29,513</u>	<u>25,466</u>

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods supplied to customers after allowances for returns, trade discounts and value-added tax, and rental income.

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An analysis of revenue, other income and gains is as follows:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Sale of goods	447,416	437,649
Gross rental income	<u>2,591</u>	<u>3,506</u>
	<u>450,007</u>	<u>441,155</u>
Other income		
Royalty income	35,018	28,329
Interest income	521	622
Sale of miscellaneous materials	780	544
Income from a related company for contributing an investment property as security (Note 35 (a)(iv))	8,520	8,520
Others	<u>4,603</u>	<u>4,400</u>
	<u>49,442</u>	<u>42,415</u>
Gains		
Foreign exchange differences, net	<u>170</u>	<u>—</u>
	<u>49,612</u>	<u>42,415</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****7. PROFIT BEFORE TAX**

The Group's profit before tax is arrived at after charging/(crediting):

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	171,065	172,757
Depreciation of property, plant and equipment	14,160	14,592
Amortisation of land lease prepayments (included in administrative expense)	290	82
Auditor's remuneration	800	788
Lease payments in respect of land and buildings:		
Minimum lease payments under operating leases	101,888	91,162
Contingent rents	11,007	9,043
	<u>112,895</u>	<u>100,205</u>
Employee benefits expense (including directors' remuneration - Note 9):		
Wages and salaries	88,213	83,338
Pension scheme contributions	2,636	2,375
Equity-settled share-based payment	970	36
Provision for long service payments	1,249	1,746
	<u>93,068</u>	<u>87,495</u>
Gross rental income	(2,591)	(3,506)
Less: outgoings	<u>241</u>	<u>116</u>
Net rental income	<u>(2,350)</u>	<u>(3,390)</u>
Provision/(write-back of provision) for slow-moving inventories, net (included in cost of sales)	<u>4,450</u>	<u>(2,316)</u>
Other operating expenses, net:		
Severance payments	3,268	1,936
Provision for bad and doubtful debts, net	171	301
Bad debts written off	267	21
Loss on disposal/write-off of property, plant and equipment, net	4,533	82
Provision for royalty receivable	3,743	—
Write-back of long outstanding trade payables	(1,788)	(843)
Exchange loss, net	<u>—</u>	<u>71</u>
	<u>10,194</u>	<u>1,568</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****8. DIVIDEND**

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Final dividend proposed after the balance sheet date of HK 3 cents (2007: HK 1 cent) per ordinary share	<u>18,514</u>	<u>6,171</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Companies Ordinance, is as follows:

	Group			
	Executive directors		Non-executive directors	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	<u>50</u>	<u>45</u>	<u>341</u>	<u>247</u>
Other emoluments:				
Salaries, allowances and benefits in kind	10,004	9,059	—	—
Pension scheme contributions	36	29	—	—
Equity-settled share-based payment	469	20	—	—
Bonuses paid and payable	<u>2,250</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>12,759</u>	<u>9,108</u>	<u>—</u>	<u>—</u>
	<u>12,809</u>	<u>9,153</u>	<u>341</u>	<u>247</u>

Directors' remuneration paid to independent non-executive directors during the year amounted to HK\$180,000 (2007: HK\$165,000).

There was no arrangement under which a director waived or agreed to waive any remuneration or as compensation for loss of office during the year. (2007: Nil)

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The remuneration of each director is set out below:

Name	2008					
	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Equity- settled share- based payment	Bonuses paid and payable	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive directors:</i>						
Lam Kin Ming	10	5,242	—	43	1,930	7,225
Lam Wai Shan, Vanessa	10	2,482	12	426	320	3,250
Lam Kin Ngok, Peter	10	—	—	—	—	10
Lam Kin Hong, Matthew	10	780	12	—	—	802
Cheng Suet Fei, Sophia (Note 1)	10	1,500	12	—	—	1,522
<i>Non-executive directors:</i>						
Tong Ka Wing, Carl (Note 1)	103	—	—	—	—	103
Lam Suk Ying, Diana (Note 4)	58	—	—	—	—	58
<i>Independent non-executive directors:</i>						
Yeung Sui Sang	60	—	—	—	—	60
Wan Yee Hwa, Edward	60	—	—	—	—	60
Chow Bing Chiu	60	—	—	—	—	60
	<u>391</u>	<u>10,004</u>	<u>36</u>	<u>469</u>	<u>2,250</u>	<u>13,150</u>

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Name	2007					Total HK\$'000
	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Equity- settled share- based payment	Bonuses paid and payable	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<i>Executive directors:</i>						
Lam Kin Ming	10	5,085	—	2	—	5,097
Lam Wai Shan, Vanessa	10	2,319	12	18	—	2,359
Lam Kin Ngok, Peter	10	—	—	—	—	10
Lam Kin Hong, Matthew	10	780	12	—	—	802
Cheng Suet Fei, Sophia (Note 1)	5	875	5	—	—	885
<i>Non-executive directors:</i>						
Shiu Kai Wah (Note 2)	4	—	—	—	—	4
Chiu Wai (Note 3)	5	—	—	—	—	5
Tong Ka Wing, Carl (Note 1)	40	—	—	—	—	40
Lam Suk Ying, Diana (Note 4)	33	—	—	—	—	33
<i>Independent non-executive directors:</i>						
Yeung Sui Sang	55	—	—	—	—	55
Wan Yee Hwa, Edward	55	—	—	—	—	55
Chow Bing Chiu	55	—	—	—	—	55
	292	9,059	29	20	—	9,400

Notes:

1. Appointed on 1 February 2007
2. Retired on 22 December 2006
3. Resigned on 1 February 2007
4. Appointed on 22 December 2006

10. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included three (2007: two) directors, details of whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining two (2007: three) non-director, highest paid employees for the year are set out below:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,295	3,614
Pension scheme contributions	24	32
Bonuses paid and payable	—	—
	<u>2,319</u>	<u>3,646</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Group	
	Number of employees	
	2008	2007
Below HK\$1,000,000	1	2
HK\$1,000,001 — HK\$1,500,000	1	—
HK\$1,500,001 — HK\$2,000,000	—	1
	<u>2</u>	<u>3</u>

11. FINANCE COSTS

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within one year	<u>1,656</u>	<u>1,734</u>

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12. TAX

No Hong Kong profits tax has been provided as the Group sustained a tax loss in Hong Kong for the year (2007: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current — Elsewhere	6,283	1,038
Over-provision in prior years (Note)	(9,499)	—
Effect on change in tax rate (Note 28)	(2,122)	—
Deferred — (Note 28)	<u>(5,108)</u>	<u>542</u>
	<u>(10,446)</u>	<u>1,580</u>

Note: During the year, the Company's subsidiary, Crocodile Garments (Zhong Shan) Limited ceased its manufacturing operation and settled its tax payables with the local tax authority. Over provision for income tax in prior years was reversed accordingly.

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates for the places in which the Group is domiciled to the tax position at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

Group — 2008

	Hong Kong		Mainland China		Total	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Profit/(loss) before tax	<u>(3,892)</u>		<u>14,662</u>		<u>10,770</u>	
Tax at the statutory tax rate	(681)	17.5	3,666	25.0*	2,985	27.7
Income not subject to tax	(7,391)	189.9	(503)	(3.4)	(7,894)	(73.3)
Expenses not deductible for tax	1,098	(28.2)	2,014	13.7	3,112	28.9
Increase in unprovided deferred tax assets	7,195	(184.9)	2,099	14.4	9,294	86.2
Tax losses utilised from previous year	(221)	5.7	—	—	(221)	(2.0)
Effect on change in tax rate	(2,122)	54.5	—	—	(2,122)	(19.7)
Over-provision in prior years	<u>(5,108)</u>	<u>131.3</u>	<u>(10,492)</u>	<u>(71.6)</u>	<u>(15,600)</u>	<u>(144.8)</u>
Tax credit at the Group's effective rate	<u>(7,230)</u>	<u>185.8</u>	<u>(3,216)</u>	<u>(21.9)</u>	<u>(10,446)</u>	<u>(97.0)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Group — 2007**

	Hong Kong		Mainland China		Total	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Profit/(loss) before tax	<u>(9,504)</u>		<u>32,643</u>		<u>23,139</u>	
Tax at the statutory tax rate	(1,663)	17.5	8,814	27.0*	7,151	30.9
Income not subject to tax	(1,269)	13.3	(513)	(1.6)	(1,782)	(7.7)
Expenses not deductible for tax	181	(1.9)	627	1.9	808	3.5
Increase/(decrease) in unprovided deferred tax assets	2,995	(31.5)	(1,341)	(4.1)	1,654	7.2
Under/(over) provision in prior years	<u>298</u>	<u>(3.1)</u>	<u>(6,549)</u>	<u>(20.0)</u>	<u>(6,251)</u>	<u>(27.1)</u>
Tax charge at the Group's effective rate	<u>542</u>	<u>(5.7)</u>	<u>1,038</u>	<u>3.2</u>	<u>1,580</u>	<u>6.8</u>

* *The Group's operations in the Coastal Open Economic Zones of Mainland China are entitled to a preferential tax rate of 25% (2007: 27%).*

13. PROFIT FOR THE YEAR

The consolidated profit includes a loss of HK\$27,278,000 (2007: profit of HK\$20,291,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit of the Group for the year of HK\$21,216,000 (2007: HK\$21,559,000) and the number of 617,127,130 ordinary shares in issue throughout the two years.

No diluted earnings per share amount for the years ended 31 July 2008 and 2007 has been presented as the share options outstanding during these two years had an anti-dilutive effect on the basic earnings per share for the years.

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FINANCIAL INFORMATION OF THE GROUP

15. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings* HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures, including leasehold improve- ments HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:						
At 1 August 2006	17,778	18,295	69,618	15,577	7,015	128,283
Additions	493	725	7,980	1,755	267	11,220
Disposals/write-offs	—	(16)	(18,318)	—	—	(18,334)
Exchange realignment	5	165	311	135	34	650
At 31 July 2007	18,276	19,169	59,591	17,467	7,316	121,819
Additions	—	489	24,791	907	—	26,187
Disposals/write-offs	(5,555)	(351)	(26,113)	(194)	—	(32,213)
Assets classified as held for sale (Note 24)	(12,768)	(15,881)	—	—	—	(28,649)
Exchange realignment	47	1,892	2,288	443	236	4,906
At 31 July 2008	—	5,318	60,557	18,623	7,552	92,050
Accumulated depreciation:						
At 1 August 2006	10,950	16,738	54,768	12,036	2,583	97,075
Provided for the year	801	337	10,983	1,305	1,166	14,592
Disposals/write-offs	—	(16)	(18,236)	—	—	(18,252)
Exchange realignment	—	132	262	49	17	460
At 31 July 2007	11,751	17,191	47,777	13,390	3,766	93,875
Provided for the year	824	379	10,385	1,366	1,206	14,160
Disposals/write-offs	(3,750)	(245)	(23,453)	(194)	—	(27,642)
Assets classified as held for sale (Note 24)	(8,826)	(14,966)	—	—	—	(23,792)
Exchange realignment	1	1,667	1,948	193	151	3,960
At 31 July 2008	—	4,026	36,657	14,755	5,123	60,561
Net book value:						
At 31 July 2008	—	1,292	23,900	3,868	2,429	31,489
At 31 July 2007	6,525	1,978	11,814	4,077	3,550	27,944

* Since the land lease prepayments cannot be allocated reliably between the land and buildings elements, the entire lease prepayment is included in the cost of land and buildings as a finance lease in property, plant and equipment. The leasehold land and buildings of the Group are situated in Mainland China and are held under long term leases.

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FINANCIAL INFORMATION OF THE GROUP

Company	Plant and machinery <i>HK\$'000</i>	Furniture and fixtures, including leasehold improve- ments <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 August 2006	—	47,933	12,724	4,754	65,411
Additions	—	3,509	388	—	3,897
Disposals/write-offs	—	(18,175)	—	—	(18,175)
At 31 July 2007	—	33,267	13,112	4,754	51,133
Additions	340	21,163	595	—	22,098
Disposals/write-offs	—	(6,772)	—	—	(6,772)
At 31 July 2008	340	47,658	13,707	4,754	66,459
Accumulated depreciation:					
At 1 August 2006	—	37,012	11,532	1,694	50,238
Provided for the year	—	8,107	453	836	9,396
Disposals/write-offs	—	(18,175)	—	—	(18,175)
At 31 July 2007	—	26,944	11,985	2,530	41,459
Provided for the year	14	8,535	503	836	9,888
Disposals/write-offs	—	(6,539)	—	—	(6,539)
At 31 July 2008	14	28,940	12,488	3,366	44,808
Net book value:					
At 31 July 2008	326	18,718	1,219	1,388	21,651
At 31 July 2007	—	6,323	1,127	2,224	9,674

16. INVESTMENT PROPERTIES

	Group	
	2008	2007
	HK\$'000	HK\$'000
At beginning of year	439,628	444,628
Disposals during the year	(100,000)	(12,000)
Fair value gains	10,000	7,000
At end of year	<u>349,628</u>	<u>439,628</u>
An analysis of investment properties is as follows:		
Investment property, at fair value	—	90,000
Investment property under redevelopment, at cost	<u>349,628</u>	<u>349,628</u>
	<u>349,628</u>	<u>439,628</u>

On 28 February 2006, the Company, Lai Sun Garment (International) Limited (“LSG”) and Unipress Investments Limited (“Unipress”), a wholly-owned subsidiary of LSG entered into a conditional development agreement (the “Development Agreement”) in connection with the redevelopment of an investment property situated at 79 Hoi Yuen Road, Kwun Tong, Kowloon (the “KT Property”). Further details of the redevelopment are included in the Company’s circular dated 29 April 2006.

In 2007, Unipress started to redevelop the KT Property. As the fair value of the KT Property is not reliably determinable for the duration of redevelopment, the KT Property was stated at its previous carrying amount of HK\$349,628,000. As at 31 July 2008, the KT Property was pledged to secure a term loan arrangement, as further detailed in Note 34 to the financial statements.

During the year, the Group disposed of one of its properties to an independent third party for a cash consideration of HK\$130,000,000.

At 31 July 2008, the Group’s investment property is held under medium term leases in Hong Kong.

Further details of the Group’s investment property are disclosed on page 90 of the Annual Report.

17. CONSTRUCTION IN PROGRESS

	Group	
	2008	2007
	HK\$'000	HK\$'000
At beginning of year	—	—
Additions	<u>3,326</u>	<u>—</u>
At end of year	<u>3,326</u>	<u>—</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****18. LAND LEASE PREPAYMENTS**

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	14,443	—
Additions	—	14,246
Amortisation	(290)	(82)
Exchange realignment	<u>1,371</u>	<u>279</u>
At end of year	<u><u>15,524</u></u>	<u><u>14,443</u></u>

Land lease prepayments represent prepaid operating lease payments and their carrying amount is analysed as follows:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
In Mainland China, held on between 10 to 50 years	<u><u>15,524</u></u>	<u><u>14,443</u></u>

19. DEPOSITS FOR LAND LEASE PREPAYMENTS

Deposits for land lease prepayments were for the purchase of land use rights in Mainland China. The Group is in the process of obtaining from the relevant authority the land use right certificates which, in the opinion of the Directors, will be issued in due course. Details of the capital commitments are set out in Note 33 to the financial statements.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	4,050	4,050
Amounts due from subsidiaries	568,478	586,464
Amounts due to subsidiaries	<u>(128,927)</u>	<u>(12,967)</u>
	443,601	577,547
Less: Provision for impairment	<u>(56,022)</u>	<u>(68,296)</u>
	<u><u>387,579</u></u>	<u><u>509,251</u></u>

The amounts with the subsidiaries included in the Company's balance sheet are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts approximate their fair values.

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FINANCIAL INFORMATION OF THE GROUP

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2008	2007	
Crocodile (China) Limited	Hong Kong	HK\$4	100	100	Garment trading
Crocodile Garments (Zhong Shan) Limited*	Mainland China	HK\$17,200,000	90	90	Garment manufacturing and trading
Crocodile KT Investment Limited	Hong Kong	HK\$1	100	100	Property development
Dackart Trading Company Limited	Hong Kong	HK\$20	100	100	Property investment
Zhongshan Crocodile Garments Limited**	Mainland China	HK\$8,000,000	100	100	Property investment
Guangzhou Crocodile Garments Commercial Limited** (廣州鱷魚恤商業有限公司)	Mainland China	HK\$2,500,000	100	—	Garment trading

* *This subsidiary is a joint venture and is indirectly held by the Company. The paid-up capital represents the registered capital in Mainland China. The subsidiary is registered as a sino-foreign owned enterprise under the law of the PRC.*

** *All other subsidiaries established in the PRC are wholly foreign-owned enterprises.*

Except for Crocodile Garments (Zhong Shan) Limited, Crocodile KT Investment Limited ("Crocodile KT"), Zhongshan Crocodile Garments Limited and Guangzhou Crocodile Garments Commercial Limited, all subsidiaries are directly held by the Company.

The above summary lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

21. INVENTORIES

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	2,330	9,649	1,836	1,002
Work in progress	114	1,374	114	—
Finished goods	78,900	71,523	50,017	39,626
	<u>81,344</u>	<u>82,546</u>	<u>51,967</u>	<u>40,628</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****22. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	34,710	31,457	15,879	14,856
Less: Allowance for bad and doubtful debts	<u>(15,353)</u>	<u>(15,083)</u>	<u>(14,092)</u>	<u>(14,083)</u>
	19,357	16,374	1,787	773
Deposits and prepayments	<u>52,560</u>	<u>36,274</u>	<u>26,106</u>	<u>16,658</u>
	<u>71,917</u>	<u>52,648</u>	<u>27,893</u>	<u>17,431</u>

- (i) Other than cash sales made at retail outlets of the Group, trading terms with wholesale customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the term is extended to 90 days. Each customer has a maximum credit limit.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

- (ii) All of the trade receivables (net of allowance for bad and doubtful debts) are expected to be recovered within one year.
- (iii) An aging analysis of the trade receivables as at the balance sheet date, net of provisions, based on the overdue date are as follows:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables:				
Current to 90 days	14,534	12,138	1,552	617
91 to 180 days	3,132	3,363	34	48
181 to 365 days	1,418	873	49	108
Over 365 days	<u>273</u>	<u>—</u>	<u>152</u>	<u>—</u>
	<u>19,357</u>	<u>16,374</u>	<u>1,787</u>	<u>773</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

- (iv) The movements in the allowance for bad and doubtful debts during the year, including both specific and collective loss components, are as follows:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	15,083	14,704	14,083	14,071
Impairment loss recognised	171	301	3	7
Exchange realignments	<u>99</u>	<u>78</u>	<u>6</u>	<u>5</u>
At end of year	<u><u>15,353</u></u>	<u><u>15,083</u></u>	<u><u>14,092</u></u>	<u><u>14,083</u></u>

At 31 July 2008, the Group's trade receivables of HK\$15,353,000 (2007: HK\$15,083,000) were individually determined to be impaired. The individually impaired trade receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts was fully recognised. The Group does not hold any collateral over these balances.

- (v) An aging analysis of trade receivables (net of provision for bad and doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	<u>5,521</u>	<u>235</u>	<u>1,376</u>	<u>235</u>
Past due				
Within 90 days	9,013	11,903	176	382
91 days — 180 days	3,132	3,363	34	48
181 days — 365 days	1,418	873	49	108
Over 365 days	<u>273</u>	<u>—</u>	<u>152</u>	<u>—</u>
	<u>13,836</u>	<u>16,139</u>	<u>411</u>	<u>538</u>
	<u><u>19,357</u></u>	<u><u>16,374</u></u>	<u><u>1,787</u></u>	<u><u>773</u></u>

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****23. CASH AND CASH EQUIVALENTS**

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	79,365	58,676	13,541	11,842
Time deposits	<u>70,006</u>	<u>—</u>	<u>70,006</u>	<u>—</u>
Cash and cash equivalents	<u>149,371</u>	<u>58,676</u>	<u>83,547</u>	<u>11,842</u>

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$62,547,000 (2007: HK\$46,123,000). The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies in respect of approved transactions through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one week and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

24. ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land and building (Note 15)	3,942	—
Plant and machinery (Note 15)	<u>915</u>	<u>—</u>
	<u>4,857</u>	<u>—</u>

On 11 March 2008, the Group entered into an agreement with an independent third party (the “Purchaser”), pursuant to which the Group agreed to dispose of certain leasehold land and buildings to the Purchaser. The Group also intended to sell certain plant and machineries which are located in the leasehold land and buildings. Accordingly, these non-current assets are classified as held for sale at 31 July 2008.

These assets were previously used in the Group’s administrative operations. No impairment loss was recognised on the reclassification of the assets as held for sale at 31 July 2008.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****25. SHORT—TERM BORROWINGS**

	Effective interest rates (%) p.a.	Group		Company	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Bank overdrafts, unsecured		—	370	—	—
Bank loans, secured		—	17,900	—	17,900
Bank loans, unsecured	2.9-6.6	17,000	5,000	17,000	5,000
Trust receipt loans — secured	2.3-3.1	687	—	687	—
Trust receipt loans — unsecured	2.1-6.9	26,977	6,927	26,977	6,927
		<u>44,664</u>	<u>30,197</u>	<u>44,664</u>	<u>29,827</u>

At the balance sheet date, the bank borrowings of the Group were secured by its marginal deposits of HK\$2,536,000 (2007: secured by investment properties with an aggregate carrying amount of HK\$90,000,000). All short-term borrowings as at 31 July 2008 of the Group and the Company bear interest at floating interest rates and are denominated in Hong Kong dollars.

26. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of the goods and services purchased, and the balances of deposits received and accruals and other payables are as follows:

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Trade payables:				
Current to 90 days	17,492	20,199	12,517	9,966
91 to 180 days	972	1,643	302	1,818
181 to 365 days	1,382	1,141	236	1,406
Over 365 days	<u>1,141</u>	<u>2,869</u>	<u>333</u>	<u>296</u>
	20,987	25,852	13,388	13,486
Deposits received	23,648	14,085	133	132
Accruals and other payables	<u>25,704</u>	<u>21,430</u>	<u>15,645</u>	<u>12,283</u>
	<u>70,339</u>	<u>61,367</u>	<u>29,166</u>	<u>25,901</u>

The trade payables are non-interest-bearing and are normally settled between 30 and 60 days.

27. PROVISION FOR LONG SERVICE PAYMENTS

	Group and Company	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	1,989	3,846
Amounts provided during the year	1,249	1,746
Amounts utilised during the year	<u>(2,046)</u>	<u>(3,603)</u>
At end of year	<u>1,192</u>	<u>1,989</u>

The Group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading “Employee benefits” in Note 3(s)(ii) to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group at the balance sheet date.

28. DEFERRED TAX LIABILITIES

The movements in the net deferred tax liabilities during the year are as follows:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning year	(50,046)	(41,704)
Deferred tax reversal/(unprovided) in respect of revaluation of properties in 2001 or before	7,800	(7,800)
Effect on change in tax rate (Note 12)	2,122	—
Deferred tax credited/ (charged) during the year (Note 12)	<u>5,108</u>	<u>(542)</u>
At end of year	<u>(35,016)</u>	<u>(50,046)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) of the Group during the year are as follows:

Deferred tax assets

Group	Losses available for offsetting against future taxable profits	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	819	850
Effect on change in tax rate	(4)	—
Deferred tax charged during the year	<u>(757)</u>	<u>(31)</u>
At end of year	<u>58</u>	<u>819</u>

Deferred tax liabilities

Group	Accelerated capital allowances	Revaluation of properties	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 August 2006	(433)	(42,121)	(42,554)
Deferred tax unprovided in respect of revaluation of properties in 2001 or before	—	(7,800)	(7,800)
Deferred tax charged during the year	<u>(127)</u>	<u>(384)</u>	<u>(511)</u>
At 31 July 2007	(560)	(50,305)	(50,865)
Reversal of deferred tax in respect of revaluation of investment property on its disposal	—	7,800	7,800
Effect on change in tax rate	17	2,109	2,126
Deferred tax credited during the year	<u>265</u>	<u>5,600</u>	<u>5,865</u>
At 31 July 2008	<u>(278)</u>	<u>(34,796)</u>	<u>(35,074)</u>

The Group has tax losses arising in Hong Kong of HK\$230,479,000 (2007: HK\$183,171,000). During the year, the Group did not have tax losses arising in Mainland China (2007: Nil). The Company has tax losses arising in Hong Kong of HK\$144,012,000 (2007: HK\$101,910,000). Tax losses in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised, to the extent that, in the Directors' opinion, it is uncertain that future taxable profits would arise to offset against these losses.

At 31 July 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

29. EQUITY-SETTLED SHARE-BASED PAYMENTS

The Company has a share option scheme (the “Share Option Scheme”) which was adopted on 22 December 2006 whereby the Directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at a consideration of HK\$1 to subscribe for shares of the Company. Subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the Directors shall be entitled, at any time and from time to time within ten years commencing on the Commencement Date (as defined in the Share Option Scheme) and subject to such conditions at the Directors may think fit, to grant options to subscribe at the Subscription Price (as defined in the Share Option Scheme) for such number of shares in the Company as the Directors may determine.

(a) The following options were outstanding under the Share Option Scheme as at 31 July 2008:

Name or category of Participants	Number of options			Date of grant of options (dd/mm/yyyy)	Exercise period	Exercise price of options ¹ per share (HK\$)
	At 1 August 2007	Granted during the year	At 31 July 2008			
Directors	6,787,000 ²	—	6,787,000 ²	13/07/2007	13/07/2007 to 12/07/2011	0.68
Employees	5,800,000 ²	—	5,800,000 ²	13/07/2007	13/07/2007 to 12/07/2011	0.68
Employees	—	750,000 ³	750,000 ³	03/08/2007	03/08/2007 to 02/08/2008	0.72
Employees	—	750,000 ³	750,000 ³	03/08/2007	03/08/2008 to 02/08/2009	0.72
Employees	—	750,000 ³	750,000 ³	03/08/2007	03/08/2009 to 02/08/2010	0.72
Employees	—	750,000 ³	750,000 ³	03/08/2007	03/08/2010 to 02/08/2011	0.72
Total	<u>12,587,000</u>	<u>3,000,000</u>	<u>15,587,000</u>			

1 The exercise price of the options is subject to adjustment in the case of rights or bonus issues, or similar changes in the Company's share capital.

2 The vesting period of the options is two years commencing from the date of grant.

3 The vesting period of the options is one to four years commencing from the date of grant.

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the model.

Fair value of share options and assumptions are as follows:

	2008	2007
Fair value at measurement date	0.069	0.14
Share price at the date of grant (i)	0.60	0.60
Exercise price	0.72	0.68
Expected volatility (ii)	42.65%	42.36%
Expected life (iii)	1 - 4 years	2 years
Expected dividends	0%	0%
Risk-free interest rate	3.93%	4.24%

(i) *The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.*

(ii) *The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.*

(iii) *The expected life of the options is based on the assumption that the options will be exercised by the Directors and other employees during the first half of the option life. It is not necessarily indicative of the exercise patterns that may occur.*

(iv) *No other feature of the options granted was incorporated into the measurement of fair value.*

The fair value of the share options granted during the year was HK\$2,144,000 (2007: HK\$1,738,000), of which the Group recognised an equity-settled share-based payment of HK\$970,000 (2007: HK\$36,000) during the year ended 31 July 2008.

At the date of approval of these financial statements, the Company had 14,837,000 share options outstanding under the Share Option Scheme, which represented approximately 2.40% of the Company's shares in issue as at that date.

30. SHARE CAPITAL

	Company	
	2008	2007
	HK\$'000	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.25 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
617,127,130 ordinary shares of HK\$0.25 each	<u>154,282</u>	<u>154,282</u>

31. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for both the current and prior years are presented in the consolidated statement of changes in equity on pages 31 and 32 of the financial statements.

Share premium account

The application of the share premium account is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

Capital reserve

The capital reserve comprises the fair value of the estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in Note 3(s)(iv).

Asset revaluation reserve

Asset revaluation reserve represents a frozen revaluation surplus in relation to certain leasehold land and buildings which were transferred to investment properties in prior years.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3(r).

(b) Company

	Share premium account	Capital reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 August 2006	164,921	—	210,624	375,545
Recognition of equity-settled share-based payment	—	36	—	36
Profit for the year	—	—	20,291	20,291
At 31 July 2007	164,921	36	230,915	395,872
Recognition of equity-settled share-based payment	—	970	—	970
Dividend paid	—	—	(6,171)	(6,171)
Loss for the year	—	—	(27,278)	(27,278)
At 31 July 2008	<u>164,921</u>	<u>1,006</u>	<u>197,466</u>	<u>363,393</u>

32. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

During the year, the Group leased certain of their investment properties (Note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits.

At the balance sheet date, the Group had no future minimum lease receivables under non-cancellable operating leases.

(b) As lessee

The Group and the Company lease their office properties, warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	94,418	92,880	87,981	85,532
In the second to fifth years, inclusive	<u>93,366</u>	<u>124,477</u>	<u>85,474</u>	<u>118,390</u>
	<u>187,784</u>	<u>217,357</u>	<u>173,455</u>	<u>203,922</u>

The operating lease rentals of certain retail shops are based on the higher of a fixed rental and a contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rent has not been included above and only the minimum lease commitment has been included in the above table.

33. COMMITMENTS

In addition to the operating lease commitments detailed in Note 32(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for:				
— Land lease payments in Mainland China	4,076	5,936	—	—
— Expenditure on shop decorations in Hong Kong	<u>679</u>	<u>2,351</u>	<u>679</u>	<u>2,351</u>
	<u>4,755</u>	<u>8,287</u>	<u>679</u>	<u>2,351</u>

34. CONTINGENT LIABILITIES

In accordance with the Development Agreement as mentioned in Note 16, if construction finance is required by Unipress for financing the development and construction cost of the KT Property, the Group has agreed to provide or procure such security over or in relation to the KT Property as may reasonably be required by the relevant lending institution(s) and LSG is expected to provide a corporate guarantee as security for such finance.

On 8 February 2007, the Company's wholly-owned subsidiary, Crocodile KT entered into an agreement with a bank for a HK\$361,000,000 term loan facility for financing the development and construction cost of the KT Property. At 31 July 2008, the outstanding loan principal is HK\$82,000,000. The term loan drawn will be secured by a first legal charge over the KT Property and a first floating charge over all undertaking, property and assets of Crocodile KT.

Pursuant to a deed of undertaking, guarantee and indemnity entered into amongst the Company, Crocodile KT, Unipress and LSG dated 10 July 2006, as disclosed in Note 35(b), Crocodile KT is only required to be a party to the term loan arrangement, and Unipress and LSG should be responsible for the funding obligations in respect thereof. Accordingly, in substance Unipress and LSG are the borrowers of the term loan and the term loan would not be recognised in the financial statements of the Group.

At 31 July 2008, the total amount of bank term loan drawn in respect of the above facility was HK\$82,000,000 (2007: HK\$28,000,000).

Apart from the foregoing, at the balance sheet date, the Group has also entered into a number of construction and consultancy contracts for the redevelopment of the KT Property with the contractors and consultants of aggregate principal sums of HK\$326,760,000 (2007: HK\$53,502,000). The Group has also simultaneously entered into the respective deeds of undertakings with Unipress and these contractors pursuant to which Unipress/LSG unconditionally and irrevocably undertake to these contractors, as primary obligor/guarantor, to perform all obligations of the Group and to pay to the contractors all amounts due from time to time on the part of the Group under and in accordance with terms of these construction and consultancy contracts. Accordingly, the obligation of these contracts has not been reflected in the financial statements of the Group.

35. RELATED PARTY TRANSACTIONS**(a) Transactions with related parties**

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Rental expenses and building management fee paid and payable to:			
Lai Sun Textiles Company Limited	(i)	2,595	2,453
Related companies	(ii)	3,390	3,735
Royalty income from a related company	(iii)	193	—
Income from a related company for contributing an investment property as security	(iv)	<u>8,520</u>	<u>8,520</u>

Notes:

- (i) *Lai Sun Textiles Company Limited is a company beneficially owned by certain Directors of the Company. The rental expenses and building management fee were paid to this related company pursuant to the respective lease agreements.*
- (ii) *The rental expenses and building management fee were paid to these related companies, of which certain Directors of the Company are also the directors of these related companies, based on terms stated in the respective lease agreements.*
- (iii) *The royalty income was received from a related company of which certain Directors of the company are also the directors of this related company.*
- (iv) *In consideration of the Company contributing the KT Property as security for the construction finance, in accordance with the Development Agreement, Unipress will make a quarterly payment of HK\$2,130,000 to the Company during the period from the delivery of vacant possession of the KT Property to the completion of construction. Further details are set out in Notes 16 and 34 to the financial statements and the Company's circular dated 29 April 2006.*

The Directors consider that the above transactions have been conducted in the ordinary and usual course of the Group's business.

(b) Other transactions with related parties

On 28 February 2006, the Company, LSG and Unipress, entered into the Development Agreement in connection with the redevelopment of the KT Property. Details of the arrangement are set out in Note 16 to the financial statements and the Company's circular dated 29 April 2006.

On 10 July 2006, the Company, Crocodile KT, a wholly-owned subsidiary of the Company which now owns the KT Property, Unipress and LSG entered into a deed of undertaking, guarantee and indemnity (the "Deed") of which (a) Unipress (i) has agreed to act as covenantor and primary obligor in relation to a facility agreement to be entered into between a lending institution(s), as lender, and Crocodile KT, as borrower (the "Facility Agreement"); and (ii) has agreed, at its own expense, to arrange for the construction and completion of the redevelopment of the KT Property under such construction contracts as Unipress considers necessary; (b) LSG has agreed to guarantee the performance by Unipress of its obligations thereunder. Pursuant to the Deed, Crocodile KT is required to be a party to the Facility Agreement and some or all of the construction or consultant contracts entered into from time to time, and Unipress and LSG should be responsible for completing the redevelopment of the KT Property and for the funding obligations in respect thereof.

Further details of the funding arrangement and construction and consultant contracts, which were entered into by the Group at the balance sheet date, but borne by Unipress have been disclosed in Note 34 above.

(c) Outstanding balances with related parties

The amount due from a related company disclosed pursuant to Section 161C of the Companies Ordinance and the amounts due to related companies are as follows:

	(The Group and company) Maximum amount outstanding during the year HK\$'000	Group		Company	
		2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due from related companies	<u>2,130</u>	<u>845</u>	<u>710</u>	<u>845</u>	<u>710</u>
Amounts due to related companies		<u>200</u>	<u>76</u>	<u>57</u>	<u>76</u>

The balances were derived from normal business activities and are unsecured, interest-free and repayable on terms similar to those granted to major customers or by major suppliers of the Group. The carrying amounts of these amounts approximate to their fair values.

(d) Compensation of key management personnel of the Group

	2008 HK\$'000	2007 HK\$'000
Short-term employee benefits	12,304	9,104
Post-employment benefits	36	29
Equity-settled share-based payment	<u>469</u>	<u>20</u>
	<u>12,809</u>	<u>9,153</u>

Further details of directors' emoluments are included in Note 9 to the financial statements.

36. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the bank borrowings disclosed in Note 25, cash at banks and in hand and equity attributable to equity holders of the Company, comprising share capital and reserves and retained earnings as disclosed in Notes 23 and 31 respectively.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The gearing ratio at the balance sheet date was as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Debts	44,664	30,197
Cash at banks and in hand	<u>(149,371)</u>	<u>(58,676)</u>
Net debt	<u>N/A</u>	<u>N/A</u>
Equity	<u>606,415</u>	<u>572,338</u>
Net debt to equity ratio	<u>N/A</u>	<u>N/A</u>

37. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk, liquidity risk and interest rate risk. These risks are evaluated and monitored by the Group in accordance with the financial management policies and practices described below.

(i) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that goods are sold to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group also has policies that limit the amount of credit exposure to any financial institution.

The Group's credit risk is primarily attributable to its trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 22.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority.

The Group has no significant liquidity risk as all bank borrowing will be repayable within 6 months and the Group has sufficient cash resources to discharge the obligations.

(iii) *Interest rate risk*

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively.

The following table details the interest rate profile of the Group's borrowings at the balance sheet date.

	2008		2007	
	Effective interest rate (%) p.a.	HK\$'000	Effective interest rate (%) p.a.	HK\$'000
Variable rate borrowings				
<i>Short-term</i>				
Bank loans	2.88%-6.57%	17,000	5.94%-6.64%	22,900
Trust receipts and export loans	2.98%-5.65%	27,664	5.94%-6.75%	6,927
		<u>44,664</u>		<u>29,827</u>

The short-term bank borrowings at floating rate expose the Group to cash flow interest rate risk which is insignificant to the Group.

At 31 July 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by HK\$118,000 (2007: HK\$179,000). There is no impact on the consolidated equity of the Group.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(iv) *Foreign currency risk*

The companies of the Group mainly operated in their local jurisdiction with most of the transactions settled in their functional currency of the operation and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(v) *Price risk*

The Group is not exposed to any equity securities risk or commodity price risk.

(b) Fair values estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 July 2008 and 2007.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 July 2008 and 2007 may be categorised as follows:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets		
Loans and receivables (including cash and bank balances)	221,822	103,505
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(91,555)</u>	<u>(77,554)</u>

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 6 November 2008.

III. STATEMENT OF INDEBTEDNESS

As at 31 January 2009, being the latest practicable date prior to the printing of this document for the purpose of this indebtedness statement, the total outstanding borrowings of the Group amounted to approximately HK\$40,510,000 which were repayable within a period not exceeding one year. The total outstanding borrowings comprised unsecured short-term bank loan of approximately HK\$17,000,000 and unsecured trust receipt loans of approximately HK\$23,510,000.

Contingent liabilities

As at 31 January 2009, the Group had the following contingent liabilities:

On 28 February 2006, the Company, Lai Sun Garment (International) Limited (“LSG”) and Unipress Investments Limited (“Unipress”), a wholly owned subsidiary of LSG, entered into a conditional development agreement (the “Development Agreement”) in connection with the redevelopment of an investment property situated at 79 Hoi Yuen Road, Kwun Tong, Kowloon (the “KT Property”). Further details of the redevelopment are included in the Company’s circular dated 29 April 2006. In accordance with the Development Agreement, if construction finance is required by Unipress for financing the development and construction cost of the KT Property, the Group has agreed to provide or procure such security over or in relation to the KT Property as may reasonably be required by the relevant lending institution(s) and LSG is expected to provide a corporate guarantee as security for such finance.

On 8 February 2007, the Company’s wholly-owned subsidiary, Crocodile KT Investment Limited (“Crocodile KT”) entered into an agreement with a bank for a HK\$361,000,000 term loan facility for financing the development and construction cost of the KT Property. The term loan drawn will be secured by a first legal charge over the KT Property and a first floating charge over all the undertaking, property and assets of Crocodile KT.

Pursuant to a deed of undertaking, guarantee and indemnity entered amongst the Company, Crocodile KT, Unipress and LSG dated 10 July 2006, Crocodile KT is only required to be a party to the term loan arrangement, and Unipress and LSG should be responsible for the funding obligations in respect thereof. Accordingly, in substance Unipress and LSG are the borrowers of the term loan and the term loan would not be recognized in the financial statements of the Group.

As at 31 January 2009, the total amount of bank term loan drawn in respect of the above facility was HK\$144,000,000.

Apart from the foregoing, as at 31 January 2009, the Group has also entered into a number of construction and consultancy contracts for the redevelopment of the KT Property with the contractors and consultants of aggregate principal sums of approximately HK\$327,321,000. The Group has also simultaneously entered into respective deeds of undertaking with Unipress and these contractors of which Unipress/LSG has unconditionally and irrevocably undertaken to these contractors, as primary obligor/guarantor, to perform all obligations of the Group and to pay to the contractors all amounts due from time to time on the part of the Group under and in accordance with the terms of these construction and consultancy contracts. Accordingly, the obligation of these contracts would not be reflected in the financial statements of the Group.

Commitments

As at 31 January 2009, the Group had the capital commitments, contracted, but not provided for, in respect of the land lease payments in the PRC of approximately HK\$3,939,000; construction of the warehouse and senior staff quarters in the PRC of approximately HK\$13,406,000 and expenditure on shops decoration in Hong Kong of approximately HK\$1,370,000.

Saved as aforesaid, the Group did not have, at the close of business on 31 January 2009, any bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities.

IV. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 July 2008 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

The following is the text of a letter, summary of values and valuation certificate, prepared for inclusion in this circular, received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuation of the property interests of the Group as at 28 February 2009.



Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

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EA Licence: C-023750
savills.com

The Directors
Crocodile Garments Limited
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon

27 March 2009

Dear Sirs

In accordance with your instructions for us to value the property interests held by Crocodile Garments Limited (referred to as the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in Hong Kong and the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and investigations and obtained such information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 28 February 2009 for public circular purposes.

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean “the estimated amount for which the property interest should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions or cash rebate granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

Our valuation is prepared in accordance with The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors and in compliance with the requirements of Chapter 5 and Practice Note 12 of Listing Rules published by The Stock Exchange of Hong Kong Limited.

In undertaking our valuation of the property interest held by the Group in Hong Kong in a development project in Group I, we have made reference to sales evidence as available on the market and information provided by the Group including development proposals, building plans, development programme, Development Agreement and other relevant information.

In valuing the property interests in Group II, which are held by the Group in the PRC for future development, we have made reference to the comparable market transactions assuming sale with the benefit of vacant possession.

We have been provided with extracts of title documents relating to the properties in the PRC only but we have caused searches to be made at the Land Registry for the property interest in Hong Kong. We have not, however, inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies obtained by us. We have relied on the advice given by the Group and its legal adviser, Zhong Yuan Law Firm, on PRC laws, regarding the titles to the property interests in the PRC.

We have relied to a very considerable extent on information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, development agreement, development scheme, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to our valuation. We are also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the properties externally. However, we have not been able to carry out investigations on the site to determine the suitability of the ground conditions and services etc. for any development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delay will be incurred during construction period. We have not been able to carry out detailed site measurement to verify the correctness of the site areas of the properties and we have assumed that the site areas shown on the documents handed to us are correct.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the property interests are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

According to the information prepared by the Group, the potential tax liabilities which would arise on the disposal of the property interest under Group I in this report at the amounts as valued by us comprise Hong Kong profits tax. As advised by the Group, depending on the then status, there is likelihood of such liabilities being crystallized.

According to the information prepared by the Group, the potential tax liabilities which would arise on the disposal of the property interests under Group II in this report at the amounts as valued by us comprise Chinese business tax, Chinese land appreciation tax, Chinese corporate income tax and Chinese stamp duty. As advised by the Group, depending on the then status, there is likelihood of such liabilities being crystallized.

Unless otherwise stated, all money amounts stated in our valuation are in Hong Kong dollars. The exchange rates adopted in our valuation are HK\$1 = RMB0.8820, which was the approximate exchange rate prevailing as at the valuation date and there has been no significant fluctuation in such exchange rate between that date and the date of this letter.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS (GP)
Managing Director

Note : Mr Charles C K Chan has been a qualified valuer since June 1987 and has about 24 years of experience in the valuation of properties in Hong Kong and about 19 years of experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

Group I — Property interest held by the Group in Hong Kong

No. Property	Capital value in existing state as at 28 February 2009
1. Interest under the Development Agreement in the development project at 79 Hoi Yuen Road, Kwun Tong, Kowloon	HK\$511,000,000
<i>Sub-total</i>	<u>HK\$511,000,000</u>

Group II — Property interests held by the Group in the PRC

2. A parcel of land located in Yong Bian Cun, Sha Xi Zhen, Zhong Shan, Guangdong Province, PRC	RMB19,000,000 (HK\$21,541,950)
3. A parcel of land located in Niao Shi Cun, San Xiang Zhen, Zhong Shan, Guangdong Province, PRC	No commercial value
<i>Sub-total</i>	<u>HK\$21,541,950</u>
Total	<u><u>HK\$532,541,950</u></u>

VALUATION CERTIFICATE

Group I — Property interest held by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 28 February 2009																		
1.	Interest under the Development Agreement in the development project at 79 Hoi Yuen Road, Kwun Tong, Kowloon Kwun Tong Inland Lot No. 692.	<p>The property interest comprises the entire interest in the office portion and 50% interest in the carpark portion of a development project erecting on a rectangular level site with a registered site area of approximately 20,000 sq. ft. (1,858.05 sq. m.).</p> <p>According to the information provided to us, the development project is a 23-storey commercial building built over two car parking basements scheduled to be completed in November 2009.</p> <p>The total gross floor area of the proposed development will be approximately 239,822 sq. ft. (22,280.00 sq. m.). The breakdown areas are as follows:</p> <table><tr><th>Floor*</th><th colspan="2">Gross Floor Area</th></tr><tr><th></th><th>(sq.ft.)</th><th>(sq.m.)</th></tr><tr><td>G-9/F (Retail)</td><td>100,328</td><td>9,320.68</td></tr><tr><td>10/F</td><td colspan="2">(Mechanical Floor)</td></tr><tr><td>11-25/F (Office)</td><td><u>139,661</u></td><td><u>12,974.81</u></td></tr><tr><td>Total</td><td><u>239,989</u></td><td><u>22,295.49</u></td></tr></table> <p>* (4th, 14th and 24th Floors are omitted from floor numbering)</p> <p>The proposed development will also comprise 41 covered private car parking spaces, 8 covered light goods vehicle parking spaces and 5 covered heavy goods vehicle parking spaces.</p> <p>Kwun Tong Inland Lot No. 692 is held under Conditions of Exchange No. UB9893 for a term expiring on 30 June 2047 at an annual government rent at 3% of the rateable value for the time being of the lot.</p>	Floor*	Gross Floor Area			(sq.ft.)	(sq.m.)	G-9/F (Retail)	100,328	9,320.68	10/F	(Mechanical Floor)		11-25/F (Office)	<u>139,661</u>	<u>12,974.81</u>	Total	<u>239,989</u>	<u>22,295.49</u>	The property is currently vacant and under construction.	HK\$511,000,000
Floor*	Gross Floor Area																					
	(sq.ft.)	(sq.m.)																				
G-9/F (Retail)	100,328	9,320.68																				
10/F	(Mechanical Floor)																					
11-25/F (Office)	<u>139,661</u>	<u>12,974.81</u>																				
Total	<u>239,989</u>	<u>22,295.49</u>																				

Notes:

- (1) The current registered owner of the property is Crocodile KT Investment Limited, which is a wholly-owned subsidiary of the Company.
- (2) The property is subject to a debenture and mortgage in favour of The Bank of East Asia, Limited.

- (3) The property currently lies within an area zoned “Other Specified Uses” annotated “Business” on Kwun Tong South Outline Zoning Plan No. S/K14S/16.
- (4) The property is subject to a modification letter dated 10 April 2006 from the Government permitting the uses of the subject site to non-industrial (excluding residential, godown, petrol filling station, hotel and cinema) purposes.
- (5) The property interest is subject to a development agreement dated 28 February 2006 made between the Company, Unipress Investments Limited (“LSG SPV”) (an indirect wholly-owned subsidiary of Lai Sun Garment (International) Limited) (“LSG”), and LSG (“Development Agreement”).
- (6) Under the Development Agreement, the Company is entitled to the following:
 - a) a quarterly payment of HK\$2,130,000 from LSG SPV from the delivery of vacant possession of the subject land lot to completion of construction of the proposed development;
 - b) the entire ownership of the office portion of the proposed development with an approximate gross floor area of 140,000 sq ft (subject to final approval from the Government of Hong Kong Special Administrative Region);
 - c) 50% of the property interest in the carpark portion of the proposed development; and
 - d) a pre-emption right to purchase the remaining property interest in the proposed development to be held by LSG.
- (7) Under the Development Agreement, the development costs of the proposed development shall be wholly borne by LSG SPV.
- (8) As advised by the Company, the quarterly payments, as mentioned in Note (6)(a) above, from the date of valuation to the estimated date of completion of the proposed development have been/will be reflected in the Company’s account according to accounting policy. We have therefore, in accordance with the Company’s specific instruction, excluded the said payment in our valuation.
- (9) In accordance with the information provided by the Group, the total estimated construction costs and professional fees for the proposed development is approximately HK\$327,000,000 in which the total incurred costs up to the date of valuation is approximately HK\$160,000,000. The total outstanding construction costs is approximately HK\$167,000,000.
- (10) The aggregate market value of all saleable units in respect of the office (100% interest) and the carpark (50% interest) portions of the proposed development when completed as at the date of valuation is in the sum of HK\$619,000,000.

VALUATION CERTIFICATE

Group II — Property interests held by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 28 February 2009
2.	A parcel of land located in Yong Bian Cun, Sha Xi Zhen, Zhong Shan, Guangdong Province, PRC	The property comprises a parcel of land with a site area of approximately 56,800.10 sq.m. (611,396 sq.ft.). The land use rights of the property have been granted for a term expiring on 29 April 2057 for industrial uses.	The property is vacant.	RMB19,000,000 (HK\$21,541,950)

Note:

- (1) Pursuant to the Land Use Compensation Agreement (土地使用補償協議) and its supplement entered into between the People's Government of Sha Xi Zhen, Zhong Shan (中山市沙溪鎮人民政府) and Crocodile Garments (Zhong Shan) Limited ("Crocodile Garments"), which is a joint-venture company indirectly held by the Company, on 9 June 2006 and 6 June 2007, Crocodile Garments have been granted the land use rights of a parcel of land with a site area of approximately 56,800.10 sq.m. at a consideration of RMB16,522,950. The Company indirectly has 90% equity interest and pursuant to an arrangement, indirectly enjoys 100% beneficial interest in the said joint venture company.
- (2) Pursuant to the State-owned Land Use Rights Certificate No. Zhong Fu Guo Yong (2007) 240698 issued by the People's Government of Zhong Shan on 22 May 2007, the land use rights of a parcel of land with a site area of approximately 56,800.10 sq.m. have been granted to Crocodile Garments for a term expiring on 29 April 2057 for industrial uses.
- (3) Pursuant to the Construction Work Planning Permits issued by Zhong Shan Planning Bureau, the construction of a godown and an ancillary quarters are in compliance with the planning requirements. Details of the said permits are listed as below:

Permit No.	Usage	Construction Scale
Jian Zi 070042008080048	Ancillary quarters	2,471.90 sq.m.
Jian Zi 070042008110016	Godown	11,868.90 sq.m.

- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter-alia, the following information:
- (i) Crocodile Garments has obtained the legal ownership of the land of the property and the rights to dispose of the said land; and
- (ii) the property is not subject to any attachments or mortgages.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 28 February 2009
3.	A parcel of land located in Niao Shi Cun, San Xiang Zhen, Zhong Shan, Guangdong Province, PRC	The property comprises a parcel of land with a site area of approximately 109,701.80 sq.m. (1,180,830 sq.ft.).	The property is vacant.	No commercial value

Notes:

- (1) Pursuant to the Industrial Land Transfer Agreement (轉讓工業用地協議書) entered into between Zhong Shan San Xiang Zhen Industrial Co. (中山市三鄉鎮工業公司) (“Party A”) and Zhongshan Crocodile Garments Limited (“Zhongshan Crocodile”), which is a wholly-owned subsidiary of the Company, on 22 June 2006, Party A has agreed to transfer a parcel of land with a site area of approximately 109,701.80 sq.m. to Zhongshan Crocodile at a consideration of RMB17,278,033.50.
- (2) As advised by the Company, there is an outstanding consideration of RMB3,455,606.70 to be payable.
- (3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, which contains, inter-alia, the following information:
 - (i) up to 26 March 2009, there were no files registered with the Zhong Shan State-owned Land Bureau in respect of the title to the property; and
 - (ii) Zhongshan Crocodile cannot transfer the land use rights of the property prior to the processing of the Land Use Rights Certificate.
- (4) We have assigned no commercial value to the property as no Land Use Rights Certificate has been obtained. For reference purpose, had the Group obtained the Land Use Rights Certificate and paid all land premium, the capital value of the property as at 28 February 2009 was RMB35,000,000.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Proposal, the Offeror and the Company.

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

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

2. SHARE CAPITAL AND SHARE OPTIONS

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Share capital	HK\$'000
<i>Authorised:</i>	
800,000,000 Shares	200,000
<i>Issued and fully paid-up:</i>	
617,127,130 Shares	154,282

No new Shares have been issued by the Company since 31 July 2008 (being the date to which its latest published audited accounts were prepared). All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital.

Share Options

As at the Latest Practicable Date, the Company had the following Options under the Share Option Scheme:

Name or category of participants	Number of Options	Date of grant of Options (dd/mm/yyyy)	Exercise period (dd/mm/yyyy) - dd/mm/yyyy	Exercise price of Options ¹ per share (HK\$)
Directors	6,787,000 ²	13/07/2007	13/07/2007 - 12/07/2011	0.68
Employee	5,800,000 ²	13/07/2007	13/07/2007 - 12/07/2011	0.68
Employee	750,000 ³	03/08/2007	03/08/2008 - 02/08/2009	0.72
Employee	750,000 ³	03/08/2007	03/08/2009 - 02/08/2010	0.72
Employee	750,000 ³	03/08/2007	03/08/2010 - 02/08/2011	0.72
Total	<u>14,837,000</u>			

1 The exercise price of the Options is subject to adjustment in the case of rights or bonus issues, or similar changes in the Company's share capital.

2 The vesting period of these Options is two years commencing from the date of grant.

3 The vesting period of these Options is one to four years commencing from the date of grant.

Save as disclosed above, the Company did not have any other outstanding options, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS UNDER THE SFO

(a) Directors' interests and short positions in the Shares and the shares of the Company's associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its any associated corporation (within the meaning of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company, to be notified to the Company and the Stock Exchange; or (d) to be disclosed by the Takeovers Code, were as follows:

(1) *The Company*

Long positions in the Shares

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total	Percentage
Lam Kin Ming	3,412,000	Nil	314,800,000 (Note 1)	617,000 (Note 2)	Beneficial owner	318,829,000	51.66%
Lam Wai Shan, Vanessa	Nil	Nil	Nil	6,170,000 (Note 2)	Beneficial owner	6,170,000	1.00%

Notes:

- The Offeror beneficially owned 314,800,000 Shares. Mr. Lam was deemed to be interested in 314,800,000 Shares by virtue of his 100% interest in the Offeror.
- The Share Option Scheme was adopted by the Company on 22 December 2006 and will remain in force for a period of 10 years. Details of the Options granted to the Directors are set out below:

Name	Date of grant (dd/mm/yyyy)	Number of Options	Option period (dd/mm/yyyy - dd/mm/yyyy)	Subscription price
Lam Kin Ming	13/07/2007	617,000	13/07/2007 - 12/07/2011	HK\$0.68 per Share
Lam Wai Shan, Vanessa	13/07/2007	6,170,000	13/07/2007 - 12/07/2011	HK\$0.68 per Share

(2) *Associated Corporation***The Offeror***Long positions in the shares of the Offeror*

Name of Director	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
Lam Kin Ming	1	Nil	Nil	Beneficial owner	1	100%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company, to be notified to the Company and the Stock Exchange; or (d) to be disclosed by the Takeovers Code.

(b) Substantial shareholders' interests and short positions in the Shares

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered into the register required to be kept under Section 336 of the SFO:

Long positions in the Shares

Name	Capacity	Nature of Interests	Number of Shares	Percentage
Rich Promise Limited	Beneficial owner	Corporate	314,800,000	51.01%

Save as disclosed above, the Directors were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered into the register required to be kept under Section 336 of the SFO.

4. DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE**(a) Interests disclosed under Schedule I to the Takeovers Code**

- (i) As at the Latest Practicable Date, save as disclosed under the section headed “Disclosure of interests under the SFO” on page 122 of this Appendix III, the Offeror was not interested in any Shares, convertible securities, warrants, options or derivatives of the Company.
- (ii) As at the Latest Practicable Date, save as disclosed under the section headed “Disclosure of interests under the SFO” on page 121 of this Appendix III, no director of the Offeror was interested in any Shares, convertible securities, warrants, options or derivatives of the Company.
- (iii) As at the Latest Practicable Date, save as disclosed under the section headed “Disclosure of interests under the SFO” on pages 121 to 122 of this Appendix III and except for the 5,800,000 Options held by Ms. Lam Wai Kei, Vicky, an employee of the Group and a daughter of Mr. Lam, none of the parties acting in concert with the Offeror owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company.
- (iv) As at the Latest Practicable Date, no person had irrevocably committed to accept or reject the Proposal. Each of Mr. Lam and the Offeror has indicated that if the Proposal is approved at the Court Meeting, he/it will vote in favour of the special resolution to be proposed at the EGM.
- (v) As at the Latest Practicable Date, none of the Offeror nor any parties acting in concert with the Offeror had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.
- (vi) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror, or any party acting in concert with the Offeror, and any other person.

(b) Interests disclosed under Schedule II to the Takeovers Code

As at the Latest Practicable Date:

- (i) the Company had no holdings of shares, convertible securities, warrants, options or derivatives of the Offeror;
- (ii) save as disclosed in paragraph (a) under the section headed “Disclosure of interests under the SFO” on page 121 of this Appendix III, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives of the Company. Mr. Lam, an executive Director, is the sole shareholder of the Offeror;

- (iii) no subsidiary of the Company, nor any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;
- (iv) (1) Mr. Lam, an executive Director, held 3,412,000 Shares and 617,000 Options. Since Mr. Lam is deemed to be a party acting in concert with the Offeror under the Takeovers Code, the Shares held by him will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting;
- (2) Ms. Lam Wai Shan, Vanessa, a Director, held 6,170,000 Options;
- (3) Mr. Lam has indicated that if the Proposal is approved at the Court Meeting, he will vote in favour of the special resolution to be proposed at the EGM;
- (v) no interest in any Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (vi) none of the Company nor any Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company; and
- (vii) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Company, or any party who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate in the Takeovers Code, and any other person.

5. DEALINGS IN SECURITIES**(a) Dealings in the Shares discloseable under Schedule I to the Takeovers Code****(i) Dealings in the Shares by Mr. Lam during the Relevant Period are as follows:**

Number of Shares purchased	Dealing date	Purchase Price per Share (HK\$)
400,000	18 September 2008	0.245
800,000	18 September 2008	0.250
75,000	19 September 2008	0.260
603,000	22 September 2008	0.260
70,000	23 September 2008	0.250
40,000	24 September 2008	0.250
281,000	25 September 2008	0.250
134,000	26 September 2008	0.240
199,000	26 September 2008	0.250
100,000	20 November 2008	0.201
100,000	21 November 2008	0.198
100,000	21 November 2008	0.200
200,000	24 November 2008	0.200
210,000	25 November 2008	0.200
100,000	26 November 2008	0.200

(ii) Save as disclosed above, none of the Offeror or parties acting in concert with it had dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(iii) No person with whom the Offeror or any person acting in concert with the Offeror has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(b) Dealings in shares discloseable under Schedule II to the Takeovers Code

(i) The Company has not dealt for value in the shares, convertible securities, warrants, options or derivatives of the Offeror during the Relevant Period.

(ii) Save as disclosed under the paragraph “Dealings in the Shares discloseable under Schedule I to the Takeovers Code”, none of the Directors has dealt for value in the shares, convertible securities, warrants, options or derivatives of any of the Company or the Offeror during the Relevant Period.

- (iii) None of the subsidiaries of the Company, any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code (excluding exempt principal traders) has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.
- (iv) No person that has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code had dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.
- (v) No fund managers (other than exempt fund managers) managing funds on a discretionary basis which are connected with the Company had dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

6. MARKET PRICES

- (a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.395 per Share on 24 March 2009 and HK\$0.14 per Share on 27 October 2008.
- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period and (ii) the Latest Practicable Date:

	Closing price (HK\$)
29 August 2008	0.330
30 September 2008	0.245
31 October 2008	0.160
28 November 2008	0.206
31 December 2008	0.220
30 January 2009	0.200
27 February 2009	0.385
Latest Practicable Date	0.395

- (c) The closing price of the Shares as quoted on the Stock Exchange on the Last Trading Date was HK\$0.208.

7. LITIGATION

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

8. MATERIAL CONTRACTS

Save for the agreements described below, neither the Company nor any of its subsidiaries had, during the period after the date two years before the Announcement Date up to and including the Latest Practicable Date, entered into any contracts which are or may be material, other than contracts in the ordinary course of business of the Group:

- (a) On 23 January 2009, Crocodile Garments (Zhong Shan) Limited (“Crocodile Garments”), entered into two agreements with Zhong Shan City Sha Xi Town Building Construction Co., Ltd. (“中山市沙溪镇建筑工程有限公司”) for the construction of a warehouse and a senior staff quarters located at Chong Bian Village of Sha Xi Town in Zhong Shan City, Guangdong Province, PRC. Crocodile Garments is a joint venture company indirectly held by the Company, in which the Company indirectly has 90% equity interest and pursuant to an arrangement, indirectly enjoys 100% beneficial interest. The contract sum for construction of the warehouse will be approximately RMB11,762,576 (approximately HK\$13,409,337) and that of the senior staff quarters will be approximately RMB5,037,424 (approximately HK\$5,742,663). The contracts have been awarded following an open tender;
- (b) An agreement for sale and purchase dated 7 May 2008 was entered into between Dackart Trading Company Limited, a subsidiary of the Company, and Ocean Kingdom Limited for the sale of a property at a consideration of HK\$130,000,000. The property comprises all those 9 equal undivided 380th parts or shares of and in Section B, Section C and the remaining portion of Kowloon Inland Lot No. 6520, Shop 24 on Ground Floor and Mezzanine Floor, Shop 33B on G/F (G/F of No. 83B Nathan Road) and Mezzanine Floor (Shop No. 33B on Mezzanine Floor) and Basement, Tsimshatsui Mansion, Nos. 83-97 Nathan Road and Nos. 36-50 Lock Road, Tsimshatsui, Kowloon, Hong Kong.

9. QUALIFICATIONS

The following are the qualifications of the experts who are named in this document or have given opinions or advice which are contained or referred to in this document:

Name	Qualification
Access Capital Limited	A licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Platinum Securities Company Limited	A licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Savills Valuation and Professional Services Limited	Property valuer

10. CONSENTS

Each of Access Capital, Platinum and Savills has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its opinion, letter, report and/or valuation certificate (as the case may be) and references to its name, in the form and context in which they appear.

11. GENERAL

- (a) No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office or otherwise in connection with the Proposal.
- (b) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any party acting in concert with the Offeror and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the outcome of the Proposal.
- (c) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal.
- (d) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any Director has a material personal interest.
- (e) As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

12. EXPENSES OF THE SCHEME

The expenses of the Scheme incurred or to be incurred by the Company, which primarily consist of fees for financial advisers, legal advisers, printing and other related charges, are expected to amount to approximately HK\$4 million.

In the event that the Scheme becomes effective, the Company will bear its own expenses incurred in connection with the Scheme. In the event that the Scheme is not approved at the relevant Shareholders' meetings, all the expenses incurred by the Company in connection with the Scheme will be borne by the Offeror.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Room 903, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong from 9:00 a.m. to 5:00 p.m.

on any weekday (Saturdays, Sundays and public holidays excepted), and will also be available on the websites of the Company at www.crocodile.com.hk and the SFC at www.sfc.hk, from the date of this document until the Effective Date or the date on which the Scheme lapses or is withdrawn (whichever is earlier):

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the two financial years ended 31 July 2007 and 31 July 2008;
- (d) the letter from the Board as set out on pages 9 to 14 of this document;
- (e) the letter from the Independent Board Committee as set out on pages 15 to 16 of this document;
- (f) the letter from Platinum as set out on pages 17 to 38 of this document;
- (g) the letter, summary of values and valuation certificate from Savills, the text of which is set out in Appendix II to this document;
- (h) the written consents from the expert referred to in the section headed “Consents” in this Appendix; and
- (i) the material contracts referred to under the section headed “Material Contracts” in this Appendix and the respective circular (if applicable) in relation to the material contracts.

14. MISCELLANEOUS

- (a) The registered office of the Company is at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.
- (b) The registered office of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. Mr. Lam, who is deemed to be a party acting in concert with the Offeror under the Takeovers Code, is the sole shareholder and director of the Offeror and his address is at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.
- (c) The registered office of Access Capital, the financial adviser to the Offeror, is at 606, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (d) The registered address of Platinum, the independent financial adviser to the Independent Board Committee, is at 22nd Floor, Standard Chartered Bank Building, 4 Des Voeux Road Central, Hong Kong.
- (e) The company secretary of the Company is Mr. Yeung Kam Hoi.
- (f) The share registrar of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.

- (g) As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months preceding the Announcement Date; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.
- (h) The English text of this document and the forms of proxy shall prevail over the Chinese text in the case of inconsistency.

The following is a copy of the Option Offer Form sent to the Independent Optionholder in connection with the Option Offer.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this form, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this form.

Unless the context otherwise requires, terms used herein shall bear the same meanings as those defined in the Scheme Document dated 27 March 2009 (the “Scheme Document”) jointly issued by Rich Promise Limited and Crocodile Garments Limited.

OPTION OFFER FORM FOR USE IF YOU WANT TO ACCEPT THE OPTION OFFER.



OPTION OFFER FORM

THIS OPTION OFFER FORM IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to any aspect of this Option Offer Form or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

This Option Offer Form should be read in conjunction with the Scheme Document. The defined terms under the section “Definitions” in the Scheme Document are incorporated into and form part of this Option Offer Form except where such terms are defined herein.

To accept the Option Offer made by the Offeror, you should complete and sign this Option Offer Form and forward the Option Offer Form, together with the relevant certificate(s) or document(s) evidencing the grant of the Option(s) to you, and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate number of outstanding Options in respect of which you intend to accept the Option Offer (the “Relevant Documents”), by post or by hand to the company secretary of the Company at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong, marked “**Crocodile Option Offer**” on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address no later than 4:30 p.m. (Hong Kong time) on Tuesday, 19 May 2009 (or such later time and/or date as may be notified to you by the Offeror).

To: **The Offeror and the Company**

I (name) _____ of (address) _____¹

hereby accept the Option Offer made by the Offeror in respect of Options to subscribe _____²
Option Shares and agree to the cancellation of those Options in consideration of HK\$0.01 for each 10,000 underlying Option Shares. The Relevant Documents relating to such Option(s) are herewith enclosed.

Dated this _____ day of _____ 2009

Signature of the
abovementioned Optionholder

Notes:

- 1 Please insert full name and address in **BLOCK CAPITALS**.
- 2 Please insert the number of Options in respect of which you wish to accept the Option Offer.

OPTION OFFER FORM

To: **The Offeror and the Company**

1. My execution of this Option Offer Form shall constitute:

- (a) my acceptance of the Option Offer made by the Offeror, as contained in the Scheme Document, for the consideration and on and subject to the terms and conditions therein and herein mentioned, in respect of the number of Option(s) specified herein or, if no such number is specified or a number in excess of my registered holding of Option(s) is specified, I shall be deemed to have accepted the Option Offer in respect of my entire holding of Option(s);
- (b) my undertaking to execute such further documents and to do such acts and things by way of further assurance as may be necessary or desirable to cancel my Option(s) tendered for cancellation under the Option Offer;
- (c) my irrevocable instruction and authority to the Offeror, the Company and/or their respective agent(s) to send a cheque crossed "Not negotiable — account payee only" drawn in my favour for the cash consideration to which I shall become entitled under the terms of the Option Offer by ordinary post at my own risk to the person and the address stated below or, if no name and address is stated below to me at the registered address shown in the register of the Optionholders:

(Insert name and address of the person to whom the cheque is to be sent if different from the registered Optionholder.)

Name: (in block capitals) _____

Address: (in block capitals) _____

- (d) my irrevocable instruction and authority to the Offeror, the Company and/or such person or persons as they may direct to complete and execute any document on my behalf and to do any other act that may be necessary or expedient for the purposes of cancelling the Option(s) tendered for cancellation under the Option Offer; and
 - (e) my agreement to ratify each and every act or thing which may be done or effected by the Offeror, the Company and/or their respective agent(s) or such person or persons as it/they may direct on the exercise of any of the authorities contained herein.
2. I understand that my acceptance of the Option Offer will constitute a warranty and undertaking by me to the Offeror that the Option(s) specified in this Option Offer Form is/are free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and is/are to be renounced together with all rights accruing or attaching thereto on or after the Announcement Date or subsequently becoming attached to them and that I surrender to the Company all of my existing rights, if any, in respect of the Option(s), following which such Option(s) will be cancelled or extinguished.
3. I understand that if my registered address is located in a jurisdiction outside Hong Kong, acceptance of the Option Offer by me will constitute a warranty by me to the Offeror and the Company that I have fully observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other consents, complied with all necessary formalities or legal requirements and paid any such cancellation or other taxes by whomsoever payable, that I have not taken or omitted to take any action which will or may result in the Company or the Offeror or any other person acting in breach of the legal or regulatory requirements of any jurisdiction in connection with the Option Offer or my acceptance thereof, and am permitted under all applicable laws to receive and accept the Option Offer, and that such acceptance is valid and binding in accordance with all applicable laws.
4. In the event that my acceptance is not valid, or is treated as invalid, in accordance with the terms of the Option Offer, all instructions, authorisations and undertakings contained above shall cease and in which event, I authorise and request you or any one of you to return the Relevant Documents together with this Option Offer Form duly cancelled, by ordinary post at my own risk to the person and address stated in paragraph 1(c) above or if no name and address is stated, to me at the registered address shown in the register of Optionholders.
5. If this Option Offer Form has not been fully completed or has been completed incorrectly, the Offeror and the Company may at their absolute discretion nevertheless treat the Option Offer Form as having been validly completed if they consider the omissions or mistakes to be immaterial.
6. I enclose the Relevant Documents in respect of the number of Options specified herein which is/are to be held by you on the terms and conditions of the Option Offer. I understand that no acknowledgment of receipt of this Option Offer Form and the Relevant Documents will be given.

SCHEME OF ARRANGEMENT

HCMP 479/09

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO.479 OF 2009**

**In the Matter
of
CROCODILE GARMENTS LIMITED
(鱷魚恤有限公司)**

and

**In the Matter
of
Section 166(1) of the COMPANIES ORDINANCE,
Chapter 32 of the Laws of Hong Kong**

and

**In the Matter
of
Order 102, rule 2 of THE RULES OF THE HIGH COURT,
Chapter 4A of the Laws of Hong Kong**

**Scheme of Arrangement
(under Section 166 of the Companies Ordinance,
Chapter 32 of the Laws of Hong Kong)**

between

CROCODILE GARMENTS LIMITED

and

**the holders of Scheme Shares
(as hereinafter defined)**

SCHEME OF ARRANGEMENT

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“Company”	Crocodile Garments Limited, a company incorporated in Hong Kong with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
“Court”	the High Court of the Hong Kong Special Administrative Region, Court of First Instance
“Effective Date”	the date on which this Scheme becomes effective in accordance with clause 6 of this Scheme
“Group”	the Company and its subsidiaries
“holder(s)”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
“Independent Optionholder”	the only holder of Options other than the Relevant Optionholders as at the date of this Scheme, being an employee of the Group
“Mr. Lam”	Mr. Lam Kin Ming, the chairman and chief executive officer of the Company, an executive director of the Company and the sole beneficial shareholder of the Offeror
“New Shares”	the new Shares to be issued to the Offeror pursuant to this Scheme, the number of which is equal to the number of Scheme Shares to be cancelled pursuant to this Scheme
“Offeror”	Rich Promise Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Mr. Lam
“Option Offer”	the conditional cash offer by the Offeror to the Independent Optionholder to cancel his outstanding Options on the terms and subject to the conditions contained in the Scheme Document and the Option Offer Form
“Option Offer Form”	the yellow form setting out the terms and conditions of the Option Offer to be completed by the Independent Optionholder for acceptance of the Option Offer, a sample of which is set out in appendix IV to the Scheme Document

SCHEME OF ARRANGEMENT

“Option Shares”	the underlying Shares in respect of which an Option is granted
“Option”	options granted under the Share Option Scheme which remain unexercised
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of this Scheme and including the Option Offer
“Record Time”	4:30 p.m. Hong Kong time on the business day immediately preceding the Effective Date
“Relevant Optionholders”	Mr. Lam, Ms. Lam Wai Shan, Vanessa, an executive director and deputy chief executive officer of the Company, and Ms. Lam Wai Kei, Vicky an employee of the Group, both being daughters of Mr. Lam
“Register”	the register of members of the Company
“Scheme”	this scheme of arrangement in its present form or with or subject to any modification thereof or addition thereto or conditions approved or imposed by the Court
“Scheme Document”	the document dated 27 March 2009 issued by the Company and the Offeror which includes this Scheme
“Scheme Share(s)”	the Share(s) in issue as at the Record Time other than those beneficially owned by the Offeror and parties acting in concert with it amongst whom Mr. Lam is the only one who owns such shares
“Share Option Scheme”	the share option scheme of the Company which was adopted at the annual general meeting of the Company held on 22 December 2006
“Shares”	ordinary shares of HK\$0.25 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars

(B) The authorised capital of the Company at the date of this Scheme is HK\$200,000,000 divided into 800,000,000 Shares, 617,127,130 of which have been issued and are fully paid or credited as fully paid.

(C) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished, the New Shares be created and issued to the Offeror, and that the Company will become wholly-owned by the Offeror and Mr. Lam.

SCHEME OF ARRANGEMENT

- (D) As at the date of this Scheme, the Offeror and Mr. Lam are collectively interested in an aggregate of 318,212,000 Shares representing approximately 51.56% of the issued capital of the Company and such Shares are registered as follows:

Name of beneficial owner	Name of registered holder	Number of Shares
Offeror	HKSCC Nominees Limited	314,800,000
Mr. Lam	HKSCC Nominees Limited	3,412,000

Each of the Offeror and Mr. Lam has undertaken that in relation to such Shares in which it/he is beneficially interested, each of such Shares shall remain so registered and beneficially interested until the date on which this Scheme becomes effective, is withdrawn or lapses.

- (E) As at the date of this Scheme, Options relating to 14,837,000 Shares are currently outstanding under the Share Option Scheme, with exercise prices ranging from HK\$0.68 to HK\$0.72 per Share. The Offeror has made the Option Offer to the Independent Optionholder to cancel each existing Option held by such Independent Optionholder. The principal terms of the Option Offer are as follows:

- (i) the consideration for the cancellation of each existing Option held by the Independent Optionholder is cash in an amount equal to HK\$0.01 for each 10,000 Option Shares underlying the Options in respect of which the Option Offer is accepted;
- (ii) the Option Offer is open for acceptance by the Independent Optionholder from the date of despatch of the Scheme Document, which includes the Option Offer Form, to 4:30 p.m. on Tuesday, 19 May 2009 or such later date and time as may be notified to the Independent Optionholder by the Offeror;
- (iii) the validity of any agreement constituted by the acceptance by the Independent Optionholder of the Option Offer is subject to the Scheme becoming effective in accordance with clause 6 of this Scheme; and
- (iv) not later than ten days after the Effective Date, the Offeror shall send or cause to be sent to the Independent Optionholder if he has accepted the Option Offer cheques in respect of the sums payable to such Independent Optionholder pursuant to sub-paragraph (i) above.

As at the date of this Scheme, the Independent Optionholder holds Options relating to 2,250,000 Option Shares. The Company has undertaken to the Offeror that it will not grant any further Options under the Share Option Scheme unless and until after the Proposal is withdrawn, not approved or lapses.

SCHEME OF ARRANGEMENT

- (F) Each of the Relevant Optionholders has undertaken to the Company not to exercise his Options until: (i) if the Scheme is effective, the Effective Date, at which time such Options shall lapse automatically pursuant to the terms of the Share Option Scheme; or (ii) if the Proposal is withdrawn, not approved or lapses, the date of such withdrawal, non-approval or lapse.
- (G) Pursuant to the provisions of the Share Option Scheme, the grantee of an Option may exercise that Option at any time during the option period i.e. the period within which the board of directors of the Company determines that the Options Shares must be taken up under the Option, provided that if a general offer is made to all shareholders of the Company (or all shareholders other than the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, the grantee of an Option shall be entitled to exercise the Option (to the extent which has become exercisable and not already exercised) in whole or in part at any time before the close of such offer (or any revised offer).

As the exercise price of the Options held by the Independent Optionholder of HK\$0.72 per Option Share is above the consideration for cancellation of the Scheme Shares of HK\$0.40 per Scheme Share, the Independent Optionholder has indicated to the Company that he will not exercise his Options unless the Proposal is withdrawn, not approved or lapses (but for the avoidance of doubt, if the Proposal is withdrawn, not approved or lapses, he may but will not be obliged to exercise his Options). In view of this, the abovementioned provisions of the Share Option Scheme have no practical application.

On the Effective Date, all outstanding Options granted under the Share Option Scheme which remain outstanding will lapse automatically, to the extent not already exercised, pursuant to the terms of the Share Option Scheme.

- (H) The Offeror and Mr. Lam have agreed to appear by Counsel at the hearing of the Petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

SCHEME OF ARRANGEMENT

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:
 - (a) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the authorised share capital of the Company shall be increased to its former amount by the creation of such number of New Shares as is equal to the number of the Scheme Shares cancelled; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of its share capital referred to in sub-clause (a) of this Clause 1 in paying up in full at par the New Shares to be created as aforesaid, which new Shares shall be allotted and issued, credited as fully paid, to the Offeror or as the Offeror may direct.

PART II

Consideration for cancellation of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to clause 1 of this Scheme, the Offeror shall pay or cause to be paid to each holder of Scheme Shares (as appearing in the Register at the Record Time) HK\$0.40 for each Scheme Share held.

PART III

General

3.
 - (a) Not later than ten days after the Effective Date, the Offeror shall send or cause to be sent to the holders of Scheme Shares (as appearing in the Register at the Record Time), cheques in respect of the sums payable to such holders pursuant to clause 2 of this Scheme.
 - (b) Unless indicated otherwise in writing to the share registrar of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, all cheques shall be sent by post in pre-paid envelopes addressed to such holders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.

SCHEME OF ARRANGEMENT

- (c) Cheques shall be posted at the risk of the addressees and neither the Company nor the Offeror shall be responsible for any loss or delay in transmission.
 - (d) Each such cheque shall be payable to the order of the person to whom, in accordance with the provisions of sub-clause (b) of this clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
 - (e) On or after the day being six calendar months after the posting of the cheques pursuant to sub-clause (b) of this clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not then been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiration of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in sub-clause (b) of this clause 3 of which they are payees have not been cashed. Any payments made by the Offeror hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to clause 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of any interest or withholding tax or any other deductions required by law. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Offeror shall retain the balance, if any, of the sums standing to the credit of the deposit account referred to in sub-clause (e) of this clause 3 including accrued interest subject, if applicable, to the deduction of any interest or withholding tax or any expenses incurred in effecting the transfer.
 - (g) The preceding sub-clauses of this clause 3 shall take effect subject to any prohibition or condition imposed by law.
4. Each instrument of transfer and certificate validly subsisting at the Record Time in respect of a transfer or holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Company to deliver up the same to the Company for the cancellation thereof.
5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

SCHEME OF ARRANGEMENT

6. This Scheme shall become effective as soon as an office copy of the Order of the Court sanctioning this Scheme under Section 166 of the Companies Ordinance, Chapter 32 of the Laws of the Hong Kong Special Administrative Region, and confirming, under Section 60 of the same Ordinance, the reduction of capital provided for in this Scheme, together with a minute relating to the share capital of the Company and containing the particulars required by Section 61 of such Ordinance, shall have been duly registered by the Registrar of Companies.
7. Unless this Scheme shall have become effective on or before 31 August 2009 or such later date, if any, as the Offeror and the Company may agree or the Court may allow, this Scheme shall lapse.
8. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose with any further court meeting to be held therefor.
9. In the event that the Scheme becomes effective, the Company will bear its own expenses incurred in connection with this Scheme. In the event that this Scheme is not approved at the relevant meetings of shareholders of the Company, all the expenses incurred by the Company in connection with this Scheme will be borne by the Offeror.

Date 27 March 2009.

NOTICE OF COURT MEETING

HCMP 479/09

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO.479 OF 2009**

**In the Matter
of
CROCODILE GARMENTS LIMITED
(鱷魚恤有限公司)
("the Company")**

and

**In the Matter
of
Section 166(1) of the COMPANIES ORDINANCE,
Chapter 32 of the Laws of Hong Kong**

and

**In the Matter
of
Order 102, rule 2 of THE RULES OF THE HIGH COURT,
Chapter 4A of the Laws of Hong Kong**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an Order dated 24 March 2009 made in the above matters, the Court has directed a meeting ("the Court Meeting") to be convened of all holders of the ordinary shares of HK\$0.25 each in the capital of the Company other than those of such shares beneficially owned by Rich Promise Limited and Mr. Lam Kin Ming ("the Independent Shareholders") for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and the Independent Shareholders. Such Court Meeting will be held in Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong on Thursday, 23 April 2009 at 10:00 a.m. at which place and time all the Independent Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 166A of the above-mentioned Ordinance are incorporated in the composite document of which this Notice forms part and sent to the Independent Shareholders together with this Notice.

NOTICE OF COURT MEETING

The Independent Shareholders may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A pink form of proxy for use at the Court Meeting is enclosed with the composite document of which this Notice forms part.

The pink form of proxy together with the instrument appointing the proxy and the power of attorney or other authority under which it is signed or a notorially certified copy of that power or authority shall be deposited with the Registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding of the Court Meeting or adjourned Court Meeting at which the person named in such instrument proposes to vote, but if the proxies are not so lodged they may be handed to the Chairman of the Court Meeting at the Court Meeting. Completion and delivery of the form of proxy will not preclude an Independent Shareholder from attending and voting at the Court Meeting if he so wishes, but in the event of an Independent Shareholder attending and voting at the Court Meeting, the form of proxy will be deemed to have been revoked. If an Independent Shareholder completes and delivers the form of proxy, but does not attend and vote in person at the Court Meeting, a vote given in accordance with the terms of an instrument of proxy or power of attorney shall be valid notwithstanding the revocation of the proxy or the power of attorney or other authority under which the proxy was executed provided no intimation in writing of such revocation shall have been received by the company secretary of the Company or the Chairman of the Court Meeting on the day and at the place, but before the commencement of the Court Meeting or adjourned Court Meeting at which the proxy is used.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names stand on the Register of Members of the Company in respect of the relevant joint holding.

For the purpose of determining the entitlements to attend and vote at the Court Meeting, the Register of Members of the Company will be closed between 20 April 2009 and 23 April 2009, both dates inclusive.

By the same Order, the Court has appointed Mr. Tong Ka Wing, Carl or, failing him, Mr. Wan Yee Hwa, Edward or, failing him, Mr. Chow Bing Chiu to act as Chairman of the Court Meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated 27 March 2009

WOO, KWAN, LEE & LO
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong
Solicitors for the Company

NOTICE OF EGM



Crocodile Garments Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 122)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the above-named Company will be held in Fanling Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Kowloon, Hong Kong on Thursday, 23 April 2009 at 10:30 a.m. (or as soon thereafter as the meeting of certain holders of the ordinary shares of HK\$0.25 each in the capital of the Company convened pursuant to the Order of the Honourable Mr. Justice Barma of the High Court of the Hong Kong Special Administrative Region for the same place and day shall have concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a Special Resolution:

SPECIAL RESOLUTION

“THAT:

- (A) the Scheme of Arrangement dated 27 March 2009 (the “Scheme”) between the Company and the holders of Scheme Shares (as defined in the Scheme) in the form of the print which has been produced to this Meeting and for the purposes of identification signed by the Chairman of this Meeting, with any modification thereof or addition thereto or condition approved or imposed by the High Court of the Hong Kong Special Administrative Region, be and is hereby approved; and
- (B) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) the authorised and issued capital of the Company be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon such reduction of capital taking effect, the authorised capital of the Company be increased to its former amount of HK\$200,000,000 by the creation of such number of new ordinary shares of HK\$0.25 each in the capital of the Company as is equal to the number of the Scheme Shares cancelled; and
 - (iii) the Company shall apply the credit arising in its books of account as a result of such reduction of capital in paying up in full at par the new ordinary shares of HK\$0.25 each in the capital of the Company to be created as aforesaid, which new shares shall be allotted and issued, credited as fully paid, to Rich Promise Limited or as it may direct and the Directors of the Company be and are hereby unconditionally authorised to allot and issue the same accordingly.”

By Order of the Board
Yeung Kam Hoi
Company Secretary

Dated 27 March 2009

NOTICE OF EGM

Registered Office:

11th Floor, Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

Notes:

- (i) A member entitled to attend and vote at the above Meeting is entitled to appoint more than one proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (ii) A white form of proxy for use at the Meeting is enclosed with the composite document of which this Notice forms part.
- (iii) The white form of proxy together with the instrument appointing the proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of that power or authority shall be deposited with the Registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding of the Meeting or adjourned Meeting or poll (as the case may be) at which the person named in such instrument proposes to vote and in default the form of proxy shall not be treated as valid. Completion and delivery of this form of proxy will not preclude you from attending and voting in person at the Meeting or the adjourned Meeting or poll (as the case may be) and, in such event, this form of proxy will be deemed to have been revoked. If you complete and deliver the form of proxy, but do not attend and vote in person at the Meeting or the adjourned Meeting or poll (as the case may be), a vote given in accordance with the terms of an instrument of proxy or power of attorney shall be valid notwithstanding the revocation of the proxy or the power of attorney or other authority under which the proxy was executed provided no intimation in writing of such revocation shall have been received by the registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at least 2 hours before the commencement of the Meeting or adjourned Meeting which the proxy is used.
- (iv) Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.