THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Haidian Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CHINA HAIDIAN HOLDINGS LIMITED
中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

VERY SUBSTANTIAL DISPOSAL

– PROPOSED ASSET TRANSACTION

Financial Adviser to China Haidian Holdings Limited

Quam Capital Limited

A notice convening the EGM to be held at Kellett Room I, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, 15 September 2006 at 3:00 p.m. is set out on pages 169 to 170 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

30 August 2006

CONTENTS

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

"Asset Transaction"	the transaction in relation to the transfer of the entire issued share capital of Jing Guan from Starlex to Citychamp and the allotment and issue of the Consideration Shares by Citychamp to Starlex as contemplated under the Asset Transaction Agreement or the Revised Asset Transaction Agreement (as the case may be)
"Asset Transaction Agreement"	the agreement dated 19 July 2006 entered into between Starlex and Citychamp in relation to the Asset Transaction, which has been superseded by the Revised Asset Transaction Agreement in its entirety
"associates"	has the meaning ascribed thereto in the Listing Rules
"Beijing Haidian"	北京海澱科技園建設股份有限公司 (Beijing Haidian Science Park Development Co., Ltd.), a company established in the PRC
"Beijing Haikai"	北京海開房地產集團公司 (Beijing Haikai Real Estate Group Company), a company established under the laws of the PRC
"Board"	the board of Directors
"Citychamp"	冠城大通股份有限公司(Citychamp Dartong Company Limited), the shares of which are listed on the SSE in the PRC
"Citychamp Group"	Citychamp and its subsidiaries
"Citychamp M&E"	冠城大通機電分公司 (Citychamp M&E Branch Co.), a company incorporated in the PRC and a wholly-owned subsidiary of Citychamp
"Citychamp Share(s)"	the ordinary share(s) of RMB1.00 (equivalent to approximately HK$0.96) each in the issued share capital of Citychamp
"Commercial Facility"	北京市海澱區商業設施建設經營公司(Commercial Facility Construction and Managing Company of Haidian District of Beijing), a company established under the laws of the PRC
"Company"	China Haidian Holdings Limited 中國海澱集團有限公司, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange

"Completion"	completion of the Asset Transaction in accordance with the terms of the Revised Asset Transaction Agreement
"Conditions"	conditions precedent to Completion set out in the Revised Asset Transaction Agreement
"connected person"	has the meaning ascribed thereto in the Listing Rules and the word "connected" shall be construed accordingly
"Consideration"	the consideration payable by Citychamp for the acquisition of the entire issued share capital of Jing Guan from Starlex
"Consideration Share(s)"	Citychamp Share(s) to be allotted and issued to Starlex under the Revised Asset Transaction Agreement
"Director(s)"	the director(s) of the Company
"EBOHR Luxuries"	依波精品（深圳）有限公司(EBOHR Luxuries International Co., Limited), a company established in the PRC and a wholly-owned subsidiary of the Company
"EGM"	an extraordinary general meeting of the Company to be convened for the Shareholders to consider and, if thought fit, to approve the Revised Asset Transaction Agreement and the transactions contemplated thereunder
"Fujian Fengrong"	福建豐榕投資有限公司(Fujian Fengrong Investment Company Limited) (previously known as 福州盈榕投資有限公司(Fuzhou Yingrong Investment Company Limited)) is a company established in the PRC and owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively
"Fuzhou Dartong"	福州大通機電有限公司(Fuzhou Dartong M&E Co., Ltd.), a sino-foreign equity joint venture established in the PRC and is owned as to 51% by Citychamp and 49% by the Company with the voting power equally shared between the two shareholders
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong

"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Jiangsu Dartong"	江蘇大通機電有限公司(Jiangsu Dartong M&E Co. Ltd.), a sino-foreign equity joint venture established in the PRC and is owned as to 41.25%, 33.75% and 25% by Citychamp, Qingjiang and the Company respectively
"Jing Guan"	北京京冠房地產開發有限公司(Beijing Jing Guan Property Development Company Limited), a company established in the PRC and a wholly-owned subsidiary of the Company
"Jing Guan Group"	Jing Guan and its subsidiary, Xin Yang
"Latest Practicable Date"	28 August 2006, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Ms. Lu"	陸曉珺(Lu Xiaojun), a shareholder of Fujian Fengrong
"Ms. Sit"	薛黎曦(Sit Lai Hei), a shareholder of Fujian Fengrong and a non-executive Director
"Non-restricted Tradable Shares"	tradable Citychamp Shares that are not subject to any lock-up period
"PRC"	The People's Republic of China
"Qingjiang"	江蘇清江電機股份有限公司(Jiangsu Qingjiang Electrical Holdings Company Limited), a company established in the PRC
"Reorganised Group"	the Group immediately after Completion
"Revised Asset Transaction Agreement"	the agreement dated 3 August 2006 entered into between Starlex and Citychamp in relation to the Asset Transaction, which superseded the Asset Transaction Agreement in its entirety
"RMB"	Renminbi, the lawful currency of the PRC, and the exchange rate for RMB into HK$ for the purpose of this circular is RMB1.04 = HK$1.00

"Seti Timber"	森帝木業（深圳）有限公司(Seti Timber Industry (Shenzhen) Co., Ltd.), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
"SFO"	the Securities & Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Reform Plan"	the share reform plan of Citychamp pursuant to which Citychamp's non-tradable shares were converted into tradable shares in January 2006
"sq.m."	square metre(s)
"SSE"	The Shanghai Stock Exchange
"Starlex"	Starlex Limited, a company established in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Xin Yang"	北京鑫陽房地產開發有限公司(Beijing Xin Yang Property Development Co., Ltd.), a company established in the PRC and is owned as to 80% by Jing Guan, 12% by 李世強 (Li Shiqiang) and 8% by 林希 (Lin Xi)
"%"	per cent

CHINA HAIDIAN HOLDINGS LIMITED
中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

Executive Directors:
Mr. Hon Kwok Lung *(Chairman)*
Mr. Wang Shaolan *(Vice Chairman)*
Mr. Shang Jianguang *(Chief Executive Officer)*
Mr. Shi Tao
Mr. Lam Toi Man

Non-executive Director:
Ms. Sit Lai Hei

Independent Non-executive Directors:
Mr. Fung Tze Wa
Dr. Kwong Chun Wai, Michael
Mr. Li Qiang

Registered office:
P.O. Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Islands

Principal place of business:
Suites 2701-2705 & 2715-2716
27th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 August 2006

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL

– PROPOSED ASSET TRANSACTION

INTRODUCTION

It was announced on 27 July 2006 that Starlex, a wholly-owned subsidiary of the Company, and Citychamp, a company listed on the SSE, entered into the Asset Transaction Agreement on 19 July 2006. It was further announced on 3 August 2006 that Starlex and Citychamp entered into the Revised Asset Transaction Agreement, which superseded the Asset Transaction Agreement in its entirety. Pursuant to the Revised Asset Transaction Agreement:

(a) Starlex has conditionally agreed to dispose of, and Citychamp has conditionally agreed to acquire, the entire issued share capital of Jing Guan; and

(b) Citychamp has conditionally agreed to allot and issue the Consideration Shares and pay cash to Starlex as the Consideration.

Under the Revised Asset Transaction Agreement, all the terms and conditions as stipulated in the Asset Transaction Agreement remain unchanged except for the following:

(a) The provision relating to the payment terms of the Consideration prior to the completion of the bonus issue and dividend payout to the existing shareholders by Citychamp on 1 August 2006 was deleted;

(b) The provision relating to the obtaining of approval from Citychamp's board of directors on the Asset Transaction Agreement and the transactions contemplated thereunder, a condition precedent to the Asset Transaction Agreement which had been fulfilled prior to the date of the Revised Asset Transaction Agreement, was deleted;

(c) Starlex will have same rights as the other shareholders of Citychamp in relation to the distribution of the accumulated profits of Citychamp immediately upon Completion; and

(d) All the profits or losses of Jing Guan accumulated from the day following the valuation reference date of Jing Guan as contained in the Revised Asset Transaction Agreement, being 1 June 2006, up to the date of the Completion will be attributable to Citychamp upon Completion.

The purposes of the Revised Asset Transaction Agreement were: (i) to affirm the adjustments to the payment terms of the Consideration by Citychamp as provided in the Asset Transaction Agreement in view of Completion had not taken place before the bonus issue and dividend payout to its existing shareholders by Citychamp on 1 August 2006; (ii) to delete a condition precedent to the Asst Transaction Agreement which had been fulfilled prior to the date of the Revised Asset Transaction Agreement; and (iii) to clarify the issues related to the Company's entitlement to the accumulated profits of Citychamp immediately after Completion and Citychamp's entitlement to the profits or losses of Jing Guan accumulated between 1 June 2006 up to the date of the Completion upon Completion.

Upon Completion, Starlex will be interested in approximately 16.4% of the issued share capital of Citychamp as enlarged by the issue of the Consideration Shares.

The Asset Transaction constitutes a "very substantial disposal" of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the approval of the Shareholders. The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Revised Asset Transaction Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, details of the Asset Transaction and the notice of the EGM.

THE REVISED ASSET TRANSACTION AGREEMENT

Date

3 August 2006

Parties involved

(a) Starlex; and

(b) Citychamp.

Starlex is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company. The principal activity of Starlex is investment holding.

Citychamp is a company listed on the SSE in the PRC. Fujian Fengrong, the single largest shareholder of Citychamp, was interested in approximately 28.5% of the issued share capital of Citychamp as at the Latest Practicable Date. Fujian Fengrong is owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively. Ms. Sit is a non-executive Director and hence a connected person of the Company. In addition, both Ms. Sit and Ms. Lu are daughters-in-law of Mr. Hon Kwok Lung. Mr. Hon Kwok Lung, an executive Director, and his wife collectively own 70% equity interests in Sincere View International Limited, the controlling Shareholder. Hence, Ms. Lu is also a connected person of the Company. Save as aforesaid, to the Directors' best knowledge, no connected person of the Company has any interest in Citychamp. Ms. Sit and Ms. Lu do not have any interest in the Company.

Fujian Fengrong is interested in less than 30% of the issued share capital of Citychamp. In addition, under the PRC law, Ms. Sit and Ms. Lu do not, by virtue of their approximately 28.5% indirect interests in Citychamp, have control over the board of directors of Citychamp and its subsidiaries and thus Ms. Sit and Ms. Lu are unable to appoint the directors of Citychamp without the support of other shareholders of Citychamp. Therefore, Citychamp is not a connected person of the Company under the Listing Rules. Ms. Sit is a director of Citychamp while Ms. Lu does not hold any position in Citychamp.

Citychamp is the controlling shareholder of Fuzhou Dartong, a jointly-controlled entity of the Company. Citychamp is also the controlling shareholder of Jiangsu Dartong, an associate of the Company.

Save as disclosed above, to the best knowledge of the Directors, information and belief, having made all reasonable enquiries, Citychamp and its ultimate beneficial owners are independent of and not connected with the Company or its connected persons.

Subject matter

On 3 August 2006, Starlex and Citychamp entered into the Revised Asset Transaction Agreement, pursuant to which:

(a) Starlex has conditionally agreed to dispose of, and Citychamp has conditionally agreed to acquire, the entire issued share capital of Jing Guan; and

(b) Citychamp has conditionally agreed to allot and issue the Consideration Shares and pay cash to Starlex as the Consideration.

Consideration

The Consideration is RMB360 million (equivalent to approximately HK$346.2 million) and will be satisfied by Citychamp in the following manner:

(a) approximately RMB360.0 million (equivalent to approximately HK$346.1 million) by way of the allotment and issue of 72.72 million Citychamp Shares to Starlex at an issue price of RMB4.95 (equivalent to approximately HK$4.76) within 60 business days upon Completion; and

(b) the balance of RMB36,000 (equivalent to approximately HK$34,615) payable in cash within 20 business days upon Completion.

On 9 June 2006, the shareholders of Citychamp approved the issue of bonus shares of 1.5 Citychamp Shares and a cash dividend of RMB0.167 (equivalent to approximately HK$0.161) for every 10 Citychamp Shares held on 1 August 2006. Before the adjustments of the effect of the aforesaid bonus issue and dividend payout, the initial issue price was RMB5.71 (equivalent to approximately HK$5.49) per Consideration Share.

The initial issue price per Consideration Share of RMB5.71 (equivalent to approximately HK$5.49) has been determined on the basis of the average closing price of RMB5.71 (equivalent to approximately HK$5.49) per Citychamp Share for the 20 trading days preceding 18 July 2006, being the date on which Citychamp's board of directors approved the proposed Asset Transaction. The issue price of RMB5.71 (equivalent to approximately HK$5.49) per Consideration Share represents:

- a discount of approximately 10.9% to the closing price of RMB6.41 (equivalent to approximately HK$6.16) per Citychamp Share on 17 July 2006, being the last trading day prior to suspension of trading in the Citychamp Shares pending the issue of the announcement in respect of the board resolution of Citychamp approving the proposal of the Asset Transaction;

- a discount of approximately 2.1% to the average closing price of RMB5.83 (equivalent to approximately HK$5.61) per Citychamp Share for the 10 trading days up to and including 17 July 2006; and

- a premium of approximately 0.2% over the average closing price of RMB5.70 (equivalent to approximately HK$5.48) per Citychamp Share for the 30 trading days up to and including 17 July 2006.

The Consideration of RMB360 million (equivalent to HK$346.2 million) represents a premium of approximately 285.9% to the share of the audited consolidated net asset value of the Citychamp Group of approximately RMB93.3 million (approximately HK$89.7 million) as at 30 June 2006, which was prepared under the Hong Kong accounting standards.

Save for the three-year lock up period commencing on the date of issue of the Consideration Shares pursuant to 外國投資者對上市公司戰略投資管理辦法 (The Rules Governing Strategic Investments into Listed Companies by Foreign Companies), the Consideration Shares will rank pari passu in all respects with the Citychamp Shares as at the date of allotment.

The Consideration Shares of 72,720,000 Citychamp Shares, representing (i) approximately 19.6% of the issued share capital of Citychamp as at the Latest Practicable Date; and (ii) approximately 16.4% of the issued share capital of Citychamp as enlarged by the issue of the Consideration Shares.

The Consideration has been determined after arm's length negotiations between Starlex and Citychamp taking into consideration of the following factors:

(a) the consideration represents a premium of 2.8% over the unaudited net asset value of the Jing Guan Group as at 31 May 2006 of approximately HK$336.7 million after the inclusion of the revaluation surplus of its properties of approximately HK$205.1 million based on an independent valuation as at 31 May 2006 prepared by Greater China Appraisal Limited, an independent valuer, using the direct comparison method;

(b) the prevailing share price of the Citychamp Shares; and

(c) the Consideration Shares are subject to a three-year lock up period commencing on the date of issue.

The Directors (including the independent non-executive Directors) consider that the terms of the Revised Asset Transaction Agreement, including the terms of the Consideration Shares, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

The Revised Asset Transaction Agreement is conditional upon the following conditions being fulfilled:

(a) the passing of a resolution by the shareholders of Citychamp at its general meeting approving the Revised Asset Transaction Agreement and the transactions contemplated thereunder;

(b) the passing of an ordinary resolution by the Shareholders at the EGM approving the Revised Asset Transaction Agreement and the transactions contemplated thereunder;

(c) 中國商務部(Ministry of Commerce of the PRC) approving the Asset Transaction;

(d) 北京市商務局(Commerce Department of Beijing) approving the change in the shareholding structure of Jing Guan; and

(e) the China Securities Regulatory Commission approving the allotment and issue of the Consideration Shares to Starlex by Citychamp and waiving all such mandatory general offer obligations, in respect of the Citychamp Shares, as a result of the transactions contemplated under the Revised Asset Transaction Agreement.

Save for the above Conditions, no any other governmental or regulatory consents and approvals are required. In addition, the allotment and issue of the Consideration Shares are not required to be approved by the SSE.

Completion

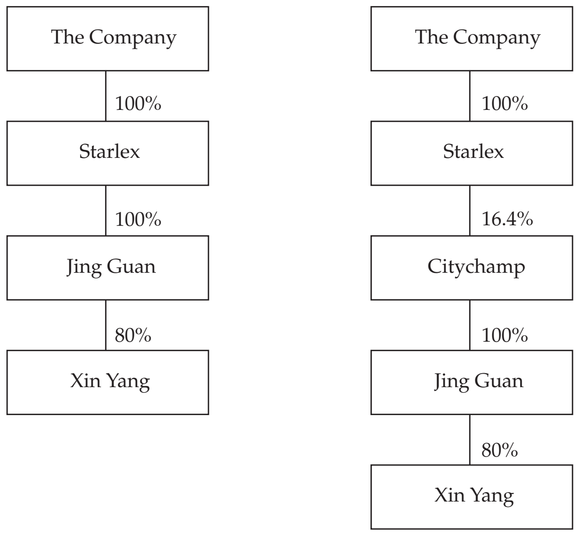
Completion shall take place within 60 business days from the day that the Conditions have been fulfilled. Save for condition (a) under the section headed "Conditions precedent" above, none of the Conditions had been satisfied up to the Latest Practicable Date.

Starlex and Citychamp will each use their respective best endeavours to fulfil, or procure the fulfilment of, the Conditions (to the extent such party is responsible for such fulfilment). If any of the Conditions is not fulfilled due to unforeseeable, unavoidable and insurmountable circumstances, the party which is responsible for such fulfillment must inform the other party with the supporting document from the relevant authority within 15 days upon receipt of the relevant notice, and the parties may terminate the Revised Asset Transaction Agreement in writing without any penalties.

SHAREHOLDING STRUCTURE OF THE GROUP

The following charts illustrate the simplified structure of the Group immediately before and after Completion:

Before Completion **After Completion**



INFORMATION ON THE JING GUAN GROUP

Overview

Jing Guan is a private company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Starlex. Jing Guan has a 80% equity interest in the registered capital of Xin Yang, which is a private company incorporated in the PRC with limited liability. Both Jing Guan and Xin Yang are principally engaged in the property development and investment in the PRC.

Major properties of the Jing Guan Group are set out below:

Name of properties	Usage	Gross floor area	Jing Guan Group's attributable interest	Status
Properties under development				
北京太陽宮新區東部E區第1, 2, 3, 4, 5, 6, 7及9樓 (Blocks No. 1, 2, 3, 4, 5, 6, 7 and 9, Eastern Land Group of Area E, Taiyanggong New District, Beijing)	Residential/ Commercial/ Car Park	Approximately 59,800.33 sq.m. of residential and commercial spaces and 439 car parking spaces	100%	Construction in progress

Name of properties	Usage	Gross floor area	Jing Guan Group's attributable interest	Status
Properties held for future development				
北京崇文區廣渠門外南街A及B區危改項目 (Redevelopment Project Areas A&B, Guangqumen Wai Nan Street, Chongwen District, Beijing)	Office/Hotel/ Residential/ Commercial	Approximately 328,454 sq.m.	80%	Demolition work in progress
Properties held for self-occupation or investment				
北京海澱區冠城園第8樓部分第7層(Portion of Level 7 Block 8, Guancheng Yuan, Haidian District, Beijing)	Office	Approximately 503.81 sq.m.	100%	Occupied by the Group as its office
北京海澱區冠城園第8樓第4層,第5層及部分第7層 (Level 4, Level 5 and Portion of Level 7 Block 8, Guancheng Yuan, Haidian District, Beijing)	Office	Approximately 2,459.28 sq.m.	100%	The property is leased to several tenants

Based on the valuation report prepared by Greater China Appraisal Limited, an independent valuer, the aggregate market value of the properties attributable to the Jing Guan Group as at 31 May 2006 amounted to RMB888.7 million (equivalent to approximately HK$854.5 million). The property interests were valued by the direct comparison method based on prices realised or market prices of comparable properties.

Financial information

The Group has provided Citychamp the financial information of the Jing Guan Group for the two years ended 31 December 2005 and the five months ended 31 May 2006 during the course of due diligence conducted by Citychamp. Save for the aforesaid, the Group has not provided any other financial information of the Jing Guan Group to Citychamp.

The table below sets forth the unaudited consolidated financial results of the Jing Guan Group for the two years ended 31 December 2005 and the five months ended 31 May 2006 according to the Hong Kong accounting standards:

	Year ended 31 December 2004	Year ended 31 December 2005	Five months ended 31 May 2006
Turnover	HK$210.2 million	HK$312.9 million	HK$1.3 million
Profit before taxation and minority interests	HK$41.6 million	HK$47.8 million	HK$235.3 million *(Note)*
Profit after taxation and minority interests	HK$28.1 million	HK$30.0 million	HK$201.4 million

Note: Profit before taxation and minority interests includes a revaluation gain on properties of approximately HK$205.1 million.

The table below sets forth the extracts of the unaudited consolidated balance sheets of the Jing Guan Group as at 31 December 2004, 31 December 2005 and 31 May 2006.

	31 December 2004	31 December 2005	31 May 2006
Total assets	HK$608.1 million	HK$909.0 million	HK$1,408.7 million *(Note)*
Total liabilities	HK$505.2 million	HK$755.0 million	HK$1,007.3 million
Net assets	HK$102.9 million	HK$135.3 million	HK$336.7 million
Minority interests	–	HK$18.7 million	HK$64.7 million

Note: Total assets of the Jing Guan Group include an adjustment of the revaluation surplus of its properties.

It is stated in the preliminary announcement dated 19 July 2006 issued by the board of directors of Citychamp in relation to the Asset Transaction that assuming the Asset Transaction is completed on 30 September 2006, the Jing Guan Group is expected to contribute RMB19.5 million (equivalent to approximately HK$18.8 million) to Citychamp's profit for the year ending 31 December 2006 based on Citychamp's existing accounting policies; and its contribution for the two years ending 31 December 2008 is expected to be RMB61.0 million (equivalent to approximately HK$58.7 million) and RMB100.0 million (equivalent to approximately HK$96.2 million) respectively, based on the new accounting standards of the PRC which will become effective commencing from 1 January 2007. The profit forecasts are prepared by Citychamp in compliance with regulatory provisions issued by the China Securities Regulatory Commission.

It should be noted that the aforementioned profit forecasts of Jing Guan are made by Citychamp in its own accord and the Group has not involved in preparation of the profit forecasts. Therefore, the Company takes no responsibility for the contents of the above statement and makes no representation as to its accuracy. Shareholders and potential investors of the Company are advised to exercise caution in considering the above information.

INFORMATION ON THE CITYCHAMP GROUP

Overview

Citychamp was established in 1986 and incorporated in the PRC with its domestic A shares listed on the SSE. The Citychamp Group is principally engaged in property investment, and manufacture and sale of enamelled copper wires. The Citychamp Group generated total segment profit of approximately RMB108.6 million (equivalent to approximately HK$104.4 million) for the year ended 31 December 2005 according to the Hong Kong accounting standards. Property investment was the Citychamp Group's major profit contributor in 2005, representing about 83.5% of its segment profit. The enamelled copper wire business accounted for approximately 17.7% of the Citychamp Group's segment profit.

Major properties of the Citychamp Group are set out below:

Name of properties	Usage	Gross floor area	Citychamp Group's attributable interest	Status
Properties held for sale				
北京太陽宮新區太陽星城F區(Sunpalace Garden Area F in the Taiyanggong New District of Beijing)	Residential/ Commercial/ Car Park	Approximately 400,000 sq.m.	85%	Close to be completely sold
北京太陽宮新區太陽星城C區(Sunpalace Garden Area C in the Taiyanggong New District of Beijing)	Residential/ Commercial/ Car Park	Approximately 250,000 sq.m.	40%	Demolition and relocation works in progress
北京太陽宮新區太陽星城C區(Sunpalace Garden Area C in the Taiyanggong New District of Beijing)	Residential/ Commercial/ Car Park	Approximately 236,000 sq.m.	40%	Demolition and relocation works in progress
北京太陽宮新區太陽星城B區(Sunpalace Garden Area B in the Taiyanggong New District of Beijing)	Residential/ Commercial/ Car Park	Approximately 350,000 sq.m.	40%	Demolition and relocation works in progress

Name of properties	Usage	Gross floor area	Citychamp Group's attributable interest	Status
廣西桂林市飛鳳路2號清秀花園(Qingxiu Garden, 2 Feifeng Road, Guilin City, Guangxi Province)	Residential	Approximately 30,000 sq.m.	75%	Partially sold
湖南省衡陽市石鼓區桑園路1-29號冠城江景 (Guancheng Jiangjing, 1-29 Sangyuan Road, Shigu District, Hengyang City, Hunan Province)	Residential	Approximately 56,318 sq.m.	51%	Construction in progress
湖南省衡陽市石鼓區沿江北路2-54號朱陵閣 (Zhuling Mansion, 2-54 Yuanjiang North Road, Shigu District, Hengyang City, Hunan Province)	Residential	Approximately 7,259 sq.m.	51%	Construction in progress
福建省福州市鼓樓區源厝村東側梅亭居 (Meitingju, Yuancuocun East, Gulou District, Fuzhou City, Fujian Province)	Residential	Approximately 89,200 sq.m.	100%	Construction and pre-sale in progress
安徽省蘇州市北側相城區黃埭鎮 (Huangdaizhen, Xiangcheng District, Suzhou City East, Anhui Province)	Residential	Approximately 93,400 sq.m.	100%	Demolition work in progress

The Citychamp Group has been engaged in the manufacture and sale of enamelled copper wires in the PRC for more than 30 years. Citychamp's enamelled copper wire business is operated by its wholly-owned Citychamp M&E, 51%-owned Fuzhou Dartong and 41.25%-owned Jiangsu Dartong. The Company has a 49% interest in Fuzhou Dartong and a 25% interest in Jiangsu Dartong. The enamelled copper wires produced by the Citychamp Group are predominately used in various electrical machinery and equipment, automobiles, electrical tools and transformers. The Citychamp Group commenced to produce enamelled copper wires used in colour television panels, colour picture tubes, transducers and air conditioning compressors in September 2005. The Citychamp Group has three production plants located at 中國江蘇省淮安市經濟技術開發區(Economic and Technology Development Zone of Huaian City, Jiangsu Province, the PRC), 中國福建省福

州市福馬路81號(81 Fuma Road, Fuzhou City, Fujian Province, the PRC) and 中國福建省福州市馬尾經濟技術開發區(Economic and Technology Development Zone of Mawei District, Fuzhou City, Fujian Province, the PRC). The aggregate annual production capacity of the Citychamp Group amounts to 50,000 tonnes of enamelled copper wires.

Financial information

Based on Hong Kong accounting standards, the audited consolidated net profit before and after taxation and minority interests attributable to the 16.4% equity interest in Citychamp to be acquired by the Group were approximately RMB18.3 million (equivalent to approximately HK$17.6 million) and approximately RMB10.0 million (equivalent to approximately HK$9.6 million) for the year ended 31 December 2004 respectively and were approximately RMB27.0 million (equivalent to approximately HK$26.0 million) and approximately RMB15.1 million (equivalent to approximately HK$14.5 million) for the year ended 31 December 2005 respectively.

The audited consolidated financial statements of the Citychamp Group for the three years ended 31 December 2005 and the six months ended 30 June 2006 are set out in Appendix II to this circular.

Share Reform Plan

In January 2006, Citychamp successfully completed the Share Reform Plan, pursuant to which Citychamp's non-tradable shares were converted into tradable shares. Pursuant to the Share Reform Plan, Fujian Fengrong, the single largest shareholder of Citychamp, has agreed to transfer 20,866,336 Citychamp Shares from its shareholding to the holders of the Non-restricted Tradable Shares if the compound annual growth rate of net profit of the Citychamp Group between 2005 and 2007 is less than 30%.

If the aforesaid share transfer takes place, all holders of the Non-restricted Tradable Shares whose names appear on Citychamp's register of members on a date to be determined by the board of directors of Citychamp will be entitled to such share transfer. After the share transfer, the 20,866,336 Citychamp Shares will become Non-restricted Tradable Shares. Since the Consideration Shares are subject to a three-year lock-up period commencing on the date of issue, they will not be regarded as Non-restricted Tradable Shares. Therefore, Starlex will not be entitled to the share transfer if it takes place.

REASONS FOR AND BENEFITS OF THE ASSET TRANSACTION

With the fast economic growth in the PRC and the PRC's accession to the World Trade Organisation, the outlook of the property market in the PRC is considered to be promising. As mentioned in the Company's annual report for the year ended 31 December 2005, the main direction for the development of the Group in the next two to three years is to seek for mainland property development opportunities. The Citychamp Group has a proven track record and management expertise in property development in the PRC. Upon Completion, the Group will have an indirect investment in high quality property projects in the PRC through its shareholding interest in Citychamp without the financial requirement to provide funding for their development.

Given the promising prospect of the property development business in the PRC, the Directors consider that the investment in Citychamp will enable the Group to capture and participate in the growth of this business without substantial funding requirements. Therefore, the Asset Transaction represents an attractive investment opportunity for the Group.

Pursuant to the Share Reform Plan, Fujian Fengrong, the single largest shareholder of Citychamp, has agreed to transfer 20,866,336 Citychamp Shares from its shareholding to the holders of the Non-restricted Tradable Shares if the compound annual growth rate of net profit of the Citychamp Group between 2005 and 2007 is less than 30%. For illustrative purpose, based on the audited net profit of the Citychamp Group for the year ended 31 December 2004 of RMB64.1 million (equivalent to approximately HK$61.6 million) under the PRC accounting standards and the compound annual growth rate of 30%, net profit for the years ended 31 December 2006 and 2007 will be RMB108.4 million (equivalent to approximately HK$104.2 million) and RMB140.9 million (equivalent to approximately HK$135.5 million) respectively. Fujian Fengrong has also agreed that it will propose and vote for a resolution at Citychamp's annual general meetings between 2005 and 2007 to approve the distribution of at least 40% of the year's profit available for distribution to the shareholders of Citychamp. Citychamp distributed 40.5% of the profit available for distribution to its shareholders for the year ended 31 December 2005.

The Directors consider that the Asset Transaction is a good opportunity for the Group to have an interest in a listed company with a sound profit track record, a high dividend payout ratio and promising prospect at a discount to its share prices immediately prior to the determination of the initial issue price of the Consideration Shares. Therefore, the Directors (including the independent non-executive Directors) consider that the Asset Transaction is in the interests of the Group and the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and sale of watches and clocks, property investment and development, manufacture and distribution of timber products, and manufacture and sale of enamelled copper wires in the PRC. The accountants' report of the Group is set out in Appendix I to this circular.

IMPACT OF THE ASSET TRANSACTION ON THE GROUP

Jing Guan and its 80%-owned Xin Yang are the Company's subsidiaries that are involved in property development business. Upon Completion, Jing Guan and Xin Yang will cease to be subsidiaries of the Company and become the subsidiaries of Citychamp. Save for the proposed acquisition of a 15% equity interest in Beijing Haidian by the Company and the indirect interest in the Jing Guan Group, the Group will not have any interest in property development projects. Details of the proposed acquisition of Beijing Haidian are set out in the Company's announcements dated 3 December 2004, 1 March 2005, 10 April 2006 and 26 June 2006. According to the unaudited pro forma financial information of the Reorganised Group set out in Appendix III to this circular, as a result of the Asset Transaction, the Group would record gains on disposal of subsidiaries of approximately HK$233 million for the year ended 31 December 2005 assuming that Completion had taken place on 1 January 2005, being the consideration calculated based on the proposed disposal of 72,720,000 Citychamp Shares at HK$5.60 each (being the closing price at 1 January 2005) and cash of HK$34,000; and adjusted for (i) the net assets value of the Jing Guan Group as at 1 January 2005, (ii) unamortised premium as at 1 January 2005 and (iii) relevant costs for the Asset Transaction.

Citychamp will be accounted for as an investment available-for-sale of the Group. According to the accounting policy of the Group, an investment available-for-sale is measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The Group had an audited net asset value of approximately HK$527.8 million as at 30 June 2006. Based on the unaudited pro forma consolidated balance sheet of the Reorganised Group, the net asset value of the Reorganised Group would have been approximately HK$709.6 million assuming that Completion had taken place on 30 June 2006. The Group incurred loss of approximately HK$43.7 million for the year ended 31 December 2005. Based on the unaudited pro forma consolidated profit and loss account of the Reorganised Group, the Reorganised Group would have profit of approximately HK$191.2 million for the year ended 31 December 2005 assuming that Completion had taken place on 1 January 2005. Please refer to Appendix III to this circular for the unaudited pro forma financial information of the Reorganised Group for details.

EGM

The Asset Transaction constitutes a "very substantial disposal" of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the approval of the Shareholders. The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Revised Asset Transaction Agreement and the transactions contemplated thereunder. No Shareholder is required to abstain from voting at the EGM.

Set out on pages 169 to 170 of this circular is a notice of the EGM to be held at Kellett Room I, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, 15 September 2006 at 3:00 p.m. Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required to be taken under the Listing Rules or unless a poll is (before or on the declaration of the result of the show of hands) demanded (a) by the chairman; or (b) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or (c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (d) by any member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of all the shares conferring that right.

On a show of hands, every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative shall have one vote, and on a poll every member present in person or by proxy shall have one vote for every fully-paid share of which he is the holder. On a poll a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

RECOMMENDATION

Having considered the factors and reasons set out herein, the Directors, including the independent non-executive Directors, are of the opinion that the Revised Asset Transaction Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be put forward at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Hon Kwok Lung
Chairman

1. ACCOUNTANTS' REPORT OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2005 AND THE SIX MONTHS ENDED 30 JUNE 2006

The following is the text of the accountants' report from Baker Tilly Hong Kong Limited, the reporting accountants, prepared for the purpose of incorporation in this circular.

BAKER TILLY
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30 August 2006

The Directors,
China Haidian Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China Haidian Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006 (the "Relevant Periods") and the comparative financial information of the Group for the six months ended 30 June 2005, prepared on the basis set out in Section II below, for inclusion in the circular issued by the Company dated 30 August 2006 (the "Circular") in connection with the proposed asset transaction.

The Company was incorporated in the Cayman Islands on 26 September 1990 as an exempted company with limited liability under the Company Law of the Cayman Islands. During the Relevant Periods, the principal activities of the Group consist of manufacture and distribution of watches and timepieces, manufacture and distribution of timber products and property investment. The Group commenced the business of property development and manufacture and distribution of enamelled copper wires in 2004 and 2005 respectively. Other than this, there were no significant changes in the nature of the Group's principal activities during the Relevant Periods.

As at the date of this report, the Company has direct and indirect interest in the following subsidiaries, which in the opinion of the directors principally affected the results or formed a substantial portion of the net assets of the Group. All of which are private limited companies.

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Qingapen Limited	Hong Kong/ the People's Republic of China (the "PRC")	HK$2	100	–	Property investment
China Haidian Commercial Network Services Limited	Hong Kong/PRC	HK$2	100	–	Property investment
Haidian-Creation International Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Sure Best Management Limited	Hong Kong	HK$1	100	–	Property investment
EBOHR Luxuries International Co., Limited	PRC	HK$30,000,000	–	100	Manufacture and sale of watches and timepieces
Seti Timber Industry (Shenzhen) Co., Ltd	PRC	US$45,525,860	–	100	Manufacture and sale of timber products
Beijing Jing Guan Property Development Company Limited	PRC	RMB80,000,000	–	100	Property development
Beijing Xin Yang Property Development Company Limited	PRC	RMB88,500,000	–	80	Property development

All companies now comprising the Group have adopted 31 December as their financial year end date.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have audited the consolidated financial statements of the Group and the financial statements of each of the subsidiaries comprising the Group for the six months ended 30 June 2006 in accordance with Hong Kong Standards on Auditing ("SASs") issued by HKICPA.

The financial statements of the Group and the Company for the years ended 31 December 2003, 2004 and 2005 were audited by Ernst & Young, Hong Kong.

For the purpose of this report, we have examined the audited consolidated financial statements of the Group for the Relevant Periods in accordance with the SASs and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, we have performed a review on the comparative financial information, which includes the consolidated income statement and consolidated cash flow statement of the Group for the six months ended 30 June 2005, together with the notes thereto, (the "30 June 2005 Financial Information"), for which the Directors are responsible, in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consists principally of making enquires of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope and therefore provides a lower level of assurance than the audit or examination procedures as described in the preceding paragraph and accordingly, we do not express an audit opinion on the 30 June 2005 Financial Information.

The Directors are responsible for the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information together with the notes thereto. We believe that our work provides a reasonable basis for our opinion.

As referred to in Note 3 to the Financial Information, these financial statements have been prepared on the basis of accounting practices applicable to a going concern. The ability of the Group to continue as a going concern is dependent upon the continuation of the financial support by the bankers of the Group. We consider that appropriate disclosures have been made in the Financial Information, and our opinion is not qualified in this respect.

In our opinion, the Financial Information together with the notes thereto, for the purpose of this report, gives a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003, 2004 and 2005 and 30 June 2006 and of the results and cash flows of the Group for the Relevant Periods.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2005 Financial Information.

I FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
REVENUE	*6*	287,878	523,802	620,709	312,317	464,605
Cost of sales		(223,046)	(426,332)	(537,975)	(271,668)	(403,320)
Gross profit		64,832	97,470	82,734	40,649	61,285
Other income	*6*	20,036	7,927	9,992	4,831	4,242
Selling and distribution costs		(35,534)	(46,087)	(53,665)	(27,920)	(25,858)
Administrative expenses		(41,432)	(62,646)	(71,636)	(30,062)	(41,023)
Other operating (expenses)/income, net		(46,658)	41,068	13,144	(1,688)	7,895
Finance costs	*8*	(8,851)	(10,382)	(2,699)	(1,216)	(2,450)
Write-back of provision for other receivables		16,382	–	–	–	–
(LOSS)/PROFIT BEFORE INCOME TAX	*7*	(31,225)	27,350	(22,130)	(15,406)	4,091
Income tax	*11*	(661)	(15,933)	(21,581)	(11,369)	(18,365)
(LOSS)/PROFIT FOR THE YEAR/PERIOD		(31,886)	11,417	(43,711)	(26,775)	(14,274)
Attributable to:						
Equity holders of the Company		(31,994)	11,373	(43,275)	(26,775)	(14,147)
Minority interests		108	44	(436)	–	(127)
		(31,886)	11,417	(43,711)	(26,775)	(14,274)
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*14*					
Basic (HK cent(s))		(2.06)	0.74	(2.80)	(1.73)	(0.91)
Diluted		N/A	N/A	N/A	N/A	N/A

Certain comparative amounts have been reclassified to conform with the current period's presentation.

CONSOLIDATED BALANCE SHEETS

	Notes	31 December 2003 HK$'000 (restated)	31 December 2004 HK$'000 (restated)	31 December 2005 HK$'000	30 June 2006 HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	228,440	229,810	213,587	205,184
Investment properties	16	67,747	84,971	66,689	70,054
Prepaid land lease payments	17	53,766	50,679	48,029	46,748
Goodwill	18	5,400	4,816	–	–
Investment securities and long term investments/ available-for-sale investment	22	20,240	23,717	–	–
Properties under development	23	332,091	61,503	291,046	661,849
Prepayments and deposits	24	2,013	2,626	48,128	84,643
Deferred tax assets	34	1,000	1,000	1,021	1,031
Total non-current assets		710,697	459,122	668,500	1,069,509
CURRENT ASSETS					
Properties for sale	23	–	–	70,330	103,732
Properties under development	23	–	289,102	194,133	19,742
Inventories	25	97,782	95,295	105,922	116,232
Trade and bills receivable	26	12,241	17,480	25,288	22,377
Prepaid land lease payments	17	3,544	3,546	3,619	3,654
Prepayments, deposits and other receivables	24	14,300	68,539	37,212	57,138
Securities measured at fair value through profit or loss/Short term investments	27	–	12,792	44,210	35,555
Due from minority equity holders	28	–	–	7,480	832
Due from related companies	33	–	–	–	43,825
Pledged deposits	29	4,797	4,845	18,653	11,289
Cash and cash equivalents	29	320,342	186,826	370,909	163,031
Total current assets		453,006	678,425	877,756	577,407
CURRENT LIABILITIES					
Trade payables	30	25,765	89,989	108,760	117,766
Deposits received from customers		–	91,516	255,163	156,655
Other payables and accruals	31	160,102	91,881	98,135	118,892
Tax payables		3,035	16,896	12,007	24,262
Interest-bearing bank borrowings	32	242,361	28,269	96,154	447,864
Due to related companies	33	7,142	3,374	134	–
Due to a substantial shareholder		3,892	–	–	–
Dividends payable to a minority shareholder		67	–	–	–
Other loans	32	–	–	–	72,815
Total current liabilities		442,364	321,925	570,353	938,254
NET CURRENT ASSETS/ (LIABILITIES)		10,642	356,500	307,403	(360,847)
TOTAL ASSETS LESS CURRENT LIABILITIES		721,339	815,622	975,903	708,662

	Notes	31 December 2003 HK$'000 (restated)	31 December 2004 HK$'000 (restated)	31 December 2005 HK$'000	30 June 2006 HK$'000
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	*32*	201,044	310,959	317,308	–
Deferred tax liabilities	*34*	–	–	794	1,274
Deferred income	*35*	–	–	177,906	179,634
Due to an associate	*21*	3,649	3,649	–	–
Other payables	*31*	20,000	–	–	–
Total non-current liabilities		224,693	314,608	496,008	180,908
Net assets		496,646	501,014	479,895	527,754
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	*36*	154,483	154,483	154,483	179,203
Reserves	*38*	332,917	344,410	304,535	315,761
		487,400	498,893	459,018	494,964
Minority interests		9,246	2,121	20,877	32,790
Total equity		496,646	501,014	479,895	527,754

BALANCE SHEETS

		31 December			30 June
		2003	2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*15*	537	2,446	1,969	1,750
Interests in subsidiaries	*19*	358,038	419,851	297,771	302,575
Interests in a jointly-controlled entity	*20*	–	–	46,199	46,202
Deposits	*24*	–	–	27,000	51,340
Total non-current assets		358,575	422,297	372,939	401,867
CURRENT ASSETS					
Prepayments and deposits	*24*	531	3,521	4,135	3,947
Securities measured at fair value through profit or loss/Short term investments	*27*	–	4,788	28,297	20,441
Pledged deposits	*29*	–	–	7,500	–
Cash and cash equivalents	*29*	243,305	54,467	23,238	46,495
Total current assets		243,836	62,776	63,170	70,883
CURRENT LIABILITIES					
Other payables and accruals	*31*	91,381	13,853	13,597	12,092
NET CURRENT ASSETS		152,455	48,923	49,573	58,791
TOTAL ASSETS LESS CURRENT LIABILITIES		511,030	471,220	422,512	460,658
NON-CURRENT LIABILITIES					
Other payables	*31*	20,000	–	–	–
Net assets		491,030	471,220	422,512	460,658
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	*36*	154,483	154,483	154,483	179,203
Reserves	*38*	336,547	316,737	268,029	281,455
Total equity		491,030	471,220	422,512	460,658

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to equity holders of the parent								
	Notes	Issued share capital HK$'000	Share premium account* HK$'000	Goodwill arising on consolidation* HK$'000	Statutory reserves* HK$'000	Exchange fluctuation reserve* HK$'000	Retained profits/ (accumulated losses)* HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2003		154,483	677,882	(15,300)	4,743	147	(302,705)	519,250	257	519,507
Exchange realignment and net gains and losses not recognised in the income statement		–	–	–	–	211	–	211	137	348
Acquisition of a subsidiary	39(a)	–	–	–	–	–	–	–	8,960	8,960
Transfer to statutory reserves		–	–	–	1,448	–	(1,448)	–	–	–
Loss for the year		–	–	–	–	–	(31,994)	(31,994)	(108)	(32,102)
Dividend declared to a minority shareholder		–	–	–	–	–	(67)	(67)	–	(67)
At 31 December 2003 and 1 January 2004		154,483	677,882	(15,300)	6,191	358	(336,214)	487,400	9,246	496,646
Exchange realignment and net gains and losses not recognised in the income statement		–	–	–	–	120	–	120	9	129
Disposal of subsidiaries	39(b)	–	–	–	–	–	–	–	(7,178)	(7,178)
Transfer to statutory reserves		–	–	–	4,429	–	(4,429)	–	–	–
Net profit for the year		–	–	–	–	–	11,373	11,373	44	11,417
At 31 December 2004 (As previously reported)		154,483	677,882	(15,300)	10,620	478	(329,270)	498,893	2,121	501,014
Opening adjustment	2.2(b)	–	–	–	–	–	(2,925)	(2,925)	–	(2,925)
At 1 January 2005 (As restated)		154,483	677,882	(15,300)	10,620	478	(332,195)	495,968	2,121	498,089
Exchange realignment and net gains and losses not recognised in the income statement		–	–	–	–	6,325	–	6,325	45	6,370
Acquisition of a subsidiary	39(a)	–	–	–	–	–	–	–	19,147	19,147
Net loss for the year		–	–	–	–	–	(43,275)	(43,275)	(436)	(43,711)
Cancellation of share premium	38(b)	–	(677,882)	–	–	–	677,882	–	–	–
Transfer to statutory reserves		–	–	–	4,127	–	(4,127)	–	–	–
At 31 December 2005 and 1 January 2006		154,483	–	(15,300)	14,747	6,803	298,285	459,018	20,877	479,895
Exchange realignment and net gains and losses not recognised in the income statement		–	–	–	–	1,647	–	1,647	21	1,668
Issue of new shares	36	24,720	23,726	–	–	–	–	48,446	–	48,446
Increase in paid up capital of a subsidiary		–	–	–	–	–	–	–	12,019	12,019
Transfer to statutory reserves		–	–	–	4,395	–	(4,395)	–	–	–
Net loss for the period		–	–	–	–	–	(14,147)	(14,147)	(127)	(14,274)
At 30 June 2006		179,203	23,726	(15,300)	19,142	8,450	279,743	494,964	32,790	527,754

* *These reserve accounts comprise the consolidated reserves of HK$332,917,000, HK$344,410,000, HK$304,535,000 and HK$315,761,000 in the consolidated balance sheet as at 31 December 2003, 2004 and 2005 and 30 June 2006 respectively.*

CONSOLIDATED CASH FLOW STATEMENTS

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss)/Profit before income tax		(31,225)	27,350	(22,130)	(15,406)	(1,215)
Adjustments for:						
Interest income	*6*	(3,298)	(2,013)	(4,397)	(2,052)	(1,572)
Finance costs	*8*	8,851	10,382	2,699	1,216	2,450
Dividend income from listed investments	*6*	(340)	(537)	(238)	(170)	(20)
Write-back of provision for other receivables		(16,382)	–	–	–	–
Gain on disposal of property, plant and equipment, net	*7*	(21,021)	(1,285)	(1,429)	(1,563)	(11)
Gain on disposal of available-for-sale investments	*7*	–	–	(13,145)	–	(1,116)
Impairment of available-for-sale investments	*22*	–	–	3,477	–	–
Deficits/(Gain) on revaluation of investment properties	*16*	2,495	(17,224)	(3,378)	–	(3,069)
Depreciation	*15*	16,282	20,865	18,282	10,065	11,774
Recognition of prepaid land lease payments	*17*	2,268	3,085	3,585	1,380	1,810
Amortisation of goodwill	*18*	438	584	–	–	–
Impairment of goodwill	*18*	–	–	4,816	–	–
Impairment/(Write back of impairment) of property, plant and equipment	*7*	2,034	(21,671)	–	–	–
Impairment of investment securities	*7*	20,000	–	–	–	–
Gain on disposal of a subsidiary	*39(b)*	–	(59)	–	–	–
Gain on disposal of an associate	*7*	–	–	(3,769)	–	–
Provision for inventories	*7*	4,143	12,048	3,775	7,534	258
Provision for bad and doubtful debts	*7*	37,765	–	–	–	1,289
Proceeds from the pre-sale of properties		–	314,737	–	–	–
Attributable profits from pre-sale of properties	*23*	–	(68,958)	–	–	–
Foreign exchange gain		(438)	(91)	–	(13)	–

		Year ended 31 December			Six months ended 30 June	
		2003	**2004**	**2005**	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		(unaudited)	
Operating profit/(loss) before working capital changes		21,572	277,213	(11,852)	991	15,884
Development costs of properties under development and properties held for sale		–	(155,364)	(196,447)	54,638	(229,817)
Increase in inventories		(4,306)	(12,663)	(14,402)	(18,979)	(11,100)
Decrease/(Increase) in trade and bills receivables		9,905	(5,239)	(7,808)	(12,248)	1,622
Decrease/(Increase) in prepayments, deposits and other receivables		28,090	(60,003)	(13,622)	(15,825)	(22,259)
(Increase)/Decrease in short term investments/securities measured at fair value through profit or loss		–	(12,792)	(31,418)	–	8,655
(Increase)/Decrease in non-pledged deposits with maturity over three months when acquired		–	(3,769)	3,769	3,768	–
(Decrease)/Increase in trade payables		(8,734)	64,674	18,771	67,565	9,006
(Decrease)/Increase in other payables and accruals		(6,874)	(91,064)	15,447	3,859	20,754
Increase/(Decrease) in deposits received from customers		–	–	163,647	65,700	(98,508)
Increase in an amount due from a shareholder		24	–	–	–	6,648
Increase/(Decrease) in amounts due to related companies		2,225	(3,768)	(3,240)	(3,374)	(43,958)
Cash generated/(used) in operations		41,902	(2,775)	(77,155)	146,095	(343,073)

	Notes	Year ended 31 December 2003 HK$'000 (restated)	2004 HK$'000 (restated)	2005 HK$'000	Six months ended 30 June 2005 HK$'000 (unaudited)	2006 HK$'000
Interest received		3,298	2,013	4,397	2,052	1,572
Interest paid		(8,851)	(27,795)	(2,699)	(1,216)	(2,450)
Hong Kong profits tax (paid)/ refunded		–	(154)	26	(9)	–
Overseas tax paid		(1,506)	(1,749)	(25,702)	(15,438)	(6,110)
Net cash inflow/(outflow) from operating activities		34,843	(30,460)	(101,133)	131,484	(350,061)
CASH FLOWS FROM INVESTING ACTIVITIES						
Dividends received from listed investments		340	537	238	170	20
Purchases of property, plant and equipment	15	(7,971)	(9,836)	(43,664)	(460)	(1,345)
Purchases of investment properties	16	–	–	(25,207)	–	–
Purchases of investment securities		(753)	–	–	(21,320)	–
Proceeds from disposal of property, plant and equipment		31,403	4,097	39,018	85,734	131
Proceeds from disposal of investment properties	16	–	–	47,200	–	–
Proceeds from disposal of available-for-sale investments		–	–	30,460	–	1,116
Proceeds from disposal of investment securities		–	–	–	8,244	–
Acquisition of subsidiaries	39(a)	14,844	–	1,510	–	–
Acquisition of joint venture	20	–	–	–	(46,199)	–
Disposal of a subsidiary	39(b)	–	2,602	–	–	–
Disposal of an associate	21	–	–	120	–	–
(Increase)/Decrease in pledged deposits		(4,797)	(48)	(13,808)	(4,054)	7,363
Deposits paid for long-term prepayments		–	–	–	(37,845)	(34,182)
Net cash inflow/(outflow) from investing activities		33,066	(2,648)	35,867	(15,730)	(26,897)

	Notes	Year ended 31 December 2003 HK$'000 (restated)	2004 HK$'000 (restated)	2005 HK$'000	Six months ended 30 June 2005 HK$'000 (unaudited)	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		–	376,920	74,234	11,028	106,117
Receipt of government grant	35	–	–	177,906	–	
Contribution from minority interest		–	–	–	–	12,019
Proceeds from issue of new shares		–	–	–	–	48,446
Repayment of bank and other loans		(105,071)	(481,097)	–	(1,415)	(2,913)
Net cash (outflow)/inflow from financing activities		(105,071)	(104,177)	252,140	9,613	163,669
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(37,162)	(137,285)	186,874	125,367	(213,289)
Effect of foreign exchange rate changes, net		–	–	978	–	5,411
Cash and cash equivalents at beginning of year/period		357,504	320,342	183,057	183,057	370,909
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		320,342	183,057	370,909	308,424	163,031
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		84,496	56,199	339,439	83,109	116,968
Non-pledged time deposits with original maturity of less than three months when acquired		235,846	126,858	31,470	225,315	46,063
		320,342	183,057	370,909	308,424	163,031

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

China Haidian Holdings Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Suites 2701-2705 & 2715-2716, 27th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

2.1 APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the year ended 31 December 2005, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Some of these have been effective for accounting periods beginning on or after 1 January 2005 whilst some of which are effective for accounting periods beginning on or after 1 January 2006. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

HKAS 1	Note a	Presentation of Financial Statements
HKAS 2	Note a	Inventories
HKAS 7	Note a	Cash Flow Statements
HKAS 8	Note a	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Note a	Events after the Balance Sheet Date
HKAS 11	Note a	Construction Contracts
HKAS 12	Note a	Income Taxes
HKAS 14	Note a	Segment Reporting
HKAS 16	Note a	Property, Plant and Equipment
HKAS 17	Note a	Leases
HKAS 18	Note a	Revenue
HKAS 19	Note a	Employee Benefits
HKAS 19 (Amendment)	Note b	Employee benefits – Actuarial gains and losses, group plans and disclosures
HKAS 20	Note a	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	Note a	The Effects of Changes in Foreign Exchange Rates
HKAS 21 (Amendment)	Note b	The effects of changes in foreign exchange rates – Net investment in a foreign operation
HKAS 23	Note a	Borrowing Costs
HKAS 24	Note a	Related Party Disclosures
HKAS 27	Note a	Consolidated and Separate Financial Statements
HKAS 28	Note a	Investments in Associates
HKAS 31	Note a	Interests in Joint Ventures
HKAS 32	Note a	Financial Instruments: Disclosure and Presentation
HKAS 33	Note a	Earnings per Share
HKAS 36	Note a	Impairment of Assets
HKAS 37	Note a	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Note a	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Note a	Transition and Initial Recognition of Financial Assets and Financial Liabilities

HKAS 39 (Amendment)	Note b	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	Note b	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	Note b	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKAS 40	Note a	Investment Property
HKFRS 2	Note a	Share-based Payment
HKFRS 3	Note a	Business Combinations
HKFRS 6	Note b	Exploration for and evaluation of mineral resources
HK(SIC)-Int 21	Note a	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 3	Note a	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Note a	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKRS-Int 4	Note b	Determining whether an arrangement contains a lease
HKRS-Int 5	Note b	Rights to Interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC)-Int 6	Note c	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment

Note a: Effective for annual periods beginning on or after 1 January 2005
Note b: Effective for annual periods beginning on or after 1 January 2006
Note c: Effective for annual periods beginning on or after 1 December 2005

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 33, 37, HKFRS 2, HKFRS 6, HK(SIC)-Int 21, HK-Int 3, HK-Int 4, HKRS-Int 4, HKRS-Int 5 and HK(IFRIC)-Int 6 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

Prior to 1 January 2005, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

With adoption of HKAS 17 for the first time as at 1 January 2005, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is classified as prepaid land lease payments, while leasehold buildings will be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no material effect on the consolidated income statement and accumulated losses. The comparative amounts as at 31 December 2003 and 2004 in the consolidated balance sheets have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Prior to 1 January 2005, the Group classified its investments in equity securities as investment securities and long term investment, held for non-trading purposes and were stated at cost, and the Group's share of the investee company's net assets value (the "Deemed Cost") at the time of its transfer to a long term investment, respectively, less any impairment losses.

With the adoption of HKAS 39 for the first time as at 1 January 2005, these investment securities and long term investments totalling HK$23,717,000 as at 1 January 2005, respectively, are designated as available-for-sale investments under the provisions of HKAS 39 and are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment as more fully explained in note 3.

Prior to 1 January 2005, the Group classified its investment in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement.

With the adoption of HKAS 39 for the first time as at 1 January 2005, these investments of HK$12,792,000 as at 1 January 2005 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The effects of the above changes are summarised in note 2.2 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) HKAS 40 – Investment property

Prior to 1 January 2005, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

With adoption of HKAS 40 for the first time as at 1 January 2005, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. The adoption of HKAS 40 has had no material impact on the consolidated income statement and accumulated losses.

Investment property is now presented separately on the face of the consolidated balance sheet. Comparative amounts as at 31 December 2003 and 2004 have been reclassified to conform with the presentation as required under HKAS 40.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

Prior to 1 January 2005, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The first adoption of HKFRS 3 and HKAS 36 as at 1 January 2005 had resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against the consolidated reserves remains eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

The effect of the above changes are summarised in note 2.2 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(e) HK-Int 3 "Revenue – Pre-completion contracts for the sale of development properties"

Properties under development are stated at cost which includes all development expenditure, interest charges and other costs directly attributable to such properties.

Properties under development which have been sold prior to completion ("pre-sold") on or before 31 December 2004 are stated at cost plus attributable profits less any foreseeable losses, and deposits and instalments received. The total estimated profit of such properties is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the balance sheet date, to the estimated total construction costs to completion, but is limited to the amount of sales deposits and instalments received and with due allowance for contingencies (the "Percentage of Completion Method").

HK-Int 3, which is effective for the pre-completion contracts for sale of development properties entered into on or after 1 January 2005, generally requires revenue from the sale of properties to be recognised when the significant risks and rewards of ownership of the properties have been transferred to the buyers and the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties sold, which is usually at the time when the Group has no further substantial acts to complete under the contracts.

The Group has not applied HK-Int 3 retrospectively to pre-completion contracts for the sale of development properties entered into before 1 January 2005 in these consolidated financial statements, which continues to be accounted for on the Percentage of Completion Method.

(f) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

Prior to 1 January 2005, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

With adoption of HK(SIC)-Int 21 for the first time as at 1 January 2005, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of HK(SIC)-Int 21 has had no material impact to the previously reported figures of the Group.

At the date of this report, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Note a	Capital disclosures
HKFRS 7	Note a	Financial instruments – Disclosures
HK(IFRIC)-Int 7	Note b	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies
HK(IFRIC)-Int 8	Note c	Scope of HKFRS 2
HK(IFRIC)-Int 9	Note d	Reassessment of embedded derivatives

Note a: Effective for annual periods beginning on or after 1 January 2007
Note b: Effective for annual periods beginning on or after 1 March 2006
Note c: Effective for annual periods beginning on or after 1 May 2006
Note d: Effective for annual periods beginning on or after 1 June 2006

The Group has commenced considering the potential impact of the above new HKFRS but is not yet in a position to determine these HKFRS would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRS may result in changes in the future as to how the results and financial position are prepared and presented.

2.2 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheets

At 31 December 2003 Effect of new policies (Increase/(Decrease))	**HKAS 1#** **Presentation** *HK$'000*	**Effect of adopting HKAS 17#** **Prepaid land lease payments** *HK$'000*	**Total** *HK$'000*
Assets			
Property, plant and equipment	(67,747)	(57,310)	(125,057)
Investment properties	67,747	–	67,747
Prepaid land lease payments	–	57,310	57,310
			–

At 31 December 2004 Effect of new policies (Increase/(Decrease))	**HKAS 1#** **Presentation** *HK$'000*	**Effect of adopting HKAS 17#** **Prepaid land lease payments** *HK$'000*	**Total** *HK$'000*
Assets			
Property, plant and equipment	(84,971)	(54,225)	(139,196)
Investment properties	84,971	–	84,971
Prepaid land lease payments	–	54,225	54,225
			–

At 1 January 2005 Effect of new policies (Increase/(Decrease))	HKAS 1# Presentation *HK$'000*	HKAS 17# Prepaid land lease payments *HK$'000*	Effect of adopting HKASs 32 and 39* Change in classification of equity investments *HK$'000*	Total *HK$'000*
Assets				
Property, plant and equipment	(84,971)	(54,225)	–	(139,196)
Investment properties	84,971	–	–	84,971
Prepaid land lease payments	–	54,225	–	54,225
Available-for-sale equity investments	–	–	20,792	20,792
Long term investment	–	–	(3,477)	(3,477)
Investment securities	–	–	(20,240)	(20,240)
Securities measured at fair value through profit or loss	–	–	12,792	12,792
Short term investments	–	–	(12,792)	(12,792)
				(2,925)

* *Adjustments taken effect prospectively from 1 January 2005*

\# *Presentation taken effect retrospectively*

At 31 December 2005 Effect of new policies (Increase/(Decrease))	HK-Int 3 Revenue – Pre- completion contract *HK$'000*	HKAS 1 Presentation *HK$'000*	HKAS 17 Prepaid land lease payments *HK$'000*	Effect of adopting HKASs 32 and 39 Change in classification of equity investments *HK$'000*	HKFRS 3 Discon- tinuation of amortisation of goodwill *HK$'000*	HK(SIC)-Int 21 Deferred tax on revaluation of investment properties *HK$'000*	Total *HK$'000*
Assets							
Property under development	(158,425)	–	–	–	–	–	(158,425)
Property, plant and equipment	–	(66,689)	(51,648)	–	–	–	(118,337)
Investment properties	–	66,689	–	–	–	–	66,689
Prepaid land lease payments	–	–	51,648	–	–	–	51,648
Prepayments, deposits and other receivables	(10,925)	–	–	–	–	–	(10,925)
Goodwill	–	–	–	–	584	–	584
Securities measured at fair value through profit or loss	–	–	–	44,210	–	–	44,210
Short term investments	–	–	–	(44,210)	–	–	(44,210)
							(168,766)
Liabilities and equity							
Deposit received	(218,495)	–	–	–	–	–	(218,495)
Other payable	10,291	–	–	–	–	–	10,291
Tax payable	18,138	–	–	–	–	794	18,932
Retained profits	20,176	–	–	–	584	(794)	20,506
							(168,766)

(b) Effect on the balances of equity at 1 January 2005

Effect of new policies	**HKAS 39 Designation of available-for-sale investments** *HK$'000*
Increase in accumulated losses at 1 January 2005	2,925

(c) Effect on the consolidated income statement for the year ended 31 December 2005

	Effect of adopting			
	HK-Int 3	HKFRS 3	HK(SIC)-Int 21	
Year ended 31 December 2005	Revenue – Pre-completion contract	Discontinuation of amorisation of goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Sales	207,570	–	–	207,570
Cost of sales	168,716	–	–	168,716
Other expenses	–	(584)	–	(584)
Tax	18,138	–	794	18,932
				187,064
Total (decrease)/increase in loss for the year	(20,716)	(584)	794	(20,506)
(Decrease)/Increase in basic loss per share	HK(1.33) cents	HK(0.04) cent	HK0.05 cent	HK(1.32) cents

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

Other than the accounting policies set out above in Section 2.1, the accounting policies have been applied consistently to the periods presented in the Financial Information. Except for investment properties, securities measured at fair value through profit or loss and certain available-for-sale investments, which have been measured at fair value, the measurement basis used in the preparation of the Financial Information of the Group is historical cost.

Going Concern

The financial statements have been prepared on a going concern basis though the Group had net current liabilities of HK$360,847,000 (31 December 2005: net current assets of HK$307,403,000) as at 30 June 2006. The Group has taken and will continue the following measures to ensure the Group will have adequate cash flows for the operations of the Group:

(a) to impose tight cost controls;

(b) to raise funds as and when necessary;

(c) to obtain necessary funding from the bankers.

The Directors are of opinion that, in view of the measures taken to date, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

In addition, the Directors do not foresee any circumstances that the banks will not continue their bank loan facilities for the Group. Accordingly, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the next twelve months from 30 June 2006 without a significant curtailment of operations and are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments relating to the carrying amounts and reclassifications of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and a jointly-controlled entity. The results of subsidiaries and a jointly-controlled entity 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.

The acquisition of subsidiaries during the Relevant Periods has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside equity holders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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.

Joint venture

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) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. In 2001, on the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is accounted for according to the accounting policy that goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), 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 value in use and its fair value less costs to sell, and is determined for an individual asset, 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 the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such 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.

Related parties

A party is considered to be 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 an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(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); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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 and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 15%
Leasehold improvements	10% or over the remaining lease term, whichever is shorter
Plant and machinery	6% to 25%
Furniture and fixtures	10% to $33^1/_3$%
Motor vehicles	10% to 25%

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 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. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Properties under development

Properties under development are stated at cost which includes all development expenditure, interest charges and other costs directly attributable to such properties.

Properties under development which have been sold prior to completion ("pre-sold") on or before 31 December 2004 are stated at cost plus attributable profits less any foreseeable losses, and deposits and instalments received.

When properties under development have been pre-sold on or before 31 December 2004, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the balance sheet date, to the estimated total construction costs to completion, but is limited to the amount of sales deposits and instalments received and with due allowance for contingencies.

Properties under development which have either been pre-sold or which are intended for sale, and are expected to be completed within one year from the balance sheet date, are classified as current assets.

Properties for sale

Properties for sale are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

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.

Investments and other financial assets
(Applicable to the accounting periods beginning prior to 1 January 2005)

Investment securities

Investment securities represent investments in listed equity securities intended to be held for a continuing strategic and long term purpose, and are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement in the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Long term investment

Long term investment represents the Group's interest in its former subsidiary in the People's Republic of China ("PRC") which is intended to be held on a long term basis. It is stated at the Group's share of its net assets value at the time of its transfer to long term investment, less any impairment losses.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

(Applicable to the accounting periods beginning on or after 1 January 2005)

Financial assets in the scope of HKAS 39 are classified as either securities measured at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Securities measured at fair value through profit or loss

Financial assets classified as held for trading are included in the category "securities measured at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (Applicable to the accounting periods beginning on or after 1 January 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets (Applicable to the accounting periods beginning on or after 1 January 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (Applicable to the accounting periods beginning on or after 1 January 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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.

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.

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 recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses 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, associates and interests in joint ventures, 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 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.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grants related to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grants related to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset.

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:

(a) income from the pre-sale of properties under development, on the exchange of legally binding sale contracts, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined, and on the basis set out in "Properties under development" above;

(b) 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;

(c) rental income, on a time proportion basis over the lease terms;

(d) 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; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

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.

Pension schemes and other retirement benefits

The Group operates a defined contribution staff retirement scheme (the "ORSO Scheme") for certain of its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group can be reduced by the relevant amount of forfeited contributions.

The Group also operates a defined contribution retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme not previously covered by the ORSO Scheme. 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.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Foreign currencies

These financial statements are presented in HK$, 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 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 and jointly-controlled entities are currencies other than the HK$. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into HK$ 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 and jointly-controlled entities are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entities which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio and has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group 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.

The carrying amount of goodwill of the Group at 1 January 2005 of HK$4,816,000 was fully impaired for the year ended 31 December 2005, further details of which are set out in note 18 to the financial statements.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

Impairment of property, plant and equipment

The carrying value of the property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in section 3. The recoverable amount of items of property, plant and equipment is the higher of fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

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) property development;

(b) manufacture and distribution of watches and timepieces;

(c) manufacture and distribution of timber products;

(d) manufacture and distribution of enamelled copper wires;

(e) property investment; and

(f) corporate and others segment, comprising corporate income and expense items and other businesses.

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.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments

Group

Year ended 31 December 2003

	Property development HK$'000	Watches and timepieces HK$'000	Timber products HK$'000	Enamelled copper wires HK$'000	Property investment HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue and gain:							
Sales to external customers	–	85,133	195,314	–	4,133	3,298	287,878
Other income	–	833	10,530	–	15	8,658	20,036
Total	–	85,966	205,844	–	4,148	11,956	307,914
Segment results	–	(3,625)	(7,117)	–	(5,610)	(22,404)	(38,756)
Finance costs							(8,851)
Write-back of provision for other receivables							16,382
Loss before income tax							(31,225)
Income tax							(661)
Loss for the year							(31,886)
Segment assets	–	72,934	316,613	–	426,504	347,652	1,163,703
Segment liabilities	–	29,113	42,372	–	237,075	358,497	667,057
Other segment information:							
Depreciation and amortization of prepaid lease payments	–	3,056	13,743	–	1,503	248	18,550
Impairment of property, plant and equipment	–	2,034	–	–	–	–	2,034
Provision for inventories	–	4,143	–	–	–	–	4,143
Provision for bad and doubtful debts	–	–	37,185	–	580	–	37,765
Amortization of goodwill	–	–	438	–	–	–	438
Impairment of investment securities	–	–	–	–	–	20,000	20,000
Capital expenditure	–	7,334	316	–	16,382	321	24,353

Group

Year ended 31 December 2004

	Property development HK$'000	Watches and timepieces HK$'000	Timber products HK$'000	Enamelled copper wires HK$'000	Property investment HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue and gain:							
Sales to external customers	217,920	104,538	194,119	–	5,212	2,013	523,802
Other income	30	497	6,844	–	–	556	7,927
Total	217,950	105,035	200,963	–	5,212	2,569	531,729
Segment results	32,187	9,962	(27,137)	–	19,662	3,058	37,732
Finance costs							(10,382)
Profit before income tax							27,350
Income tax							(15,933)
Profit for the year							11,417
Segment assets	402,070	73,238	291,582	–	86,347	284,310	1,137,547
Segment liabilities	194,256	27,852	39,444	–	15,221	359,760	636,533
Other segment information:							
Depreciation and amortization of prepaid lease payments	234	2,741	19,046	–	–	1,929	23,950
Reversal of impairment of property, plant and equipment	–	–	–	–	–	(21,671)	(21,671)
Surplus on revaluation of investment properties	–	–	–	–	(17,224)	–	(17,224)
Provision for inventories	–	3,298	8,750	–	–	–	12,048
Amortization of goodwill	–	–	584	–	–	–	584
Capital expenditure	2,221	1,199	4,002	–	–	2,414	9,836

Group

Year ended 31 December 2005

	Property development HK$'000	Watches and timepieces HK$'000	Timber products HK$'000	Enamelled copper wires HK$'000	Property investment HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue and gain:							
Sales to external customers	299,339	122,884	174,010	18,332	6,144	–	620,709
Other income	2,605	835	3,632	1,778	–	1,142	9,992
Total	301,944	123,719	177,642	20,110	6,144	1,142	630,701
Segment results	15,883	18,940	(37,578)	(612)	5,060	(21,124)	(19,431)
Finance costs							(2,699)
Loss before income tax							(22,130)
Income tax							(21,581)
Loss for the year							(43,711)
Segment assets	947,452	106,312	284,814	48,119	49,997	109,562	1,546,256
Segment liabilities	537,813	28,102	64,106	1,531	7,317	427,492	1,066,361
Other segment information:							
Depreciation and amortization of prepaid lease payments	754	2,539	16,301	1,553	–	720	21,867
Surplus of revaluation of investment properties	–	–	–	–	(3,378)	–	(3,378)
Provision for inventories	–	–	3,775	–	–	–	3,775
Impairment of available-for-sale investment	–	–	–	–	–	3,477	3,477
Impairment of goodwill	–	–	4,816	–	–	–	4,816
Capital expenditure	7,044	570	393	35,547	25,207	110	68,871

Group

Six months ended 30 June 2005 (unaudited)

	Property development HK$'000	Watches and timepieces HK$'000	Timber products HK$'000	Enamelled copper wires HK$'000	Property investment HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue and gain:							
Sales to external customers	158,487	56,006	95,438	–	1,939	447	312,317
Other income	1,519	197	2,114	–	–	1,001	4,831
Total	160,006	56,203	97,552	–	1,939	1,448	317,148
Segment results	15,197	5,005	(19,682)	–	97	(14,807)	(14,190)
Finance costs							(1,216)
Loss before income tax							(15,406)
Income tax							(11,369)
Loss for the period							(26,775)
Segment assets	619,507	94,757	327,924	–	39,190	166,363	1,247,741
Segment liabilities	(614,273)	(27,454)	(106,008)	–	(6,594)	(12,102)	(766,431)
Other segment information:							
Depreciation and amortization of prepaid lease payment	207	774	10,178	–	–	286	11,445
Provision for inventories	–	–	7,534	–	–	–	7,534
Capital expenditure	–	225	144	–	–	84,135	84,504

Group

Six months ended 30 June 2006

	Property development HK$'000	Watches and timepieces HK$'000	Timber products HK$'000	Enamelled copper wires HK$'000	Property investment HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue and gain:							
Sales to external customers	262,559	56,537	65,080	75,982	4,447	–	464,605
Other income	778	1,268	738	213	6	1,239	4,242
Total	263,337	57,805	65,818	76,195	4,453	1,239	468,847
Segment results	27,889	7,821	(26,843)	1,913	3,462	(7,701)	6,541
Finance costs							(2,450)
Loss before income tax							4,091
Income tax							(18,365)
Loss for the period							(14,274)
Segment assets	986,496	96,151	247,151	117,399	60,225	139,494	646,916
Segment liabilities	(547,006)	(29,434)	(62,809)	(69,119)	(7,858)	(402,936)	(1,119,162)
Other segment information:							
Depreciation and amortization of prepaid lease payment	758	1,410	9,960	1,170	–	286	13,584
Change in fair value of investment properties	2,676	–	–	–	393	–	3,069
Provision for inventories	–	258	–	–	–	–	258
Capital expenditure	547	519	3	208	–	68	1,345

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong					PRC					Consolidated				
	Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)					(unaudited)					(unaudited)	
Segment revenue:															
Sales to external customers	44,587	45,411	33,785	23,658	20,302	243,291	478,391	586,924	288,659	444,303	287,878	523,802	620,709	312,317	464,605
Other segment information:															
Segment assets	338,038	198,406	84,359	205,553	199,719	825,665	939,141	1,461,897	1,042,188	1,447,197	1,163,703	1,137,547	1,546,256	1,247,741	1,646,916
Capital expenditure	24	2,415	110	-	68	24,329	7,421	68,761	84,504	1,277	24,353	9,836	68,871	84,504	1,345

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, mainly represents the net invoiced value of goods sold, after allowances for returns and trade discounts, an appropriate proportion of revenue from the sale of properties under development and rental income received and receivable.

An analysis of revenue and other income is as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue					
Sales of goods	279,253	298,657	315,226	150,670	197,599
Sales of properties under development	–	217,920	299,339	158,487	262,559
Gross rental income	5,327	5,212	6,144	3,160	4,447
Interest income	3,298	2,013	–	–	–
	287,878	523,802	620,709	312,317	464,605
Other income					
Interest income	–	–	4,397	2,052	1,572
Dividend income from listed investments	340	537	238	170	20
PRC value-added tax refund	9,816	5,384	3,030	864	–
Claim received	8,233	–	–	–	–
Incentive bonus received from the PRC government	942	–	–	–	–
Others	705	2,006	2,327	1,745	2,650
	20,036	7,927	9,992	4,831	4,242
	307,914	531,729	630,701	317,148	468,847

7. (LOSS)/PROFIT BEFORE INCOME TAX

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

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		(unaudited)	
Cost of inventories sold*	223,046	426,332	537,975	271,668	403,320
Depreciation	16,282	20,865	18,282	10,065	11,774
Amortization of prepaid land lease payments	2,268	3,085	3,585	1,380	1,810
Goodwill:					
Amortization for the year/period*	438	584	–	–	–
Impairment arising during the year/period*	–	–	4,816	–	–
Minimum lease payments under operating leases in respect of land and buildings	2,673	4,853	4,723	3,298	2,405
Auditors' remuneration	950	1,350	1,480	1,895	834
Employee benefits expenses (excluding directors' remuneration *(note 9)*)					
Wages and salaries	41,874	43,596	40,641	16,810	23,216
Pension schemes contributions	2,056	2,539	2,431	1,133	1,371
Less: Forfeited contributions	(31)	(61)	(18)	–	–
Net pension schemes contributions	2,025	2,478	2,413	1,133	1,371
Total staff costs	43,899	46,074	43,054	17,943	24,587
Fair value changes on short term investments/securities measured at fair value through profit or loss, net*	–	(1,699)	2,696	2,507	–
Gain on disposal of short term investments/securities measured at fair value through profit or loss, net*	–	(515)	(2,367)	81	4,403
Gain on disposal of available-for-sale investments*	–	–	(13,145)	–	(1,116)
Impairment of available-for-sale investments*	–	–	3,477	–	–
Impairment of investment securities*	20,000	–	–	–	–
Changes in fair value of investment properties*	2,495	(17,224)	(3,378)	–	(3,069)
Gain on disposal of property, plant and equipment, net*	(21,021)	(1,285)	(1,429)	(1,563)	(11)
Reversal of impairment of property, plant and equipment*	–	(21,671)	–	–	–
Impairment of property, plant and equipment*	2,034	–	–	–	–
Gain on disposal of a subsidiary*	–	(59)	–	–	–
Gain disposal of an associate*	–	–	(3,769)	–	–
Provision for bad and doubtful debts	37,765	–	–	–	1,289
Provision for inventories*	4,143	12,048	3,775	7,534	258

* *These amounts are included in "Other operating (expenses)/income, net" on the face of the consolidated income statement.*

8. FINANCE COSTS

	Group				
	Year ended 31 December			**Six months ended 30 June**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Interests on bank and other loans wholly repayable within five years	8,851	27,795	23,053	1,216	2,450
Less: Interest capitalised	–	(17,413)	(20,354)	–	–
	8,851	10,382	2,699	1,216	2,450

9. DIRECTORS' REMUNERATION

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

(a) Non-executive director and independent non-executive directors

The fees paid by the Group to non-executive and independent non-executive directors were as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Non-executive director					
Ms. Sit Lai Hei	–	13	100	50	50
Independent non-executive directors					
Mr. Fung Tze Wa	–	66	100	50	50
Dr. Kwong Chun Wai, Michael	–	66	100	50	50
Mr. Li Qiang	–	13	100	50	50
Mr. Werner Max Michael Maksowski*	50	–	–	–	–
Mr. Yang Zheng Qing*	50	–	–	–	–
	100	145	300	150	150
Total	100	158	400	200	200

* *Resigned during 2004*

There were no other emoluments payable to the non-executive director and independent non-executive directors during the Relevant Periods.

(b) Executive directors

(i) Years ended 31 December 2003, 2004 and 2005

	Fees			Salaries, allowances and benefits in kind			Pension scheme contribution			Total remuneration		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors												
Mr. Hon Kwok Lung	–	–	–	–	1,127	1,690	–	8	12	–	1,135	1,702
Mr. Wang Shao Lan	–	–	–	1,673	1,652	1,581	–	–	11	1,673	1,652	1,592
Mr. Shang Jianguang	–	–	–	–	205	1,721	–	–	72	–	205	1,793
Mr. Shi Tao	–	–	–	–	1,386	2,044	–	–	–	–	1,386	2,044
Mr. Lam Toi Man	–	–	–	–	715	1,430	–	6	12	–	721	1,442
Mr. Wang Mingquan	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Zang Qiutao	–	–	–	1,956	385	–	–	–	–	1,956	385	–
	–	–	–	3,629	5,470	8,466	–	14	107	3,629	5,484	8,573

(ii) Six months ended 30 June 2005 (unaudited) and 30 June 2006

	Fees Six months ended 30 June		Salaries, allowances and benefits in kind Six months ended 30 June		Pension scheme contribution Six months ended 30 June		Total remuneration Six months ended 30 June	
	2005	2006	2005	2006	2005	2006	2005	2006
	HK$'000 (unaudited)	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Executive directors:								
Mr. Hon Kwok Lung	–	–	780	780	6	6	786	786
Mr. Wang Shao Lan	–	–	735	734	–	–	735	734
Mr. Shang Jianguang	–	–	812	812	38	30	850	842
Mr. Shi Tao	–	–	989	787	–	–	989	787
Mr. Lam Toi Man	–	–	660	660	6	6	666	666
	–	–	3,976	3,773	50	42	4,026	3,815

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006 included two, four, five, five and five directors respectively, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining non-director, highest paid employees during the Relevant Periods are set out below:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries, allowances and benefits in kind	2,735	785	–	3,977	3,773
Provident fund contributions	34	–	–	50	42
	2,769	785	–	4,027	3,815

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

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005** (unaudited)	**2006**
Nil – HK$1,000,000	3	1	–	–	–

11. INCOME TAX

For the year ended 31 December 2003, no provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in that year. For the years ended 31 December 2004 and 2005 and the six months ended 30 June 2006, Hong Kong profits tax for the Group has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong. For the six months ended 30 June 2005, no provision for Hong Kong profits tax has been made as there was no assessable profits arising in Hong Kong in that period.

For the year ended 31 December 2003, certain of the Company's subsidiaries established in the PRC enjoyed income tax exemptions and reductions in accordance with the relevant tax rules and regulations in the PRC. Such tax exemptions and reductions expired from 1 January 2004. For the years ended 31 December 2004 and 2005 and the six months ended 30 June 2005 and 2006, these subsidiaries established in the PRC are subject to income taxes at tax rates ranging from 15% to 33%.

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.

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Current tax charge for the year:					
Hong Kong	–	34	303	–	182
Elsewhere	1,661	15,797	20,510	11,369	15,840
Under/(Over) provision of income tax in prior years	–	102	(26)	–	1,875
Deferred tax charge *(note 34)*	(1,000)	–	794	–	468
Total tax charge for the year/period	661	15,933	21,581	11,369	18,365

A reconciliation of the tax expense applicable to (loss)/profit before income tax using the statutory rates applicable to the Company and its subsidiaries to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
(Loss)/Profit before income tax	(31,225)	27,350	(22,130)	(15,406)	4,091
Tax at the applicable rates to (loss)/profit in the tax jurisdictions concerned	(4,206)	15,249	968	510	11,409
Lower tax rate for specific provinces	–	(2,239)	2,944	1,551	–
Income not subject to tax	(3,567)	(11,563)	(3,653)	(1,924)	(1,518)
Expenses not deductible for tax	10,310	1,601	4,766	2,511	518
Tax benefit from tax holiday	163	–	–	–	(184)
Adjustments in respect of income tax of previous periods	–	102	(26)	(14)	1,875
Other temporary differences not recognised	–	–	587	309	407
Tax losses utilised from previous periods	(3,021)	–	(112)	(59)	(14)
Tax losses not recognised	982	12,783	16,107	8,485	5,872
Tax charge at the Group's effective rate	661	15,933	21,581	11,369	18,365

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006 dealt with in the financial statements of the Company, were, HK$21,467,000, HK$19,810,000, HK$48,708,000, HK$16,644,000 and HK$10,300,000 respectively (note 38(b)).

13. DIVIDENDS

The board of directors did not recommend any payment of dividend during the Relevant Periods.

14. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic (loss)/earnings per share is based on the net (loss)/profit for the year ended 31 December 2003, 2004 and 2005 attributable to ordinary equity holders of the Company of (HK$31,994,000), HK$11,373,000, (HK$43,275,000) and the 1,544,831,000 ordinary shares in issue during the years.

The calculation of basic loss per share is based on the net loss for the six months ended 30 June 2006 attributable to ordinary equity holders of the Company of HK$14,147,000 (Six months ended 30 June 2005: HK$26,775,000 (unaudited)) and the 1,548,928,000 (Six months ended 30 June 2005: 1,544,831,000 (unaudited)) ordinary shares in issue during the period.

Diluted (loss)/earnings per share amounts have not been disclosed as no diluting events existed during the Relevant Periods.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2003:							
Cost	83,913	1,091	4,828	10,779	5,156	–	105,767
Accumulated depreciation and impairment	(51,065)	(1,013)	(1,964)	(6,778)	(2,786)	–	(63,606)
Net carrying amounts (restated) as at 1 January 2003	32,848	78	2,864	4,001	2,370	–	42,161
Additions	1,193	3,147	1,042	1,575	1,014	–	7,971
Disposals/write-off	–	–	–	(257)	(307)	(9,818)	(10,382)
Acquisition of subsidiaries *(note 39(a))*	88,374	–	82,461	18,751	9,679	10,194	209,459
Impairment reversed/(made) to income statement during the year	–	–	(2,034)	–	–	–	(2,034)
Depreciation provided during the year	(4,780)	(505)	(6,454)	(2,470)	(2,073)	–	(16,282)
Exchange realignment	(1,298)	–	(728)	(193)	(146)	(88)	(2,453)
At 31 December 2003, net of accumulated depreciation and impairment	116,337	2,720	77,151	21,407	10,537	288	228,440
At 1 January 2004:							
Cost	172,218	4,238	87,587	29,322	15,376	288	309,029
Accumulated depreciation and impairment	(55,881)	(1,518)	(10,436)	(7,915)	(4,839)	–	(80,589)
Net carrying amounts (restated) as at 1 January 2004	116,337	2,720	77,151	21,407	10,537	288	228,440
Additions	–	1,868	3,803	1,692	2,444	29	9,836
Disposals/write-off	(958)	(16)	(560)	(147)	(814)	(317)	(2,812)
Disposal of a subsidiary *(note 39(b))*	(17)	–	(5,607)	(130)	(926)	–	(6,680)
Impairment reversed to income statement during the year	21,671	–	–	–	–	–	21,671
Depreciation provided during the year	(5,732)	(833)	(9,088)	(3,673)	(1,539)	–	(20,865)
Exchange realignment	126	1	66	18	9	–	220
At 31 December 2004, net of accumulated depreciation and impairment	131,427	3,740	65,765	19,167	9,711	–	229,810
At 31 December 2004:							
Cost	166,764	5,492	84,329	28,376	14,431	–	299,392
Accumulated depreciation	(35,337)	(1,752)	(18,564)	(9,209)	(4,720)	–	(69,582)
Net carrying amount	131,427	3,740	65,765	19,167	9,711	–	229,810

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005:							
Cost	166,764	5,492	84,329	28,376	14,431	–	299,392
Accumulated depreciation and impairment	(35,337)	(1,752)	(18,564)	(9,209)	(4,720)	–	(69,582)
Net carrying amount	131,427	3,740	65,765	19,167	9,711	–	229,810
Additions	5,183	510	36,240	947	784	–	43,664
Disposals/write-off	(46,078)	–	(320)	(67)	(412)	–	(46,877)
Acquisition of a subsidiary *(note 39(a))*	–	–	–	88	1,154	–	1,242
Depreciation provided during the year	(4,135)	(1,125)	(8,675)	(3,018)	(1,329)	–	(18,282)
Exchange realignment	1,835	41	1,595	362	197	–	4,030
At 31 December 2005, net of accumulated depreciation and impairment	88,232	3,166	94,605	17,479	10,105	–	213,587
At 1 January 2006:							
Cost	102,438	5,578	118,264	29,643	12,870	–	268,793
Accumulated depreciation and impairment	(14,206)	(2,412)	(23,659)	(12,164)	(2,765)	–	(55,206)
Net carrying amount	88,232	3,166	94,605	17,479	10,105	–	213,587
Additions	–	–	218	733	394	–	1,345
Disposals/write-off	–	–	–	–	(21)	–	(21)
Depreciation provided during the period	(2,589)	(672)	(5,800)	(1,603)	(1,110)	–	(11,774)
Exchange realignment	852	19	918	164	94	–	2,047
At 30 June 2006, net of accumulated depreciation and impairment	86,495	2,513	89,941	16,773	9,462	–	205,184
At 30 June 2006:							
Cost	103,427	5,615	119,630	30,655	13,259	–	272,586
Accumulated depreciation	(16,932)	(3,102)	(29,689)	(13,882)	(3,797)	–	(67,402)
Net carrying amount	86,495	2,513	89,941	16,773	9,462	–	205,184

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2003:				
Cost	626	2,495	610	3,731
Accumulated depreciation	(553)	(2,341)	(364)	(3,258)
Net carrying amount	73	154	246	473
Additions	–	24	297	321
Disposals/write-off	–	(9)	–	(9)
Depreciation provided during the year	(30)	(58)	(160)	(248)
At 31 December 2003, net of accumulated depreciation and impairment	43	111	383	537
At 31 December 2003:				
Cost	626	2,506	907	4,039
Accumulated depreciation	(583)	(2,395)	(524)	(3,502)
Net carrying amount	43	111	383	537
Additions	1,757	659	–	2,416
Disposals/write-off	(16)	(33)	(26)	(75)
Depreciation provided during the year	(188)	(85)	(159)	(432)
At 31 December 2004, net of accumulated depreciation and impairment	1,596	652	198	2,446
At 31 December 2004:				
Cost	1,767	819	713	3,299
Accumulated depreciation	(171)	(167)	(515)	(853)
Net carrying amount	1,596	652	198	2,446
Additions	–	111	–	111
Disposals/write-off	–	(16)	–	(16)
Depreciation provided during the year	(354)	(158)	(60)	(572)
At 31 December 2005, net of accumulated depreciation and impairment	1,242	589	138	1,969
At 1 January 2006:				
Cost	1,767	880	713	3,360
Accumulated depreciation and impairment	(525)	(291)	(575)	(1,391)
Net carrying amount	1,242	589	138	1,969
Additions	–	67	–	67
Disposals/write-off	–	–	–	–
Depreciation provided during the period	(177)	(79)	(30)	(286)
At 30 June 2006, net of accumulated depreciation and impairment	1,065	577	108	1,750
At 30 June 2006:				
Cost	1,767	947	713	3,427
Accumulated depreciation	(702)	(370)	(605)	(1,677)
Net carrying amount	1,065	577	108	1,750

The Group's buildings included above are held under the following lease terms:

In Hong Kong

	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
At cost:				
Short term leases	–	–	–	–
Medium term lease	–	–	–	–
Long term lease	74,882	74,852	–	–
	74,882	74,852	–	–

In the PRC

	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
At cost:				
Short term leases	3,967	2,536	2,536	2,555
Medium term lease	92,982	88,959	99,902	100,872
Long term lease	417	417	–	–
	97,366	91,912	102,438	103,427

Total

	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
At cost:				
Short term leases	3,967	2,536	2,536	2,555
Medium term lease	92,982	88,959	99,902	100,872
Long term lease	75,269	75,269	–	–
	172,218	166,764	102,438	103,427

In 2005, the Group disposed of certain of its leasehold properties and investment properties with aggregate carrying value of approximately HK$93 million for a cash consideration of approximately HK$93 million.

At 31 December 2005, certain of the Group's leasehold buildings with carrying value of HK$95,053,000 (31 December 2003: HK$82,690,000; 31 December 2004: HK$80,689,000) and HK$65,886,000 respectively, situated in the PRC were pledged to secure certain banking facilities granted to the Group (note 32).

At 31 December 2005 and 30 June 2006, the Group has not yet obtained the title certificates for certain of its leasehold buildings situated in Shenzhen and in Beijing, the PRC with an aggregate carrying value of approximately HK$24,652,000 (31 December 2003: HK$20,212,000; 31 December 2004: HK$19,488,000) and HK$23,591,000 respectively. As confirmed by the Group's legal advisors and the Company's Directors, the Group has legally obtained the right to use the buildings and can obtain the relevant title certificates through making applications to the relevant government authorities.

16. INVESTMENT PROPERTIES

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
Carrying amount at 1 January	53,860	67,747	84,971	66,689
Additions	16,382	–	25,207	–
Disposals	–	–	(47,200)	–
Net (loss)/profit from fair value adjustments	(2,495)	17,224	3,378	3,069
Exchange alignment	–	–	333	296
Carrying amount at 31 December/ 30 June	67,747	84,971	66,689	70,054

The Group's investment properties included above are held under the following leases terms:

In Hong Kong

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
At cost:				
Short term leases	–	–	–	–
Medium term lease	–	–	–	–
Long term lease	32,380	47,200	–	–
	32,380	47,200	–	–

In the PRC

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
At cost:				
Short term leases	–	–	–	–
Medium term lease	20,500	22,600	66,689	70,054
Long term lease	14,867	15,171	–	–
	35,367	37,771	66,689	70,054

Total

	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
At cost:				
Short term leases	–	–	–	–
Medium term lease	20,500	22,600	66,689	70,054
Long term lease	47,247	62,371	–	–
	67,747	84,971	66,689	70,054

The Group's investment properties were revalued on 31 December 2005 and 30 June 2006 using the basis date as 30 June 2006 and 31 May 2006 respectively by Chung, Chan & Associates and Greater China Appraisal Limited, independent professionally qualified valuers, at HK$66,890,000 and HK$70,054,000 in aggregate respectively on an open market, existing use basis. A revaluation surplus/(deficit) of HK$3,378,000 (31 December 2003: (HK$2,495,000); 31 December 2004; HK$17,224,000) and HK$3,069,000 resulting from the above revaluation has been credited (charged) to the income statement (note 7) respectively. Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a) to the financial statements.

At 31 December 2005 and 30 June 2006, the Group had certain investment properties located in Dongguan, Guangdong Province of the PRC and in Beijing, the PRC with aggregate carrying value of HK$51,113,000 (31 December 2003: HK$20,500,000; 31 December 2004: HK$22,600,000) and HK$54,382,000 respectively. The Group has not yet obtained the relevant title certificate for these properties. As confirmed by the Group's legal advisors, the Group is the rightful and equitable owner of these properties.

At 31 December 2005 and 30 June 2006, certain of the Group's investment properties with a value of HK$27,613,000 (31 December 2003 and 31 December 2004: Nil) and HK$30,582,000 respectively were pledged to secure banking facilities granted to the Group (note 32).

17. PREPAID LAND LEASE PAYMENTS

	Group			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
Carrying amount at 1 January	–	57,310	54,225	51,648
Acquisition of a subsidiary	59,578	–	–	–
Amortization recognized	(2,268)	(3,085)	(3,585)	(1,810)
Exchange realignment	–	–	1,008	–
Carrying amount at 31 December/ 30 June	57,310	54,225	51,648	50,402
Current portion	(3,544)	(3,546)	(3,619)	(3,654)
Non-current portion	53,766	50,679	48,029	46,748

At 31 December 2005 and 30 June 2006, certain of the Group's prepaid land lease payments with carrying value of HK$46,382,000 (31 December 2003: HK$57,310,000; 31 December 2004: HK$48,771,000) and HK$44,947,000 respectively, situated in the PRC were pledged to secure certain banking facilities granted to the Group (note 32).

The Group's leasehold land included above are situated in the PRC and are held under the following lease terms:

	Group			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		
At cost:				
Short term leases	–	–	46,382	45,217
Medium term lease	57,310	54,225	5,266	5,185
Long term lease	–	–	–	–
	57,310	54,225	51,648	50,402

18. GOODWILL

The movements of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of certain subsidiaries, are as follows:

	Group			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period				
Cost	5,838	5,838	5,838	–
Effect of adopting HKFRS 3 *(note 2.1(d))*	–	–	(1,022)	–
As restated	5,838	5,838	4,816	–
Accumulated amortization	–	(438)	(1,022)	–
Effect of adopting HKFRS 3 *(note 2.1(d))*	–	–	1,022	–
As restated	–	(438)	–	–
Net carrying amount	5,838	5,400	4,816	–
Impairment during the year/period	–	–	(4,816)	–
Amortization provided during the year	(438)	(584)	–	–
Cost and carrying amount at end of year/period	5,400	4,816	–	–

For the years ended 31 December 2003 and 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of ten years.

As further detailed in note 2.1(d) to the financial information, the Group applied the transitional provision of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

The amounts of goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK$15,300,000 (31 December 2003 and 31 December 2004: HK$15,300,000) as at 31 December 2005 and 30 June 2006.

Due to the consecutive losses incurred by the Timber Business in recent years and the Directors expected that further losses will be incurred by the Timber Business, the Directors considered that the carrying amount of goodwill attributable to the Timber Business of HK$4,816,000 at 1 January 2005 was fully impaired. Accordingly, an impairment of goodwill of HK$4,816,000 was charged to the consolidated income statement for the year ended 31 December 2005.

19. INTERESTS IN SUBSIDIARIES

	Company			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	128,174	128,174	128,174	128,174
Due from subsidiaries	541,664	577,090	473,300	478,104
	669,838	705,264	601,474	606,278
Provision for impairment	(311,800)	(285,413)	(303,703)	(303,703)
	358,038	419,851	297,771	302,575

The amount due from subsidiaries is unsecured, interest-free and is not expected to be repaid within the next twelve months. The carrying amounts of the amounts due from subsidiaries approximate their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Qingapen Limited	Hong Kong/ PRC	HK$2	100	–	Property investment
China Haidian Commercial Network Services Limited	Hong Kong/ PRC	HK$2	100	–	Property investment
Haidian-Creation International Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Sure Best Management Limited	Hong Kong	HK$1	100	–	Property investment
EBOHR Luxuries International Co., Limited ("Ebohr")	PRC#	HK$30,000,000	–	100	Manufacture and sale of watches and timepieces
Seti Timber Industry (Shenzhen) Co., Ltd	PRC#	US$45,525,860	–	100	Manufacture and sale of timber products
Beijing Jing Guan Property Development Company Limited	PRC#	RMB80,000,000	–	100	Property development
Beijing Xin Yang Property * Development Company Limited ("Xin Yang")	PRC##	RMB88,500,000	–	80	Property development

Registered as wholly-foreign-owned enterprises in the PRC.

Registered as a foreign investment enterprise in the PRC.

The above table 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 of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

The Group holds a 51% equity interest in Shunde Everbright Sunto Computer Co. Ltd. ("Sunto"), a company established in the PRC through which the Group had intended to participate in the manufacture and the sale of computer casing products with third parties. Due to the non-disclosure of certain material transactions by the subsidiary's management and its minority shareholder, the Group had reasonable doubt as to the reliability of the financial information provided by the subsidiary. The Directors of the Company are of the opinion that the subsidiary is practically in a management dead-lock, and the recoverability of the Group's investment in this subsidiary and the amount due from it of HK$60.5 million in aggregate is doubtful. Accordingly, the Group's interest in this unconsolidated subsidiary has been fully provided for from the year ended 31 December 1998. In addition, Sunto was put under a compulsory winding up pursuant to a court order issued in 2001 and the winding up process had not yet been completed up to the date of these financial statements. The Group will not make any further investment in this subsidiary.

20. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	Company			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	–	–	46,030	46,030
Due from a jointly-controlled entity	–	–	169	172
	–	–	46,199	46,202

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed term of repayment. The carrying amount of the amount due from the jointly-controlled entity approximate its fair value.

Particulars of the jointly-controlled entity is as follows:

Name	Place of incorporation/ registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Fuzhou Dartong Mechanic and Electronic Company Limited ("Fuzhou Dartong")	PRC	49	50	49	Manufacture and sale of enamelled copper wire

The investment in Fuzhou Dartong is directly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	Company			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of the jointly-controlled entity's assets and liabilities:				
Non-current assets	–	–	35,697	35,072
Current assets	–	–	12,422	82,327
Current liabilities	–	–	(1,616)	(69,205)
Net assets	–	–	46,503	48,194
Share of the jointly-controlled entity's results:				
Revenue	–	–	18,332	75,982
Other income	–	–	1,778	213
Total revenue	–	–	20,110	76,195
Total expenses	–	–	(20,722)	(74,282)
Income tax	–	–	–	–
Loss after income tax	–	–	(612)	1,913

21. INTERESTS IN ASSOCIATES

	Group				Company			
	31 December			30 June	31 December			30 June
	2003	2004	2005	2006	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	–	–	–	–	39,301	39,301	–	–
Share of net assets	–	–	–	–	–	–	–	–
	–	–	–	–	39,301	39,301	–	–
Amounts due to an associate	(3,649)	(3,649)	–	–	(3,649)	(3,649)	–	–
Provision for impairment	–	–	–	–	(35,652)	(35,652)	–	–
	(3,649)	(3,649)	–	–	–	–	–	–

Amount due to an associate at 31 December 2003 and 2004 were interest-free, unsecured and not repayable within one year.

The Group's associates had no significant effect on the results or assets of the Group for the Relevant Periods.

In 2005, the Company entered into an agreement with the existing shareholders of the Company's associate for the disposal of the Company's entire interest in that associate, for a net cash consideration of HK$120,000. On 8 March 2005, the Company and that associate entered into a deed of termination pursuant to which the amount due to that associate was waived.

22. INVESTMENT SECURITIES AND LONG TERM INVESTMENTS/AVAILABLE-FOR-SALE INVESTMENTS

	Group			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investments, at fair value:				
Hong Kong	20,240	20,240	–	–
Unlisted equity investment, at cost	–	3,477	3,477	–
Provision for impairment	–	–	(3,477)	–
	20,240	23,717	–	–

For the year ended 31 December 2005, the gross gain on disposal of the Group's available-for-sale listed equity investments recognised in the income statement amounted to HK$13,145,000 (31 December 2003 and 31 December 2004: Nil) (note 7).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices.

The Company previously held an indirect equity interest of 50% in 合肥光大木材工業有限公司 ("Hefei Everbright"), a joint venture company established in the PRC which was accounted for by the Group as a subsidiary at 31 December 2003. In 2004, the Group disposed of its 24.5% equity interest in Hefei Everbright to independent third parties at a cash consideration of approximately HK$2,980,000 (note 39(b)). According to the subcontracting agreement entered into between the Group and the joint venture partners of Hefei Everbright, the Group forfeited its rights to exercise any significant influence or control over the financial and operating policies of Hefei Everbright in return for fixed and guaranteed annual subcontracting fees. Accordingly, Hefei Everbright lost its status as a subsidiary of the Group and was not equity accounted for in accordance with HKAS 28 "Investment in Associates". The Group's investment in Hefei Everbright was reclassified to long term investment accordingly and was stated at the Group's share of the net assets of Hefei Everbright as at the date when the Group's forfeiture of its control/influence became effective, less any impairment losses. In 2005, the investment in Hefei Everbright is designated as available-for-sale investment upon adoption of HKAS 39.

Having regard to the deteriorating financial position of Hefei Everbright during the year, the Directors are in the opinion that the investment in Hefei Everbright not likely to be recoverable and accordingly, an impairment loss of HK$3,477,000 had been charged to consolidated income statement for the year ended 31 December 2005.

23. PROPERTIES UNDER DEVELOPMENT

	Group			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost as at 31 December*	332,091	504,868	555,509	785,323
Add: Attributable profits from the pre-sale of properties	–	68,958	–	–
Less: Progress instalments received	–	(223,221)	–	–
	332,091	350,605	555,509	785,323
Transferred to properties for sale	–	–	(70,330)	(103,732)
Portion classified as current assets	–	(289,102)	(194,133)	(19,742)
Non-current assets	332,091	61,503	291,046	661,849

* *Included interest capitalised as at 31 December 2005 and 30 June 2006 amounted to HK$6,873,000 (31 December 2003: Nil; 31 December 2004: HK$17,413,000) and HK$2,254,000 respectively.*

Properties under development are situated in Beijing, the PRC. A plot of land (the "Land") where certain of the Group's properties under development and properties for sale were erected was pledged to a bank for a bank loan of approximately HK$317 million and HK$320 million as at 31 December 2005 and 30 June 2006 respectively. Such bank loan is repayable in 2007 (note 32).

In 2005, the Group has adopted HK-Int 3 to the pre-completion contracts for the sale of development properties entered into on or after 1 January 2005. Further details of the accounting treatments are set out in note 2.1(e). Deposits received from buyers of the Group's properties under development in respect of which no profit has been recognised were carried as a current liability at the balance sheet date.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group				Company			
	31 December			30 June	31 December			30 June
	2003	2004	2005	2006	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deposits for the acquisition of:								
Associates	–	–	38,054	62,501	–	–	27,000	51,340
Property interests	–	–	9,845	19,688	–	–	–	–
Other receivables	11,375	57,427	10,509	28,938	337	981	1,183	2,130
Prepayments	4,868	11,343	24,381	26,795	143	919	1333	198
Deposits	70	2,395	2,551	3,859	51	1,621	1,619	1,619
Carrying amount at 31 December/ 30 June	16,313	71,165	85,340	141,781	531	3,521	31,135	55,287
Current portion	(14,300)	(68,539)	(37,212)	(57,138)	(531)	(3,521)	(4,135)	(3,947)
Non-current portion	2,013	2,626	48,128	84,643	–	–	27,000	51,340

In 2004, the Group entered into certain share purchase agreements with two independent third parties (the "Vendors") for the acquisition of an aggregate of 21% equity interests in Beijing Haidian Science Park Development Co., Ltd. ("Beijing Haidian") for an aggregate consideration of approximately HK$126 million. In 2005, deposits of HK$38,054,000 had been paid to the Vendors. On 10 April 2006, the Company made an press announcement for extending the completion date of the proposed acquisition to 28 June 2006. On 26 June 2006, the Company made a further press announcement for extending the completion date of the proposed acquisition to 28 October 2006. Further details of the proposed acquisition were set out in the Company's various press announcements made during 2 December 2004 to 26 June 2006 and a circular dated 25 April 2005 to the Company's shareholders. The deposits paid of HK$38,161,000 (2005: HK$38,054,000) were carried as non-current assets in the consolidated balance sheet.

On 6 April 2006, the Group entered into a joint venture agreement with the joint venturer (the "Joint Venturer") of the Group's jointly-controlled entity and Jiangsu Qingjiang Electrical Holdings Company Limited for the acquisition of an aggregate of 25% equity interest in Jiangsu Dartong Qingjiang M&E Co., Ltd for an aggregate consideration of approximately HK$24,340,000. As at 30 June 2006, the proposed acquisition was still in progress and the deposit paid of HK$24,340,000 was carried as non-current assets in the consolidated balance sheet.

In 2005, the Group entered into a sale and purchase agreement for the acquisition of a property interest in Hong Kong at a consideration of HK$98,426,000. The deposits paid of HK$9,845,000 and HK$19,688,000 were carried as non-current assets in the consolidated balance sheet as at 31 December 2005 and 30 June 2006 respectively.

25. INVENTORIES

	Group			
	31 December			30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	31,730	23,901	16,746	48,636
Work in progress	10,582	12,809	9,384	11,360
Finished goods	55,470	58,585	79,792	56,236
	97,782	95,295	105,922	116,232

26. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one month, extending up to three months for major customers except for customers of the Group's property development business whose settlements are made in accordance with the sales contract entered into between the Group and the customers. Each customer has a maximum credit limit. Trade debtors with balances that are more than three months overdue are required to settle all outstanding balances before any further credit is granted. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aging analysis of the trade and bills receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group			
	31 December			30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1 to 3 months	11,606	13,601	24,827	22,358
4 to 6 months	475	3,683	–	19
7 to 12 months	51	29	461	–
More than 1 year	109	167	–	–
	12,241	17,480	25,288	22,377

The carrying amounts of trade and bills receivable approximate their fair values.

27. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group				Company			
	31 December			30 June	31 December			30 June
	2003	**2004**	**2005**	**2006**	**2003**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investment in Hong Kong, at market value	–	12,792	44,210	35,555	–	4,788	28,297	20,441

28. DUE FROM MINORITY EQUITY HOLDERS

The amounts due from the minority equity holders are unsecured, interest-free and settled subsequent to the balance sheet date.

29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group				Company			
	31 December			30 June	31 December			30 June
	2003	2004	2005	2006	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	84,496	56,199	339,439	128,257	13,108	3,464	4,188	14,995
Time deposits with original maturity:								
Less than three months	240,643	131,703	50,123	46,063	230,197	51,003	26,550	31,500
Over three months	–	3,769	–	–	–	–	–	–
	325,139	191,671	389,562	174,320	243,305	54,467	30,738	46,495
Less: Deposits pledged for banking facilities	(4,794)	(4,845)	(18,653)	(11,289)	–	–	(7,500)	–
Cash and cash equivalents	320,342	186,826	370,909	163,031	243,305	54,467	23,238	46,495

As at 31 December 2005 and 30 June 2006, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$358,421,000 (31 December 2003: HK$53,522,000; 31 December 2004: HK$128,453,000) and HK$129,413,000 respectively. The RMB is not freely convertible into other currencies, however, under the PRC'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 through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for various periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

30. TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1 to 3 months	21,278	80,372	97,763	109,535
4 to 6 months	4,197	2,670	2,811	1,277
7 to 12 months	–	1,193	935	518
More than 1 year	290	5,754	7,251	6,436
	25,765	89,989	108,760	117,766

The trade payables are non-interest-bearing and are normally settled on 60 day terms. The carrying amounts of the trade payables approximate their fair values.

31. OTHER PAYABLES AND ACCRUALS

	Group				Company			
	31 December			30 June	31 December			30 June
	2003	2004	2005	2006	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	15,371	16,242	16,414	47,323	706	3,054	2,740	1,237
Deposits received	4,114	14,660	7,616	21,294	–	–	–	–
Other payables	160,617	60,979	74,105	50,275	110,675	10,799	10,857	10,855
	180,102	91,881	98,135	118,892	111,381	13,853	13,597	12,092
Current portion	(160,102)	(91,881)	(98,135)	(118,892)	(91,381)	(13,853)	(13,597)	(12,092)
Long term portion	20,000	–	–	–	20,000	–	–	–

Other payables are non-interest bearing and have an average term of three months.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective	Group			
		31 December			30 June
	Interest rate	2003	2004	2005	2006
	(%)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current					
Bank loans – secured	5.5 – 7.0	242,361	28,269	96,154	447,864
Other loans – unsecured		–	–	–	72,815
Non-current					
Bank loans – secured	6.3	–	310,959	317,308	–
Other loans – unsecured	0 – 5.4	201,044	–	–	–
		443,405	339,228	413,462	520,679
Analysed into:					
Bank loans repayable:					
Within one year or on demand		242,361	28,269	96,154	447,864
In the second year		–	–	317,308	–
In the third to fifth years, inclusive		–	310,959	–	–
		242,361	339,228	413,462	447,864
Other loans repayable:					
Within one year or on demand		–	–	–	72,815
In the second year		201,044	–	–	–
In the third to fifth years, inclusive		–	–	–	–
		201,044	–	–	72,815
		443,405	339,228	413,462	520,679

As at 31 December 2005 and 30 June 2006, the Group's bank loans were secured by:

(i) a legal charge over certain of the Group's prepaid land lease payments and buildings situated in the PRC (notes 17 and 15);

(ii) a legal charge over the Land (note 23);

(iii) a legal charge over certain of the Group's investment properties (note 16); and

(iv) a legal charge over certain properties of an independent third party.

Other loans as at 30 June 2006 are unsecured and repayable by three instalments in the amounts of HK$29,126,000, HK$6,796,000 and HK$36,893,000 on 4 January 22 January and 15 March 2007 respectively.

33. DUE FROM/TO RELATED COMPANIES

Amounts due from/to related companies are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from/to related companies approximate their fair values.

34. DEFERRED TAX

The movement in the Group's deferred tax liabilities and assets during the Relevant Periods are as follows:

Deferred tax liabilities

	Revaluation of properties			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January	–	–	–	794
Exchange difference	–	–	–	12
Deferred tax charged to the income statement during the year/period *(note 11)*	–	–	794	468
Balance at 31 December/30 June	–	–	794	1,274

Deferred tax assets

	Provision			
	31 December			30 June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January	–	1,000	1,000	1,021
Deferred tax credited to the income statement during the year/period *(note 11)*	1,000	–	–	–
Exchange differences	–	–	21	10
Balance at 31 December/30 June	1,000	1,000	1,021	1,031

As at 31 December 2005 and 30 June 2006, the Group has tax losses arising in Hong Kong of HK$72,710,000 (31 December 2003: HK$34,411,000; 31 December 2004: HK$31,016,000) and HK$82,530,000 respectively, subject to the agreement of Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

During the Relevant Periods, there was no significant unrecognised deferred tax liability 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.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. DEFERRED INCOME

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January	–	–	–	177,906
Additions	–	–	177,906	–
Exchange difference	–	–	–	1,728
Balance at 31 December/30 June	–	–	177,906	179,634

During the year ended 31 December 2005, the Group received government grants of HK$177,906,000 which represented partial refund of land premium in respect of a piece of land for a property redevelopment project situated in Beijing, the PRC. As at 31 December 2005 and 30 June 2006, the project was still in progress and the related costs incurred by the Group for the project were included under "Properties under development" in non-current assets.

The Group had obtained proper approval from relevant government authority for the grants. No other contingencies are attached to such grants.

The government grants were not recognised as income during the Relevant Periods and were accounted for as non-current liabilities at the balance sheet date.

36. SHARE CAPITAL

		Group and Company		
		31 December		30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised:				
2,000,000,000 ordinary shares of HK$0.10 each	200,000	200,000	200,000	200,000
Issued and fully paid:				
1,792,031,000 (2003, 2004 and 2005: 1,544,831,000) ordinary shares of HK$0.10 each	154,483	154,483	154,483	179,203

On 28 June 2006, the Company successfully placed 247,200,000 new shares of HK$0.10 each at a price of HK$0.20 per share.

37. SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 25 May 2001 whereby the Directors of the Company are authorised, at their discretion, to invite employees of the Group, including Directors of any company in the Group, to take up options to subscribe for shares of the Company. The share option scheme shall be valid and effective for a period of ten years ending on 24 May 2011, after which no further options will be granted. For options granted before 1 September 2001, the exercise price of options was determined by the board and was the higher of the nominal value of the Company's shares and 90% of the average of the closing prices of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of grant. For options granted on or after 1 September 2001, the exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. Each option gives the holder the right to subscribe for one share.

Pursuant to the amendments (the "New Rules") to Chapter 17 of the Listing Rules, any options granted after September 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to its Directors or other eligible participants in future, a new share option scheme in compliance with the New Rules is to be approved and adopted by the shareholders of the Company in a general meeting. Since the adoption of the New Rules, no new share option scheme has been approved nor adopted.

During the Relevant Periods, no share options were granted or exercised and there were no outstanding options at 31 December 2005 (31 December 2003: Nil; 31 December 2004: Nil) and 30 June 2006.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein during the Relevant Periods are presented in the consolidated statement of changes in equity.

The Group's share premium account mainly arose from shares issued at a premium. Pursuant to a shareholders' special resolution of the Group passed on 29 September 2005, the share premium account was cancelled and utilised to eliminate the accumulated losses of the Group.

In accordance with the PRC regulations, certain of the Group's subsidiaries registered in the PRC are required to transfer part of their profits after tax to the statutory reserve fund, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of Directors of these companies, in accordance with their joint venture agreements and/or articles of association. The statutory reserve fund is non-distributable and restricted as to use.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated reserves as explained in notes 2.1(d) and 18 to the financial statements.

(b) Company

	Share premium account	**Retained profit/ (accumulated losses)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As 1 January 2003	677,882	(319,868)	358,014
Net loss for the year *(note 12)*	–	(21,467)	(21,467)
At 31 December 2003 and 1 January 2004	677,882	(341,335)	336,547
Net loss for the year *(note 12)*	–	(19,810)	(19,810)
At 31 December 2004 and at 1 January 2005	677,882	(361,145)	316,737
Cancellation of share premium	(677,882)	677,882	–
Net loss for the year *(note 12)*	–	(48,708)	(48,708)
At 31 December 2005 and at 1 January 2006	–	268,029	268,029
Premium on new shares	23,726	–	23,726
Net loss for the period *(note 12)*	–	(10,300)	(10,300)
At 30 June 2006	23,726	257,729	281,455

Pursuant to a shareholders' special resolution of the Company passed on 29 September 2005, the share premium account of the Company was cancelled and utilised to eliminate the accumulated losses of the Company.

39. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

		Year ended 31 December			Six months ended 30 June	
		2003	**2004**	**2005**	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		(unaudited)	
Net assets acquired						
Property, plant and equipment		209,459	–	1,242	–	–
Investment properties		–	–	–	–	–
Prepaid land lease premium		59,578	–	–	–	–
Property under development		332,091	–	8,457	–	–
Cash and bank balances		24,014	–	1,510	–	–
Trade receivables		53,123	–	–	–	–
Inventories		57,673	–	–	–	–
Prepayments, deposits and other receivables		18,302	–	553	–	–
Amount due from equity holders		–	–	7,480	–	–
Trade payables		(18,188)	–	–	–	–
Other payables and accruals		(63,652)	–	(95)	–	–
Due to a substantial shareholder		(3,926)	–	–	–	–
Due to related companies		(4,917)	–	–	–	–
Bank loans		(350,421)	–	–	–	–
Other loans		(201,044)	–	–	–	–
Minority interests		(8,960)	–	(19,147)	–	–
		103,132	–	–	–	–
Goodwill on acquisition		5,838	–	–	–	–
		108,970	–	–	–	–
Satisfied by: Cash		108,970	–	–	–	–

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		(unaudited)	
Cash consideration	(108,970)	–	–	–	–
Unsettled amount at the end of year/period	99,800	–	–	–	–
Cash and bank balances acquired	24,014	–	1,510	–	–
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	14,844	–	1,510	–	–

(b) Disposal of a subsidiary

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		(unaudited)	
Net assets disposal:						
Property, plant and equipment		–	6,680	–	–	–
Cash and bank balances		–	378	–	–	–
Inventories		–	3,102	–	–	–
Prepayments, deposits and other receivables		–	5,151	–	–	–
Trade payables		–	(450)	–	–	–
Other payables and accruals		–	(1,049)	–	–	–
Tax payables		–	(169)	–	–	–
Dividend payables		–	(67)	–	–	–
Minority interests		–	(7,178)	–	–	–
		–	6,398	–	–	–
Gain on disposal of a subsidiary		–	59	–	–	–
		–	6,457	–	–	–
		–	–	–	–	–
Satisfied by:						
Reclassified as available-for-sale investment/long term investment		–	3,477	–	–	–
Cash		–	2,980	–	–	–
		–	6,457	–	–	–

An analysis of the net inflow of cash can cash equivalents in respect of the disposal of a subsidiary is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)		(unaudited)	
Cash consideration	–	2,980	–	–	–
Cash and bank balances disposed	–	(378)	–	–	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	2,602	–	–	–

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group lease certain of its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years.

At the balance sheet dates, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	4,297	3,895	6,457	5,797
In the second to fifth years, inclusive	14,946	15,118	19,186	15,119
After five years	57,433	53,819	51,301	49,465
	76,676	72,382	76,944	70,381

(b) As lessee

The Group leases certain of its office and factory premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years.

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

	Group				Company			
	31 December			30 June	31 December			30 June
	2003	**2004**	**2005**	**2006**	**2003**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,492	5,523	5,669	4,219	–	3,985	3,987	4,045
In the second to fifth years, inclusive	1,925	9,785	5,602	1,575	–	7,677	3,740	1,575
After five years	1,545	774	778	–	–	–	–	–
	4,962	16,082	12,049	5,794	–	11,662	7,727	5,620

In addition, the Group is required to pay an annual fee of approximately HK$280,000 in respect of a leasehold land in the PRC from the year 1992 up to the year 2042 with a 20% increment for every five years. For the year ended 31 December 2005 and six months ended 30 June 2006 fees of HK$397,000 (2003: HK$404,000; 2004: HK$392,000) and HK$287,000 respectively were charged to the Group.

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group and the Company had the following commitments at the balance sheet dates:

	Group				Company			
	31 December			30 June	31 December			30 June
	2003	2004	2005	2006	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Authorised, but not contracted for								
Acquisition of an associate	–	–	24,038	–	–	–	24,038	–
Construction works in respect of properties under development	43,762	159,123	1,745,145	1,195,293	–	–	–	–
	43,762	159,123	1,769,183	1,195,293	–	–	24,038	–
Contracted, but not provided for								
Acquisition of Beijing Haidian *(note 24)*	–	126,000	89,896	91,509	–	90,000	64,731	91,509
Construction works in respect of properties under development	–	93,808	75,523	106,828	–	–	–	–
Purchases of items of property, plant and equipment	404	–	10,332	–	–	–	–	–
Capital contributions payable to a subsidiary	56,490	–	–	–	–	–	–	–
Purchase of investment property	–	–	88,581	78,766	–	–	–	–
	56,894	219,808	264,332	277,103	–	90,000	64,731	91,509
	100,656	378,931	2,033,515	1,472,396	–	90,000	88,769	91,509

42. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group also had the following material transactions with related parties during the Relevant Period:

		Year ended 31 December			Six months ended 30 June	
		2003	**2004**	**2005**	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Commission fee paid	*(i)*	–	4,524	–	3,295	–
Sales to the joint venturer	*(ii)(a)*	–	–	18,332	–	75,982
Purchases from the joint venturer	*(ii)(b)*	–	–	–	–	399
Purchases of plant and machinery from joint venturer	*(iii)*	–	–	11,703	–	–
Rental expenses paid to minority equity holders	*(iv)*	–	–	305	–	462
Rental income received	*(v)*	–	–	626	447	457
Rental income from leasing of investment properties	*(vi)*	1,641	–	–	–	1,321
Interest expenses paid	*(vii)*	1,873	436	–	–	–
Rental paid for staff quarter	*(viii)*	117	–	–	–	–
Purchase of raw materials	*(ix)*	1,823	–	–	–	–

Notes:

(i) The commission fees for the years ended 31 December 2004 and 2005 were paid to a real estate agent, in which a director of the Company had an equity interest, for services provided in respect of the sale of the Group's properties under developments. The Directors considered that the commission rate was comparable to the commission rates charged by other real estate agents.

(ii) (a) Sales to the joint venturer (the "Joint Venturer") of the Group's jointly-controlled entity, in which a director of the Company is also a director, were made at the selling prices the Joint Venturer charged its customers.

(b) Purchases from the Joint Venturer of the Group's jointly-controlled entity, in which a director of the Company is also a director, were made at the prevailing market price.

(iii) The consideration for the plant and machinery were determined with reference to the market values of the relevant assets estimated by independent professional valuers.

(iv) The rentals were charged at RMB79,230 per month, commencing from September 2005 during the Relevant Periods. The Directors considered that the rental charged was comparable to rentals of similar properties.

(v) The rentals from companies in which a director of the Company is also directors were charged at HK$76,000 per month on average (2005: HK$52,000) from 2005 onwards. The Directors considered the rental charge was comparable to market rates.

(vi) In 2001, a tenancy agreement was entered into between the Group and a substantial shareholder of the Company, under which the Group agree to let and this substantial shareholder agreed to lease a portion (with saleable area of approximately 4,586 square feet) of an investment property of the Group situation in Hong Kong at a monthly rental of HK$185,000 (inclusive of management fee, insurance, government rent and rates) for a term of two years commencing from 28 November 2001 (the "Tenancy Agreement"). Details of the CEH Tenancy Agreement were announced in a press announcement by the Company on 23 November 2001. The directors considered that the monthly rentals were charged by the Group with reference to the prevailing market prices. This Agreement had been terminated in 2003.

During the six months ended 30 June 2006, the Group received rental income of HK$1,321,000 from the Joint Venturer for leasing of investment properties held by the Group. The Directors considered the rents were charged by the Group with reference to the prevailing market prices.

(vii) As at 31 December 2003, the Group had bank loans of HK$36,275,000 borrowed from China Everbright Bank Company Limited, a related company of the Company ("EB Bank Loans"). The EB Bank Loans were transferred to the Group upon its acquisition of the timber products business.

(viii) The rental expenses were paid to CEH for a staff quarter. The rental expenses were based on the agreement signed.

(ix) The Group purchased raw materials from 中國光大南方對外貿易有限公司 ("南方光大"), a wholly-owned subsidiary of the ultimate holding company of a substantial shareholder. The Directors considered that the purchases of raw materials were charged with reference to the cost of 南方光大.

(b) Other transaction with related parties:

(i) Since 2005, the jointly-controlled entity of the Group leased its factory premises and the piece of land where the factory premises was erected from the Joint Venturer free of charge.

(ii) On 25 January 2006, a subsidiary of the Company executed a guarantee for a term of two years commencing from 25 January 2006 in favour of the Joint Venturer for a loan of approximately of HK$17.5 million granted to the Joint Venturer by a bank. Such loan was not utilised by the Joint Venturer as at 31 December 2005 and was fully drawn down by the Joint Venturer as at 30 June 2006.

(c) Outstanding balance with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had outstanding advances to (payable) and a receivable balance due from a company, in which a director of the Company had equity interests of (HK$134,000) (31 December 2003: (HK$7,142,000); 31 December 2004: (HK$3,374,000)) and HK$43,825,000 respectively as at 31 December 2005 and 30 June 2006 respectively. The advances are unsecured, interest free and have no fixed terms of repayment.

(ii) As disclosed in the consolidated balance sheet, the Group had outstanding receivables from the minority equity holders of Xin Yang of HK$7,480,000 (31 December 2003 and 31 December 2004: Nil) and HK$832,000 as at 31 December 2005 and 30 June 2006 respectively. The advances are unsecured, interest free and settled subsequently to the balance sheet date.

(d) Compensation of key management personnel of the Group:

	Year ended 31 December			**Six months ended 30 June**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Short term employee benefits	3,629	5,470	8,466	3,976	3,773
Post-employment benefits	–	14	107	50	42
Total compensation paid to key management personnel	3,629	5,484	8,573	4,026	3,815

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

III FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade payables, other receivables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain between 35% and 65% of its interest-bearing borrowings at fixed interest rates. The Group currently had not implemented any procedures to hedge its cashflow interest rate risk.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. For the year ended 31 December 2005 and for the six months ended 30 June 2006, approximately 6% (2003: 6%; 2004: 11.7%) and 6% respectively of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 5.2% (2003: 5%; 2004: 5.7%) and 5% of costs and expenses for the year ended 31 December 2005 and for the six months ended 30 June 2006 respectively are denominated in the unit's functional currency. The Group currently had not implemented any procedures to hedge its foreign currency risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and securities measured at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, convertible bonds, other interest-bearing loans and finance leases.

IV CONTINGENT LIABILITIES

As at 30 June 2006, the Group provided guarantees in favour of certain banks for mortgage loans granted by the banks to the buyers of the Group's properties under development to the extent of approximately HK$318 million in aggregate. As at the balance sheet date, mortgage loans in aggregate of approximately HK$252 million were utilised by the buyers of the Group's properties under development and properties for sale.

A bank provided factoring facilities of approximately HK$58 million to the Group's jointly controlled entity for the period from 31 May 2006 to 31 May 2007. As at 30 June 2006, the outstanding balance of the factoring facilities was approximately HK$29 million. In the event, the debtors fail to pay the bank, the jointly controlled entity will have to repay HK$29 million to the bank.

The Company had no material contingent liabilities as at the balance sheet date.

V POST BALANCE SHEET EVENTS

Save as disclosed elsewhere in the Circular, the Group has no subsequent events up to the date of this report.

VI SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company and the Group have been prepared in respect of any period subsequent to 30 June 2006.

Your faithfully,
For and on behalf of
Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong
Chan Cheuk Chi
Practising Certificate number P01137

2. INDEBTEDNESS

Borrowings

At the close of business on 31 July 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$555 million, which are current bank borrowings of approximately HK$482 million and other borrowings of HK$73 million. The Group's banking facilities for the bank borrowings of approximately HK$414 million were secured by legal charges over certain of the Group's leasehold buildings, leasehold land, properties under development and investment properties situated in Mainland China and a legal charge over certain properties of an independent third party.

Foreign exchange

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31 July 2006.

Disclaimer

As at the close of business on 31 July 2006, save as aforesaid or as otherwise disclosed in this section headed "Indebtedness" and apart from intra-group liabilities and normal trade payables in the ordinary course of the business of the Group, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, outstanding mortgages, charges, loans or other similar indebtedness, obligations under finance lease contracts, finance leases or hire-purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

Save as disclosed elsewhere in this circular and disclosed in section IV of the financial information of the Group as set out in the Appendix I to this circular, the Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 July 2006 up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that following the completion of the Asset Transaction, taking into account the financial resources available to the Group, including internal resources and present available banking facilities, and in the absence of unforeseen circumstances, the Group has available sufficient working capital for the Group's present requirement, that is for at least the next 12 months from the date of publication of this circular.

4. MATERIAL CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the Group has been made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REORGANISED GROUP

Review of results

For the six months ended 30 June 2006, the Group recorded an audited consolidated turnover of approximately HK$464.6 million (2005: HK$312.3 million), representing an increase of approximately HK$152.3 million compared with the corresponding period last year. Net loss from ordinary activities attributable to shareholders for the period was approximately HK$14.1 million, representing an improvement of approximately HK$12.7 million from a loss of approximately HK$26.8 million for the corresponding period last year.

(1) Property development business

During the first six months of 2006, Jing Guan continued to achieve satisfactory operating results. In light of a series of austerity measures on the property industry introduced by the PRC government, Jing Guan accelerated the completion of the remaining projects and re-scheduled the new property projects. At the same time, aggressive efforts were also made to further regulate its management, to scale up the development of its property project, the Taiyanggong New District Project, to promote the sales of property units and to speed up the works on its Guangqumen redevelopment project in Beijing.

As at 30 June 2006, blocks no. 1, 2, 3, 5, 6 and 7 of the Taiyanggong New District Project were completed and delivered for occupancy. All units of block no. 9 (office) have been sold out. The block is still under construction and structural construction has been completed up to the fifth floor.

The Guangqumen redevelopment project has a total site area of 11.62 hectares, a construction area of 8.66 hectares and a gross floor area of 545,400 sq. m.. A total of 2,680 households have to be relocated for the project, of which 98% has been settled. It is expected that the relocation will be completed by the end of August 2006. Pre-construction preparations are in progress.

(2) Watches and timepieces business

Sales of EBOHR Luxuries for the first six months of 2006 was in line with the corresponding period last year. However, profit margin has improved as a result of a general increase in retail prices due to higher brand value of its products. In particular, EBOHR Luxuries raised the prices and margins of its best selling items pursuant to its product diversification policy. On the other hand, costs of products were reduced due to successful negotiation with suppliers as well as bulk purchase discount. Hence, EBOHR Luxuries managed to record an increase in profit while the sales remained at the same level. Net profit of EBOHR Luxuries for the six months ended 30 June 2006 increased approximately 17% compared with the corresponding period last year.

(3) Timber business

For the first six months of 2006, market conditions of the timber business remained difficult. Impacted by the PRC government's austerity measures, environmental requirements of the Shenzhen government, crude oil and raw material price hikes in the international markets and intensive competition, Seti Timber recorded operating loss during the period under review.

(4) Enamelled copper wire business

Fuzhou Dartong has commenced production of enamelled copper wires used in colour television panels, colour picture tubes, transducers and air conditioning compressors in September 2005.

The operating environment of Fuzhou Dartong deteriorated during the first half of 2006. The prices of its principal raw materials, especially those of copper, remained high. Fuzhou Dartong also faced keen competition from its competitors.

Fuzhou Dartong have adopted the following measures to tackle the unfavourable business environment and competition:

(1) Strengthened marketing efforts and risk management, and improved operating efficiency.

(2) Tightened quality control, improved technology and reduced costs.

(3) Better control in the delivery time and improved the stock turnover by streamlining its logistic process.

(5) Property investment

The industrial complex in Dongguang, Guangdong Province, the PRC; the property on the 2nd Lower Ground Floor, Jin Hua Building, Yan He South Road, Luohu District, Shenzhen, Guangdong Province, the PRC; and the office floor and three shop units on Xiang Hua Road, Zhuhai, Guangdong Province, the PRC owned by the Group have all been used for leasing purposes, and continued to generate stable rental income to the Group for the period under review.

Financial position

(1) Liquidity, financial resources and capital structure

As at 30 June 2006, the Group had non-pledged cash and bank balances of approximately HK$163.0 million.

Based on bank loans and other borrowings of HK$520.7 million and shareholders' equity of HK$527.8 million as at 30 June 2006, the Group's gearing ratio (being loans divided by shareholders' equity) was approximately 99.0%.

The Group's bank loans were all denominated in Renminbi. As at 30 June 2006, all of the Group's bank loans and other borrowings of HK$520.7 million were repayable within one year.

(2) Charge on assets

(1) Bank loans of HK$388.4 million were granted to Jing Guan, which was secured by the land use rights of the East Part of E Area, Taiyanggong New District, Chaoyang District, Beijing, the PRC.

(2) Bank loans of HK$26.2 million and other banking facilities of Seti Timber were secured by land and buildings in Nanshan District, Shenzhen, the PRC, owned by the Group with a net book value amounting to approximately HK$110.8 million as at 30 June 2006.

(3) Capital commitments

As at 30 June 2006, the Group had capital commitments of approximately HK$1,472.4 million mainly related to the construction costs payable in respect of the Group's property development projects in Beijing, the proposed acquisition of 21% equity interests in Beijing Haidian, and the purchase of an investment property. The capital commitments will be satisfied by funds generated from the sales of properties and the Group's available cash.

(4) Contingent liabilities

During the period, the Group provided guarantees in favour of certain banks for mortgage loans amounting to approximately HK$318 million in aggregate granted by the banks to the buyers of the Group's properties under development. As at 30 June 2006, mortgage loans in aggregate of approximately HK$252 million had been utilised by the buyers of the Group's properties under development.

A bank has provided factoring facilities of RMB60 million (equivalent to approximately HK$58 million) for the period from 31 May 2006 to 31 May 2007 to a jointly-controlled entity of the Company. As at 30 June 2006, the outstanding balance of the factoring facilities was approximately HK$29 million. In the event that the debtors fail to pay the bank, the jointly-controlled entity will have to repay HK$29 million to the bank.

Placing of new shares

On 28 June 2006, the Company successfully placed 247,200,000 new Shares at HK$0.2 per Share and raised in aggregate HK$49,400,000. The Directors believed that considering the condition of the market at that time, the placement offered a great opportunity for the Group to raise capital and strengthen its financial position.

The net proceeds of the placement have been or would be used for the following purposes:

(i) approximately HK$14.4 million have been invested as the Company's outstanding capital contribution in Jiangsu Dartong Qingjian M&E Co. Ltd. as disclosed in the Company's announcement and circular dated 10 April 2006 and 2 May 2006 respectively;

(ii) approximately HK$28.8 million will be used to relocate the factory of Seti Timber in Shenzhen, PRC; and

(iii) the remaining balance of approximately HK$5.2 million will be retained as general working capital.

Financial and trading prospects

According to the National Bureau of Statistics of China, following a 10.3% growth in the first quarter of 2006, the PRC recorded a strong surge of 11.3% in the second quarter. Domestic and foreign trade achieved double-digit growth. Fixed assets investment grew by 30% while retail sales and exports increased 13.3% and 24% respectively. Substantial growth and inflation pressure may result in further increases in interest rates. On the other hand, more austerity measures may be introduced to cool down investments, tighten credit facilities and curb speculative activities in the real estate industry. It is expected that the general economy will slacken in the second half of 2006. While the economy grew by 9.9% in 2005, a 10% growth is expected for the year 2006.

For the watches and timepieces business, EBOHR Luxuries will implement various measures in the second half of 2006 to boost sales, which mainly include the following:

(1) Organise a series of promotion activities;

(2) Launch new products for retailing and wholesaling to improve the market competitiveness of EBOHR watches;

(3) Strengthen its frontline sales teams for better retail sales management and brand image; and

(4) Increase the scale of television marketing, internet shopping and mail orders.

In addition, EBOHR Luxuries will devote to carry out various measures to develop the market and expand the sales network and the agent and distribution business for its "FILA" watches. In addition, EBOHR Luxuries has introduced the PLM synergetic design platform and technology management system, which is expected to be implemented by the end of 2006. The system will greatly strengthen the design and research and development capabilities of EBOHR watches so as to lead the industry.

Jiangsu Dartong is mainly engaged in the production and sale of electrical wires and cables, general machinery, mechanical and electrical appliances, and mechanical equipments, including the sales and marketing of special enamelled copper wire products in the PRC. The Group believes that the establishment of Jiangsu Dartong forms a solid foundation for the implementation of its long term diversification strategy and the enhancement of its competitiveness.

For Fuzhou Dartong, it intends to adopt the following measures in the second half of 2006 to support the future development of its production of enameled copper wire business.

1. Improve human resources management to raise the morale of staff;

2. Incentives for staff to increase sales amount; and

3. Streamline the organisational structure to facilitate efficient performance appraisal.

In the second half of 2006, the Group will focus on the existing property development business through its shareholding in the Citychamp Group and its directly-held production of watches and timepieces business. For the timber business, the priority is to adjust the production mix and product price, select the production base and deploy human resources. In addition, the Group will capitalise business opportunities arising from enormous demand for enamelled copper wires in the

PRC and continue to identify other potential opportunities, so as to diversify the Group's businesses, increase the Group's revenue source, and generate satisfactory returns for the Shareholders.

In addition, the management believes that the Completion is important for and beneficial to the future business development of the Group, especially in the property development and investment business. The main reason is that with the fast economic growth in the PRC and the PRC's accession to the World Trade Organisation, the outlook of the property market in the PRC is considered to be promising. As mentioned in the Company's annual report for the year ended 31 December 2005, the main direction for the development of the Group in the next two to three years is to seek for mainland property development opportunities. The Citychamp Group has a proven track record and management expertise in property development in the PRC. Upon Completion, the Group will have an indirect investment in high quality property projects in the PRC through its shareholding interest in the Citychamp Group. Given the promising prospect of the property development business in the PRC, the management considers that the investment in the Citychamp Group will enable the Group to capture and participate in the growth of this business without substantial funding requirements.

Employees and remuneration policy

As at 30 June 2006, the Group had approximately 1,510 full-time staff in Hong Kong and the PRC. The remuneration packages offered to the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Group also provides other benefits to its employees, including year end double pay, medical insurance and retirement benefits, and incentive bonus are offered with reference to the Group's operating results and employee's individual performance. All employees of the Group in Hong Kong have joined the provident fund schemes.

Foreign exchange risk

Majority of the Group's sales and purchases are denominated in RMB. Since the Group's bank borrowings are also denominated in RMB and the Group has retained surplus funds in the currency, such foreign exchange exposure is immaterial and could be effectively monitored.

1. ACCOUNTANTS' REPORT OF THE CITYCHAMP GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2005 AND THE SIX MONTHS ENDED 30 JUNE 2006

The following is the text of the accountants' report from K.P. Cheng & Co., the reporting accountants, prepared for the purpose of incorporation in this circular.

K.P. CHENG & CO.
Certified Public Accountants
鄭 錦 波 會 計 師 事 務 所

30 August 2006

The Board of Directors
China Haidian Holding Limited
Suites 2701-2705 & 2715-2716, 27/F.
Two International Finance Centre
8 Finance Street, Central
Hong Kong

We set out below our audit report on the financial information relating to Citychamp Dartong Company Limited ("Citychamp" or the "Target Company") and its subsidiaries, (hereinafter collectively referred to as the "Target Group") in Sections I to IV, including the consolidated balance sheets as at 31 December 2003, 2004 and 2005, and 30 June 2006 and the related consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Target Group for each of the years ended 31 December 2003, 2004 and 2005, and for the six months ended 30 June 2006 (the "relevant period"), and the notes thereto (collectively the "Financial Information"), together with the unaudited financial information of the Target Group including the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the six months ended 30 June 2005 and the notes thereto (the "30 June 2005 Corresponding Information"), for inclusion in the Circular of China Haidian Holdings Limited (the "Company") dated 30 August 2006 (the "Circular").

Citychamp was established in the People's Republic of China (the "PRC") in May 1988. On 8 May 1997, Citychamp was listed in the Shanghai Stock Exchange. Citychamp and its subsidiaries are principally engaged in the property development, manufacture and sale of enameled copper wires and property investment.

Both Citychamp and its subsidiaries are registered in the PRC and are required to prepare statutory financial statements, based on 31 December year end, in accordance with relevant accounting rules and regulations applicable in the PRC.

The consolidated financial statements have been prepared by the Company in accordance with 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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

No Financial Information of the Target Group has been audited subsequent to 30 June 2006.

BASIS OF PREPARATION

The Financial Information together with the 30 June 2005 Corresponding Information, has been prepared by the management of the Target Group in accordance with HKFRSs based on the audited financial statements or, where appropriate, management accounts of the companies comprising the Target Group. Adjustments have been made, for the purpose of this report, to restate those financial statements, or, where appropriate, management accounts to conform with HKFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

RESPONSIBILITIES

The management of the Target Group is responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, management accounts of the companies comprising the Target Group for each of the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006 in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectus and the Reporting Accountants" issued by the HKICPA. We have not audited any Financial Information of the Target Group in respect of any period subsequent to 30 June 2006.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the management of the Target Group in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the circumstances of the Target Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the Target Group's consolidated results, consolidated changes in equity and consolidated cash flows for the relevant period, and the Target Company's and the Target Group's state of affairs at 31 December 2003, 2004 and 2005, and 30 June 2006.

REVIEW WORK PERFORMED

For the purpose of this report, we have also reviewed the 30 June 2005 Corresponding Information, for which the management of the Target Group are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA.

A review consists principally of making enquiries of management and applying analytical procedures to the 30 June 2005 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 June 2005 Corresponding Information.

REVIEW CONCLUSION

On the basis of our review of the 30 June 2005 Corresponding Information, which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the six months ended 30 June 2005.

(I) CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2006	2005
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Revenue	2	975,079	1,618,142	2,210,756	1,474,962	1,083,162
Cost of sales		(786,064)	(1,389,398)	(1,885,986)	(1,291,332)	(920,263)
Gross profit		189,015	228,744	324,770	183,630	162,899
Other income		2,811	3,309	4,783	2,123	2,891
		191,826	232,053	329,553	185,753	165,790
Selling expenses		(49,000)	(52,776)	(82,703)	(39,011)	(39,039)
General and administrative expenses		(38,601)	(49,768)	(63,284)	(39,175)	(24,131)
Profit from operations		104,225	129,509	183,566	107,567	102,620
Finance costs		(18,526)	(17,810)	(20,258)	(22,305)	(6,915)
Income outside operation, net		18,534	–	808	–	–
Expenses outside operation, net		–	(755)	–	(790)	(152)
Share of profits less loss of associates		145	159	243	120	146
Investment income		15	769	(421)	22	–
Gain on disposal of subsidiary		6,266	12	699	(286)	(42)
Amortisation of goodwill		(71)	(283)	–	–	–
Profit before taxation	*4*	110,588	111,601	164,637	84,328	95,657
Income tax	*6*	(34,887)	(40,255)	(55,995)	(25,719)	(31,105)
Profit for the year		75,701	71,346	108,642	58,609	64,552
Attributable to:						
Equity shareholders of the company	*23*	67,846	61,090	92,371	51,389	54,839
Minority interests		7,855	10,256	16,271	7,220	9,713
Profit for the year		75,701	71,346	108,642	58,609	64,552
Dividends payable to equity shareholders of the company attributable to the year:						
Interim dividend declared during the year	*19(a)*	–	(42,005)	(40,324)	–	–
Final dividend proposed after the balance sheet date		–	–	–	–	–
		–	(42,005)	(40,324)	–	–
Earnings per share						
Basic	*20*	0.45	0.27	0.34	0.18	0.20
Diluted		–	–	–	–	–

(II) CONSOLIDATED BALANCE SHEETS

		31 December			30 June
		2003	2004	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment, net	*8*	197,747	245,321	422,570	408,380
Construction in progress		14,087	41,943	6	4,830
Investment		15,267	16,045	28,281	27,995
Intangible assets – Lands used rights	*9*	19,581	19,175	24,242	23,983
Intangible assets – Goodwill	*9*	2,756	2,474	6,107	77,940
TOTAL NON-CURRENT ASSETS		249,438	324,958	481,206	543,128
CURRENT ASSETS					
Inventories	*11*	672,810	1,143,742	1,170,160	1,474,384
Trade receivable		163,656	178,143	259,586	393,840
Other receivable	*12*	35,861	32,132	13,524	17,094
Prepayment		503,591	751,837	516,411	667,982
Short-term investment	22	–	–	500	–
Cash and cash equivalents	*14*	612,373	221,304	527,337	324,846
TOTAL CURRENT ASSETS		1,988,291	2,327,158	2,487,518	2,878,146
TOTAL ASSETS		2,237,729	2,652,116	2,968,724	3,421,274
LIABILITIES AND EQUITY					
NON-CURRENT LIABILITIES					
Bank loans – long term portion	*24*	794,536	540,087	528,891	520,979
Provisions		5,680	950	950	950
Other payables – long term portion		4,242	4,242	4,242	4,242
TOTAL NON-CURRENT LIABILITIES		804,458	545,279	534,083	526,171

	Notes	31 December 2003 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	30 June 2006 RMB'000
CURRENT LIABILITIES					
Bank loans – short term portion	*21*	448,515	488,934	540,490	908,101
Bills payables		57,160	145,385	172,050	234,700
Trade payables	*13*	319,774	176,795	194,666	343,570
Receipts in advance		54,628	160,762	180,467	35,939
Dividend payables		1,525	4,223	2,145	9,097
Tax payables		42,870	23,877	23,380	418
Accruals		926	809	3,018	10,059
Other payables	*13*	44,482	45,662	109,073	111,134
Long-term loan due within 1 year	*21*	23,852	527,607	520,642	520,795
TOTAL CURRENT LIABILITIES		993,732	1,574,054	1,745,931	2,173,813
EQUITY					
Share capital		168,019	268,830	322,596	322,596
Reserve		141,956	98,577	104,755	102,083
Retained earning		63,608	64,654	86,698	144,326
TOTAL EQUITY		373,583	432,061	514,049	569,005
Minority interest		65,956	100,722	174,661	152,285
TOTAL LIABILITIES & EQUITY		2,237,729	2,652,116	2,968,724	3,421,274

(III) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Year ended 30 December			Six months ended 30 June	
		2003	2004	2005	2006	2005
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Total equity at 1 January		306,477	373,583	432,061	514,049	432,061
Net profit for the year/ period		67,846	61,090	92,371	51,389	54,839
Dividends declared or approved during the year/period		–	(42,005)	(40,324)	–	–
Transfer to reserve		(740)	5,789	(23,825)	3,567	3,936
Changes in share capital		–	33,604	53,766	–	–
Total equity at 31 December/ 30 June		373,583	432,061	514,049	569,005	490,836

(IV) CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Operating activities					
Profit before taxation					
Adjustments for:					
From customer	1,079,192	1,862,306	2,328,843	1,297,194	1,059,807
Tax refund	391	12,273	26,567	155	16,506
From other operating activities	23,162	45,842	84,775	52,322	19,890
To suppliers and employees	(948,054)	(2,216,523)	(1,791,423)	(1,421,841)	(939,803)
Tax paid	(45,750)	(105,118)	(117,111)	(63,784)	(62,504)
To other operating activities	(559,719)	(65,420)	(76,537)	(111,787)	(26,146)
Cash generated from operating activities	(450,778)	(466,640)	455,114	(247,741)	67,750
Investing activities					
Proceeds from disposal of investment	17,908	1,491	19,739	8,630	1,506
Dividend received	13	169	918	141	146
Proceeds from disposal of Property, plant & machinery	30,000	12,528	150	188	–
Purchases of property, plant and machinery	(33,603)	(130,368)	(131,936)	(16,377)	(73,139)
Investment	(9,703)	(1,897)	(30,663)	(225,661)	(3,497)
Cash used in investing activities	4,615	(118,077)	(141,792)	(233,079)	(74,984)
Financing activities					
Proceeds from capital injection	21,500	(8,267)	49,000	–	–
Inception of bank and other loans	1,342,528	1,027,958	1,348,942	737,453	364,690
Repayment of bank and other loans	(446,670)	(735,493)	(1,302,197)	(388,407)	(217,930)
Dividend and interest paid	(37,266)	(80,850)	(102,993)	(69,920)	(46,404)
Repayment of other financing activities	(6)	(9,700)	–	(793)	–
Cash used in financing activities	880,086	193,648	(7,248)	278,333	100,356
	433,923	(391,069)	306,074	(202,487)	93,122
Exchange difference	1	–	(40)	(4)	–
Increase in cash and cash equivalent	433,924	(391,069)	306,034	(202,491)	93,122
Cash and cash equivalent at 1 January	178,449	612,373	221,303	527,337	221,304
Cash and cash equivalent at 31 December	612,373	221,304	527,337	324,846	314,426

NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These Financial Information have been prepared in accordance with all applicable 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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Target Group is set out below.

The Target Group has previously prepared its financial statements in accordance with relevant accounting rules and regulations applicable in the PRC ("PRC GAAP"). These are the Target Group's first HKFRS consolidated financial statements and HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards, has been applied.

The Target Group has not early adopted any HKFRSs that are not yet effective for the accounting period ending 31 December 2006 (see note 26).

The accounting policies set out below have been applied consistently for all periods presented in the Financial Information and throughout the Target Group.

(b) Basis of preparation of the Financial Information

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

(c) Subsidiaries and controlled entities

A subsidiary is a company in which the Target Group, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Target Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated Financial Information from the date that control commences until the date control ceases.

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Target Group, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity owners of the Target Company. Minority interests in the results of the Target Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year/period between minority interests and the equity owners of the Target Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Target Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Target Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Target Group has been recovered.

In the Target Company's balance sheet, investment in subsidiary is stated at cost less impairment losses (see note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination acquisition over the Target Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)).

Any excess of the Target Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Prior to the adoption of Statement of Standard Accounting Practices 2.130 "Business Combinations" ("SSAP 30"), goodwill was recognised in the consolidated balance sheets and amortised on the straight-line basis over its estimated useful life of 10 years.

(e) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheets at cost less accumulated depreciation and impairment losses (see note 1(i)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and

– other items of plant and machinery

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in consolidated income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– buildings are depreciated over the shorter of their estimated useful lives, being from 30 years to 40 years, and the unexpired terms of the leases; and

– other property, plant and equipment are depreciated over their estimated useful lives as follows:

Plant and machinery	10-15 years
Motor vehicles	6-15 years
Others	5-8 years

Both the useful life of an asset and its residue value, if any, are reviewed annually.

(f) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(i)) and is transferred to the relevant classes of property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

(g) Intangible assets (other than goodwill)

Land use rights arising from the property development, investment properties, and manufacturing plants are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(i)).

Amortisation of intangible asset is charged to profit or loss on a straight-line basis over the leased terms.

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

– property, plant and equipment;

– construction in progress;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investment in subsidiaries;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an assets, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable. Reversals of impairment losses.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(i) Inventories

(i) Enameled copper wires manufacturing

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any writedown of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Property development

Inventories in respect of property development activities are carried at the lower of cost and the net realisable value.

The cost of properties under development for sale comprises specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses and an appropriate proportion of overheads. Net realizable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

(i) Employee benefits and contributions to defined contribution retirement plans

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

Contributions to state-managed retirement benefits schemes for the employees of the Target Group's entities are expensed as incurred.

(ii) Termination benefits

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

(o) Income tax

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company and the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group or the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

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

(i) Sales of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Service income

Services income are recognised when services are rendered. Revenue is stated net of sales taxes.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the relevant period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the consolidated income statement.

(s) Borrowing costs

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(t) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(u) Related parties

For the purposes of the Financial Information, parties are considered to be related to the Target Group if the Target Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Target Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant owners and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Target Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Target Group or of any entity that is a related party of the Target Group.

(v) Segment reporting

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

In accordance with the Target Group's internal financial reporting system, the Target Group has chosen business segment information as the primary reporting format. All the Target Group's activities are based in the PRC and the Target Group's turnover and contribution to profit from ordinary activities are entirely derived from the PRC, therefore no geographic segment information is presented for the purposes of the Financial Information.

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

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

Unallocated items mainly comprise cash and cash equivalents and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2. REVENUE

The principal activities of the Target Group are manufacturing enameled copper wires and properties development.

Revenue represents sales value of goods supplied to sold to customer, customer developed properties income from providing services, net of related sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Sales of enameled copper wires	598,463	1,050,361	1,305,939	1,133,717	618,128
Gross proceeds from properties sold	376,616	371,331	745,316	341,245	372,448
Income from import and export business	–	191,627	157,021	–	90,450
Agency income	–	4,823	2,480	–	2,136
	975,079	1,618,142	2,210,756	1,474,962	1,083,162

3. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Government grant	266	1,240	2,341	176	1,637

4. PROFIT BEFORE TAXATION

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
(a) Finance costs	18,526	17,810	20,258	22,305	6,915
(b) Other items					
Amortisation of land used right	406	406	470	259	203
Amortisation of goodwill	71	283	–	–	–
Depreciation	20,917	21,611	23,692	15,259	10,537

5. DIRECTORS' REMUNERATION

Detail of directors' remuneration are as follows:

	Salaries				
	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Executive directors:					
Hon Kwok Lung	232	230	216	108	108
Zhao Bai Cheng	–	–	–	–	–
Liu Guang Ming	–	–	–	–	–
Shi Tao	–	–	–	–	–
Liu Hua	173	171	197	99	99
Han Xiao Jie	–	–	149	75	75
Chen Dao Tong	181	–	–	–	–
Huang Zhao Hui	194	–	–	–	–
Independent non–executive directors:					
Zheng Shi Lin	30	30	30	15	15
Huang Yu Xiang	30	30	30	15	15
Chen Jin Shan	30	30	30	15	15
	870	491	652	327	327

	Retirement Scheme				
	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Executive directors:					
Hon Kwok Lung	8	8	8	4	4
Zhao Bai Cheng	–	–	–	–	–
Liu Guang Ming	–	–	–	–	–
Shi Tao					
Liu Hua	8	8	8	4	4
Han Xiao Jie	–	–	8	4	4
Chen Dao Tong	8	–	–	–	–
Huang Zhao Hui	8	–	–	–	–
Independent non–executive directors:					
Zheng Shi Lin	–	–	–	–	–
Huang Yu Xiang	–	–	–	–	–
Chen Jin Shan	–	–	–	–	–
	32	16	24	12	12

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

Taxation in the consolidated income statements represent:

	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Current tax	(34,887)	(40,255)	(55,995)
Deferred tax	–	–	–
	(34,887)	(40,255)	(55,995)

The provision for PRC income tax for the Target Group's subsidiaries is based on the respective statutory rates, of 15% or 33%, of the assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC during the relevant period.

7. SEGMENT REPORTING

Segment information is presented in respect to the Target Group's business segments. Business segment information is chosen as the primary reporting format because it is more relevant to the Target Group's internal financial reporting.

For the six months ended 30 June 2006

	Property development	Enamelled Copper wires	Corporate and others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue:				
Sales to external customer	341,245	1,133,717	–	1,474,962
Other revenue	–	161,269	–	161,269
Total	341,245	1,294,986	–	1,636,231
Segment results	38,125	20,484	–	58,609
Finance costs	99	22,206	–	22,305
Profit/(loss) before tax	58,912	25,416	–	84,328
Tax	20,787	4,932	–	25,719
Profit/(loss) for the period	38,125	20,484	–	58,609
Segment assets	1,556,101	1,865,173	–	3,421,274
Segment liabilities	1,202,373	1,497,611	–	2,699,984
Other segment information				
Amortisation of land use right	–	258	–	258
Depreciation	359	14,459	–	14,818
Other non-cash expenses	1,331	257	–	1,558
Capital expenditure	6,784	7,671	–	14,455

For the six months ended 30 June 2005 (unaudited)

	Property development *RMB'000*	**Enamelled Copper wires** *RMB'000*	**Corporate and others** *RMB'000*	**Consolidated** *RMB'000*
Revenue:				
Sales to external customer	372,448	618,128	92,586	1,083,162
Other revenue	–	593	1,415	2,008
Total	372,448	618,721	94,001	1,085,170
Segment results	53,549	11,609	(606)	64,552
Finance costs	74	6,281	560	6,915
Profit/(loss) before tax	77,916	17,462	279	95,657
Tax	24,367	5,853	885	31,105
Profit/(loss) for the period	53,549	11,609	(606)	64,552
Segment assets	1,631,463	1,233,842	89,510	2,954,815
Segment liabilities	1,327,037	948,666	63,631	2,339,334
Other segment information				
Amortisation of land use right	–	203	–	203
Depreciation	1,751	78,806	521	81,078
Other non-cash expenses	1,309	274	–	1,583
Capital expenditure	3,662	137,502	–	141,164

For the year end 31 December 2005

	Property development RMB'000	**Enamelled Copper wires** RMB'000	**Corporate and others** RMB'000	**Consolidated** RMB'000
Revenue:				
Sales to external customer	745,316	1,305,939	159,501	2,210,756
Other revenue	–	48,148	1,071	49,219
Total	745,316	1,354,087	160,572	2,259,975
Segment results	90,749	19,225	(1,332)	108,642
Finance costs	183	19,284	791	20,258
Profit/(loss) before tax	141,942	23,283	(588)	164,637
Tax	51,193	4,058	744	55,995
Profit/(loss) for the year	90,749	19,225	(1,332)	108,642
Segment assets	1,797,464	1,171,260	–	2,968,724
Segment liabilities	1,597,178	682,836	–	2,280,014
Other segment information				
Amortisation of land use right	–	470	–	470
Depreciation	1,964	21,728	–	23,692
Other non-cash expenses	2,185	1,023	–	3,208
Capital expenditure	4,760	120,586	–	125,346

For the year end 31 December 2004

	Property development *RMB'000*	Enamelled Copper wires *RMB'000*	Corporate and others *RMB'000*	Consolidated *RMB'000*
Revenue:				
Sales to external customer	371,331	1,050,361	196,450	1,618,142
Other revenue	–	9,188	6,250	15,438
Total	371,331	1,059,549	202,700	1,633,580
Segment results	36,620	35,566	(840)	71,346
Finance costs	152	17,244	414	17,810
Profit/(loss) before tax	61,266	49,881	454	111,601
Tax	24,646	14,315	1,294	40,255
Profit/(loss) for the year	36,620	35,566	(840)	71,346
Segment assets	1,699,897	850,186	102,033	2,652,116
Segment liabilities	1,305,477	758,572	55,284	2,119,333
Other segment information				
Amortisation of goodwill	282	–	–	282
Amortisation of land use right	–	406	–	406
Depreciation	5,029	16,473	109	21,611
Other non-cash expenses	2,185	404	–	2,589
Capital expenditure	932	135,544	1,559	138,035

For the year end 31 December 2003

	Property development *RMB'000*	Enamelled Copper wires *RMB'000*	Corporate and others *RMB'000*	Consolidated *RMB'000*
Revenue:				
Sales to external customer	376,616	598,463	–	975,079
Other revenue	–	7,387	–	7,387
Total	376,616	605,850	–	982,466
Segment results	42,279	38,083	(4,661)	75,701
Finance costs	207	18,466	(147)	18,526
Profit/(loss) before tax	65,200	49,781	(4,393)	110,588
Tax	22,921	11,698	268	34,887
Profit/(loss) for the year	42,279	38,083	(4,661)	75,701
Segment assets	1,918,378	311,107	8,244	2,237,729
Segment liabilities	1,138,564	656,560	3,066	1,798,190
Other segment information				
Amortisation of goodwill	72	–	–	72
Amortisation of land use right	–	406	–	406
Depreciation	3,974	16,915	28	20,917
Other non-cash expenses	1,485	1,590	–	3,075
Capital expenditure	7,507	57,816	1,251	66,574

8. FIXED ASSETS

	Land and Building RMB'000	Plant and Machinery RMB'000	Motor Vehicle RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1.1.2003	57,385	204,112	3,925	144	265,566
Additions	8,301	39,001	3,929	1,630	52,861
Disposals	(19,960)	(79)	–	–	(20,039)
At 31.12.2003	45,726	243,034	7,854	1,774	298,388
Less: Aggregate depreciation:					
At 1.1.2003	4,609	74,852	805	75	80,341
Charge for the year	5,317	13,612	1,662	326	20,917
Write back on disposal	(599)	(18)	–	–	(617)
At 31.12.2003	9,327	88,446	2,467	401	100,641
Net book value:					
At 31.12.2003	36,399	154,588	5,387	1,373	197,747
At 31.12.2002	52,776	129,260	3,120	69	185,225

	Land and Building RMB'000	Plant and Machinery RMB'000	Motor Vehicle RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1.1.2004	45,726	243,034	7,854	1,774	298,388
Additions	25,276	36,588	6,645	1,182	69,691
Disposals	–	(10)	(514)	(9)	(533)
At 31.12.2004	71,002	279,612	13,985	2,947	367,546
Less: Aggregate depreciation:					
At 1.1.2004	9,327	88,446	2,467	401	100,641
Charge for the year	5,973	13,695	1,525	418	21,611
Write back on disposal	–	(3)	(24)	–	(27)
At 31.12.2004	15,300	102,138	3,968	819	122,225
Net book value:					
At 31.12.2004	55,702	177,474	10,017	2,128	245,321
At 31.12.2003	36,399	154,588	5,387	1,373	197,747

	Land and Building RMB'000	Plant and Machinery RMB'000	Motor Vehicle RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1.1.2005	71,002	279,612	13,985	2,947	367,546
Additions	97,665	99,195	5,758	1,163	203,781
Disposals	–	(100)	(2,656)	(788)	(3,544)
At 31.12.2005	168,667	378,707	17,087	3,322	567,783
Less: Aggregate depreciation:					
At 1.1.2005	15,300	102,138	3,968	819	122,225
Charge for the year	2,424	18,934	1,718	616	23,692
Write back on disposal	–	(84)	(363)	(257)	(704)
At 31.12.2005	17,724	120,988	5,323	1,178	145,213
Net book value:					
At 31.12.2005	150,943	257,719	11,764	2,144	422,570
At 31.12.2004	55,702	177,474	10,017	2,128	245,321

	Land and Building RMB'000	Plant and Machinery RMB'000	Motor Vehicle RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1.1.2006	168,667	378,707	17,087	3,321	567,782
Additions	3	740	3,476	485	4,704
Disposals	–	(12,004)	(891)	–	(12,895)
At 30.6.2006	168,670	367,443	19,672	3,806	559,591
Less: Aggregate depreciation:					
At 1.1.2006	17,725	120,988	5,323	1,178	145,214
Charge for the year	992	13,104	816	347	15,259
Write back on disposal	–	(8,818)	(444)	–	(9,262)
At 30.6.2006	18,717	125,274	5,695	1,525	151,211
Net book value:					
At 30.6.2006	149,953	242,169	13,977	2,281	408,380
At 31.12.2005	150,942	257,719	11,764	2,143	422,568

9. INTANGIBLE ASSETS

(a) Land used right

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January	21,106	21,106	21,106	26,643
Addition through acquisition	–	–	5,537	–
At 31 December	21,106	21,106	26,643	26,643
Less: Accumulated amortisation:				
At 1 January	1,119	1,525	1,931	2,401
Charge for the year	406	406	470	259
At 31 December	1,525	1,931	2,401	2,660
Net book value:				
At 31 December	19,581	19,175	24,242	23,983

(b) Goodwill

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January	2,828	2,828	2,828	6,461
Addition during the year	–	–	3,633	71,833
At 31 December	2,828	2,828	6,461	78,294
Less: Accumulated amortisation:				
At 1 January	–	72	354	354
Charge for the year	72	282	–	–
At 31 December	72	354	354	354
Net book value:				
At 31 December	2,756	2,474	6,107	77,940

10. INVESTMENT IN SUBSIDIARY

	31 December			30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Utilised shares, at cost	138,157	199,345	340,256	390,387
Less: impairment loss	–	–	–	–
	138,157	199,345	340,256	390,387

11. INVENTORIES

(a) Reconciliation of the above amount to the company's profit for the year

	31 December			30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Manufacturing				
Raw materials	9,505	15,482	19,705	59,077
Work in progress	14,633	13,468	24,662	62,333
Finished goods	74,842	86,879	132,675	193,743
Low consumable goods	4,529	2,656	2,825	2,711
Packing material	7	74	91	153
	103,516	118,559	179,958	318,017
Property development				
Construction material	–	40,037	360	4
Property and land under development for sale	289,088	750,202	816,853	976,413
Completed property held for sale	280,206	234,944	172,989	179,950
	569,294	1,025,183	990,202	1,156,367
	672,810	1,143,742	1,170,160	1,474,384
Amount pledged	263,000	486,500	520,000	590,000

For 2005, Citychamp Dartong Co Ltd pledged RMB520,000,000 with the right of land use. It included the residential area of Stage 2 in Area F, Sing Cheng, Taiyanggong which amounted to 500,000,000 (The tenure of loan amount of 310,000,000 is from 14 September 2004 to 13 September 2006; loan amount of 70,000,000 is from 30 December 2004 to 13 September 2006; loan amount of 50,000,000 is from 28 January 2005 to 13 September 2006; loan amount of 70,000,000 is from 28 September 2005 to 13 September 2006). It also included Qingxiu Garden which amounted to 20,000,000 (The tenure of loan amount of 12,000,000 is from 16 May 2005 to 29 April 2008; loan amount of 8,000,000 is from 16 September 2005 to 28 March 2008.

For 2004, Citychamp Dartong Co Ltd pledged RMB486,500,000 with the right of land use. It included Block 1-5 and underground carpark of Stage 1 of Area F, Sing Cheng, Taiyanggong which amounted to 95,000,000 from 16 June 2003 to 16 June 2008; Stage 2 in Area F, Sing Cheng, Taiyanggong which amounted to 380,000,000 from 14 September 2004 to 14 September 2008; Chong Cheng Garden which amounted to 11,500,000 from 4 December 2002 to 3 December 2005.

12. TRADE AND OTHER RECEIVABLES

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	189,696	189,739	264,516	391,131
1 to 2 years	6,176	3,462	4,573	3,117
More than 2 years	3,647	4,354	4,020	16,686
	199,519	197,555	273,109	410,934

13. TRADE AND OTHER PAYABLE

Included in trade and other payables as trade creditors and bills payable with the following aging analysis as of the balance sheet date:

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due within 1 to 3 months or on demand	263,700	160,903	211,963	340,960
Due after 3 months but within 6 months	35,913	23,758	35,526	69,585
Due after 6 months but within 1 years	53,869	29,157	47,368	34,212
Due more than 1 year	10,774	8,639	8,882	9,947
	364,256	222,457	303,739	454,704

14. CASH AND CASH EQUIVALENTS

	31 December			30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	612,236	220,854	526,894	324,555
Cash in hand	137	450	443	291
	612,373	221,304	527,337	324,846

15. TRADE AND OTHER PAYABLES EMPLOYEE RETIREMENT BENEFITS

The Target Company and its subsidiaries established in the PRC participate in pension fund schemes organised by the relevant local government authorities in the PRC. The Target Group is required to make contributions to the retirement schemes at approximately 20% of the basic salaries of their employees.

The Target Group does not have any other pension schemes for its employees elsewhere. The Target Group does not have any other obligations other than the contributions described above.

16. COMMITMENTS

(a) Capital commitments outstanding not provided for in the financial statements were as follows:

	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	87,800	220,000	246,650
Authorised but not contracted for	–	–	–
	87,800	220,000	246,650

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

		Properties	
	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	288	288	288
After 1 year but within 5 years	1,181	1,219	1,272
After 5 years	1,210	884	543
	2,679	2,391	2,103

17. CONTINGENT LIABILITIES

(a) As of 30 June 2006, the Target Group has the following guarantee of loans:

(1) Providing RMB20,000,000 guarantee of bank loan to Fuzhou Tian Yu Electric Company Limited.

(2) Providing RMB19,100,000 guarantee of bank loan to Fujian San Mu Group Company Limited.

(3) Providing RMB121,000,000 guarantee of bank loan to Fujian Province Fu Kang Pharmaceutical Industrial Company Limited while the Target Group has a RMB142,800,000 guarantee of bank loan that is provided by Fujian Province Fu Kang Pharmaceutical Company Limited.

(4) Providing RMB13,000,000 guarantee of bank loan to Fuzhou Ya Tong New Material Technology Company Limited, while the Target Group's subsidiary has a RMB50,000,000 guarantee of bank loan that is provided by to Fuzhou Ya Tong New Material Technology Company Limted.

(5) Providing RMB20,000,000 guarantee of bank loan to Jiangsu Dartong M&E Company Limited, a subsidiary of the Target Group.

(6) Providing RMB20,000,000 guarantee of bank loan to Fuzhou Dartong M&E Company Limited, a sino-foreign equity joint venture.

(b) As of 30 June 2006, the Target Group settled a letter of credit amounting RMB57,226,500 issued by the Mitsubishi Electric (Guangzhou) Compressor Company Limited whereby the Target Group received the full amount before the due date. According to the agreement signed by the Target Group, Mitsubishi Electric (Guangzhou) Compressor Company Limited and the Citibank (Shenzhen), the Target Group is not liable to repay any settled amount of the letter of credit. However, the Citychamp Group might subject to interest charges on the settled amount.

18. RELATED PARTY TRANSACTIONS

Companies	Nature of transaction	2003 *RMB'000*	Relationship
Beijing Citychamp Xin Ji Properties Development Co., Ltd	Reconstruction fee paid in advance	300,000	During 2003 Mr. Han Guo Jian, being the assistant general manager of the group, is the legal representative of the company
Fujian Yi Fu Investment Co., Ltd	Other receivable	1,500	Being the associate company
Hong Kong Citychamp Industrial Co., Ltd	Other receivable	120	Family relationship with a director
Beijing Guan Hai Property Development Co., Ltd	Other payable	(8,557)	Mr. Hon Kwok Lung, being the legal representative of the group, is the general manager of the company
Fuzhou Yingrong Investment Co., Ltd	Other payable	(6,192)	Being the associate company
Fuzhou Jing Xie Property Development Co., Ltd	Other payable	(51)	Family relationship with a director
		286,820	

Companies	Nature of transaction	2004 *RMB'000*	Relationship
Beijing Jing Guan Property Development Co., Ltd	Accounts receivable – Agency fee for property sold	2,421	Mr. Hon Kwok Lung, being the legal representative of the group, is the legal representative of the company

Companies	Nature of transaction	2005 *RMB'000*	Relationship
Beijing Geng Shi Properties Development Co., Ltd	Other payable	(24,832)	Being the shareholder of a subsidiary
Fuzhou Zhao Ji Import and Export Co., Ltd	Other receivable – loan and interest	3,091	Being the subsidiary of the company before disposal
		(21,741)	

Companies	Nature of transaction	Six months ended 30 June 2006 *RMB'000*	Relationship
Beijing Geng Shi Properties Development Co., Ltd	Other payable	(6,191)	Being the shareholder of a subsidiary
Fujian Fengrong Investment Co., Ltd	Other payable	(11,400)	Being the shareholder of the parent company
Fuzhou Jing Xie Porperty Development Co., Ltd	Other payable	(815)	Family relationship with a director
		(18,406)	

19. DIVIDEND

(a) Dividends payable to equity shareholders of the company attributable to the year:

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Final dividend proposed after the balance sheet date of 15 cents per ordinary share (2004: 25 cents per ordinary share)	–	42,005	40,324	–

(b) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved during the year.

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 15 cents per share (2004: 25 cents per share)	–	50,406	53,765	–

20. EARNING PER SHARE

The calculation of basic earning per share is based on the profit attributable to ordinary equity shareholders of the company and the weighted average of ordinary shares in issue during the year, calculated as follows:

		31 December		30 June
	2003	**2004**	**2005**	**2006**
Issued ordinary shares at 1 January	168,019	168,019	268,830	268,830
Effect of capitalization issue	–	100,811	53,766	53,766
Weighted average number of ordinary shares	168,019	268,830	322,596	322,596

21. BANK LOAN AND OVERDRAFT

The bank loans and overdrafts were repayable as follows:

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	472,367	1,016,541	1,061,135	1,663,595
After 1 year but within 2 years	531,000	48,000	412,200	432,200
After 2 year but within 5 years	245,000	475,000	56,600	88,779
After 5 years	18,536	17,087	60,091	–
	794,536	540,087	528,891	520,979
	1,266,903	1,556,628	1,590,026	2,184,574

The bank loans and overdrafts were secured as follows:

		31 December		30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– secured	272,315	514,434	685,940	868,101
– unsecured	994,588	1,042,194	904,083	1,081,774
	1,266,903	1,556,628	1,590,023	1,949,875

22. TRADING SECURITIES

	31 December			30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trading securities (at market value)				
Listed equity securities				
– in Hong Kong	–	–	–	–
– outside Hong Kong	–	–	500	–
	–	–	500	–

23. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

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

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount of consolidated profit attributable to equity shareholders dealt with in the company's financial statement	67,846	61,090	92,371	51,389
Final dividends from subsidiaries and associates attributable to the profits of the previous financial year, approved and paid during the year	–	–	–	–
Company's profit for the year	67,846	61,090	92,371	51,389

24. NON-CURRENT INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

	31 December			30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– secured	9,315	39,434	617,740	794,901
– unsecured	463,052	977,107	443,392	633,995
	472,367	1,016,541	1,061,132	1,428,896

25. ACCOUNTING ESTIMATES AND JUDGEMENT

The Target Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Financial Information. The Target Group bases the assumptions and estimates on historical experience and on various other assumptions that the Target Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in Note 1. The Target Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

Impairment for fixed assets and intangible assets

If circumstances indicate that the net book value of fixed assets and intangible assets may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of fixed assets and intangible assets are reviewed periodically in order to assess the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Target Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Target Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, are depreciated on a straight-line basis over the estimated useful lives of the assets after taking into account the estimated residual value. The Target Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Target Group's historical experience with similar assets and taking into account anticipated technological changes.

Depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment losses for bad and doubtful debts

The Target Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Target Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial conditions of the customers deteriorate, actual write-offs would be higher than estimated.

26. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2006

Up to the date of issue of these Financial Information, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006 and which have not been adopted in the Financial Information set out in this report:

	Effective for accounting period beginning on or after
HKFRS 7, Financial instruments: disclosures	**1 January 2007**
Amendment to HKAS 1, Presentation of financial statements: capital disclosure	1 January 2007

The Target Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial applications. So far it has concluded that the adoption of HKFRS 7 and amendment to HKAS 1 are unlikely to have a significant impact on the Target Group's result of operations and financial position.

27. EXPLANATION OF TRANSITION TO HKFRS

In preparing its opening HKFRS balance sheet, the Target Group has adjusted amounts reported previously in financial statements prepared in accordance with PRC GAAP. An explanation of how the transition from PRC GAAP to HKFRS has affected the Target Group's financial position and financial performance is set out below:

Reconciliation of owners' equity attributable to equity owners of the Target Company at 31 December 2003, 2004 and 2005, and at 30 June 2006.

			31 December		**30 June**
		2003	**2004**	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Owner's equity attributable to equity owners of the Target Company under PRC GAAP		375,184	434,884	520,938	578,453
Previous GAAP adjustments					
Reserve		(160)	(542)	(1,232)	(2,176)
Retained earning		(1,441)	(3,281)	(5,657)	(7,272)
Shareholders' equity attributable to equity owners of the Target Company under HKFRS		373,583	432,061	514,049	569,005

Reconciliation of net profit attributable to equity owners of the Target Company for the year ended 31 December 2003, 2004 and 2005, and for the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net profit attributable to equity owners of the Target Company under PRC GAAP	68,766	64,147	97,407	59,243
Previous GAAP adjustments				
General and administration expense	(1,601)	(3,821)	(6,889)	(9,916)
Minority interest	681	764	1,853	2,062
Net profit attributable to equity owners of the Target Company under HKFRS	67,846	61,090	92,371	51,389

(a) Goodwill

Under HKFRS starting 1 January 2005, goodwill is no longer amortised and subject to impairment only, while the Target Company amortises goodwill under the PRC GAAP.

(b) Under framework for the Preparation and Presentation of Financial Statement, asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably. Cash outflow do not fulfill the criteria for asset recognition are recognised as expense.

(V) POST BALANCE SHEET EVENTS

(a) According to the 6th board of directors' meeting on 8 August 2006, the board of directors of the Target Group approved the "Investment by non-public issuance of shares" whereby the Target Group is to purchase 100% interest of Beijing Jinggun Property Development Company Limited, a wholly owned company of Starlex Limited, with issuance of the Targert Group's shares. Starlex Limited is a wholly owned subsidiary of the China Haidian Holdings Limited.

(b) On 27 July 2006, the Target Group declared a stock and cash dividend for the year-end 31 December 2005 whereby the Target Group issues 1.5 shares per every 10 shares based on the Target Group's outstanding shares on 31 December 2005 along with a cash dividend of RMB0.167 per share.

The Target Group's outstanding share is 370,985,186 after the issuance of the stock dividend.

Yours faithfully,
K.P. Cheng & Co
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE CITYCHAMP GROUP

For the year ended 31 December 2003

I. Review of results

For the year ended 31 December 2003, the Citychamp Group's revenue amounted to approximately RMB975.1 million (equivalent to HK$937.6 million). Profit before taxation and minority interests amounted to approximately RMB110.6 million (equivalent to approximately HK$106.3 million). Profit after taxation and minority interests amounted to approximately RMB67.8 million (equivalent to approximately HK$65.2 million).

1. Manufacture and sale of enamelled copper wires

During the year, the Citychamp Group overcame the adverse factors of a rapid increase in the price of copper, the major raw material, decline in gross profit margins and intense market competition by adjusting product pricing, striving to maintain the quality of products, and focusing on internal management and new product development. Apart from the production base in Fuzhou, the Citychamp Group established another production base in Huaian, Jiangsu Province in April 2003 on a joint-venture basis. Revenue from the special enamelled copper wire segment amounted to approximately RMB598.5 million (equivalent to approximately HK$575.5 million).

2. Property development

The property development business had become a new profit driver for the Citychamp Group. During the year, revenue from the property development business was approximately RMB376.6 million (equivalent to approximately HK$362.1 million). In addition to the continued development of the property projects in Taiyanggong New District, Beijing, the Citychamp Group acquired 桂林鴻達置業發展有限公司 (Guilin Hungda Real Estate Company Limited) in order to increase its land bank and accelerate the establishment of a nationwide property network.

II. Financial position

1. Liquidity, financial resources and capital structure

As at 31 December 2003, the Citychamp Group had cash and bank deposits of approximately RMB612.4 million (equivalent to approximately HK$588.8 million).

Based on total liabilities of approximately RMB1,798.2 million (equivalent to approximately HK$1,729.0 million) and shareholders' equity of approximately RMB439.5 million (equivalent to approximately HK$422.6 million) as at 31 December 2003, the gearing ratio of the Citychamp Group was approximately 409.1%.

Bank borrowings of the Citychamp Group were denominated in RMB. As at 31 December 2003, 37.3% of bank borrowings (totalling approximately RMB472.4 million (equivalent to approximately HK$454.2 million)) of the Citychamp Group were repayable within one year.

2. Capital commitments

As at 31 December 2003, the Citychamp Group had RMB87.8 million (equivalent to approximately HK$84.4 million) contracted capital commitments.

III. Asset transactions

1. On 16 May 2003, the Citychamp Group entered into an agreement with 北京嘉華聯合房地產開發有限公司(Beijing Jiahua Lianhe Real Estate Company Limited), pursuant to which the Citychamp Group transferred its 20% equity interest in 北京八大處房地產開發有限公司 (Beijing Eight Major Area Real Estate Company Limited) to 北京嘉華聯合房地產開發有限公司 (Beijing Jiahua Lianhe Real Estate Company Limited) for a consideration of RMB15.8 million (equivalent to approximately HK$15.2 million).

2. On 15 September 2003, the Citychamp Group entered into an agreement with 香港冠城實業有限公司(Hong Kong Guancheng Shiye Company Limited), pursuant to which the Citychamp Group acquired a 75% equity interest in 桂林鴻達置業發展有限公司(Guilin Hungda Real Estate Company Limited) from 香港冠城實業有限公司(Hong Kong Guancheng Shiye Company Limited) for a cash consideration of RMB11.5 million (equivalent to approximately HK$11.1 million).

3. On 24 December 2003, the Citychamp Group entered into a contract with 北京恒興基業房地產開發有限公司(Beijing Hengxing Jiye Real Estate Company Limited), pursuant to which the Citychamp Group transferred the first floor to the sixth floor of Haishan Building located at 1 Jialian Road, Kaiyuan District, Xiamen, the PRC, the first floor to the third floor of an ancillary building and the corresponding land use rights to 北京恒興基業房地產開發有限公司(Beijing Hengxing Jiye Real Estate Company Limited) for a consideration of RMB42.5 million (equivalent to approximately HK$40.9 million).

IV. Employees and remuneration policy

As at 31 December 2003, the Citychamp Group had approximately 479 full-time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Citychamp Group also provides other benefits to its employees, including year end double pay, medical insurance and retirement benefits. In addition, an incentive bonus is provided with reference to the Citychamp Group's operating results and employee's individual performance.

For the year ended 31 December 2004

I. Review of results

For the year ended 31 December 2004, the Citychamp Group achieved revenue of approximately RMB1,618.1 million (equivalent to approximately HK$1,555.9 million). Profit before taxation and minority interests amounted to approximately RMB111.6 million (equivalent to approximately HK$107.3 million). Profit after taxation and minority interests amounted to approximately RMB61.1 million (equivalent to approximately HK$58.8 million).

1. Manufacture and sale of enamelled copper wires

For the year ended 31 December 2004, the Citychamp Group faced an unfavourable market environment with the continual surge in copper prices, limited electricity supply and tight capital funding due to the government's austerity measures on credit control. In order to overcome these adverse factors, the Citychamp Group continued to focus on competitiveness enhancement, improved management, enhanced product quality and expanded its market. Revenue from the business amounted to approximately RMB1,050.4 million (equivalent to approximately HK$1,010.0 million).

As at 31 December 2004, the Citychamp Group's new factory zone technology enhancement project in 福州經濟技術開發區 (Fuzhou Economic and Technology Development Zone) had basically completed the infrastructure construction work. Production capacity of the factory zone would reach 40,000-50,000 tonnes in the next three years.

Phase 1 of the technology enhancement project at 淮安經濟開發區 (Huaian Economic Development Zone) in Jiangsu Province to increase the annual production capacity by 6,000 tonnes of enamelled copper wires had completed and had passed the completion inspection for formal production.

2. Property development

During the year, revenue from the property development segment amounted to approximately RMB371.3 million (equivalent to approximately HK$357.0 million). In 2004, the Citychamp Group acquired 冠城正業房地產開發有限公司(Guancheng Zhenye Real Estate Company Limited), 冠城新泰房地產開發有限公司(Guancheng Xintai Real Estate Company Limited) and 湖南衡陽華豐房地產開發有限公司(Hunan Hengyang Huafeng Real Estate Company Limited) that increase its land bank and lay a solid foundation for the future development of its property business.

II. Financial position

1. Liquidity, financial resources and capital structure

As at 31 December 2004, the Citychamp Group had cash and bank balances of approximately RMB221.3 million (equivalent to approximately HK$212.8 million).

Based on total liabilities of approximately RMB2,119.3 million (equivalent to approximately HK$2,037.8 million) and shareholders' equity of approximately RMB532.8 million (equivalent to approximately HK$512.3 million as at 31 December 2004), the gearing ratio of the Citychamp Group was approximately 397.8%.

Bank borrowings of the Citychamp Group were denominated in RMB. As at 31 December 2004, approximately 65.3% (totalling approximately RMB1,016.5 million (equivalent to approximately HK$977.4 million)) of the bank borrowings of the Citychamp Group were repayable within one year.

2. Capital commitments

As at 31 December 2004, the Citychamp Group had contracted capital commitments of RMB220 million (equivalent to approximately HK$211.5 million).

III. Asset transactions

1. Acquisitions of assets

(i) On 1 March 2004, the board of directors of Citychamp passed the resolution to approve the capital contribution of RMB5.1 million (equivalent to approximately HK$4.9 million) to 福州兆基進出口有限公司 (Fuzhou Zhao Ji Import and Export Company Limited). Immediately after the capital injection, the Citychamp Group held approximately 56.2% of the total share capital of 福州兆基進出口有限公司(Fuzhou Zhao Ji Import and Export Company Limited).

(ii) On 5 April 2004, the board of directors of Citychamp passed the resolution to approve the acquisition of a 40% equity interest in 北京冠城新泰房地產開發有限公司(Beijing Guancheng Xintai Real Estate Company Limited) from 北京太陽宮房地產開發有限公司 (Beijing Taiyanggong Real Estate Company Limited), a subsidiary of Citychamp, for a consideration of RMB12 million (equivalent to approximately HK$11.5 million).

(iii) On 26 August 2004, the board of directors of Citychamp passed the resolution to approve the acquisition of a 40% equity interest in 北京冠城正業房地產開發有限公司(Beijing Guancheng Zhengye Real Estate Company Limited) from 北京嘉凱置業有限公司(Beijing Jiakai Real Estate Company Limited) for a consideration of RMB8 million (equivalent to approximately HK$7.7 million).

(iv) On 20 December 2004, the board of directors of Citychamp passed the resolution to approve the acquisition of a 51% equity interest in 衡陽華豐房地產開發有限公司(Hengyang Huafeng Real Estate Company Limited) for a consideration of approximately RMB14.5 million (equivalent to approximately HK$13.9 million).

2. Disposal of assets

On 7 December 2004, the Citychamp Group transferred its 80% equity interest in 北京京華景豐經貿有限公司(Beijing Jinghua Jingfeng Trading Company Limited) to 曹莉玲 (Cao Liling) for a consideration of RMB1.2 million (equivalent to approximately HK$1.2 million).

IV. Employees and remuneration policy

As at 31 December 2004, the Citychamp Group had approximately 500 full-time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Citychamp Group also provides other benefits to its employees, including year end double pay, medical insurance and retirement benefits. In addition, an incentive bonus is provided with reference to the Citychamp Group's operating results and employee's individual performance.

For the year ended 31 December 2005

I. Review of results

For the year ended 31 December 2005, the Citychamp Group recorded revenue of approximately RMB2,210.8 million (equivalent to approximately HK$2,125.8 million). Profit before taxation and minority interests amounted to approximately RMB164.6 million (equivalent to approximately HK$158.3 million). Profit after taxation and minority interests was approximately RMB92.4 million (equivalent to approximately HK$88.8 million).

1. Manufacture and sale of enamelled copper wires

During the year, prices of copper, the major raw material of the special enamelled copper wire, continued to surge and reach as high as RMB42,000 (equivalent to approximately HK$40,385) per tonne with the trend of continuing the surge. On one hand, the significant increase in inventory costs increased pressure on funding; on the other hand, since the downstream electrical appliance industry was sluggish during the year, the Citychamp Group was unable to transfer the increase in raw material costs to its customers, which further compressed the profitability of its enamelled copper wire business. Facing such unfavourable market environment, the Citychamp Group improved the competitiveness of its products, expanded the scale of operation and capitalised on economies of scale. Revenue from the segment amounted to approximately RMB1.3 billion (equivalent to approximately HK$1.3 billion).

2. Property development

For the year ended 31 December 2005, the PRC government continued to implement austerity measures against the property industry by adopting policies and measures such as adjusting the credit financing policy of housing and increasing the property transaction taxes, to retard excessive increases in housing prices and avoid overheating of the property sector. Against such adverse market and policy factors, the Citychamp Group, on one hand, through rational market positioning, fully capitalised on the brandname effect of "Citychamp" in achieving a swift growth in property sales; and on the other hand, through acceleration of the preliminary work on projects and increase in land bank, ensured the sustainable growth of its property business. For the year ended 31 December 2005, revenue from the property business amounted to approximately RMB745.3 million (equivalent to approximately HK$716.6 million).

II. Financial position

1. Liquidity, financial resources and capital structure

As at 31 December 2005, the Citychamp Group had cash and bank balances of approximately RMB527.3 million (equivalent to approximately HK$507.0 million).

Based on total liabilities of approximately RMB2,280.0 million (equivalent to approximately HK$2,192.3 million) and shareholders' equity of approximately RMB688.7 million (equivalent to approxiamtley HK$662.2 million) as at 31 December 2005, the gearing ratio of the Citychamp Group was approximately 331.1%.

Bank borrowings of the Citychamp Group were denominated in RMB. As at 31 December 2005, approximately 66.7% (totalling approximately RMB1,061.1 million (equivalent to approximately HK$1,020.3 million)) of the bank borrowings of the Citychamp Group were repayable within one year.

2. Capital commitments

As at 31 December 2005, the Citychamp Group had contracted capital commitments of approximately RMB246.7 million (equivalent to approximately HK$237.2 million).

III. Asset transactions

1. Acquisition of assets

   (1) The Citychamp Group acquired a 31.97% equity interest in 北京中科稼英半導體有限公司 (Beijing Zhongke Jiaying Semiconductor Company Limited) from 深圳市盈冠投資有限公司(Shenzhen Yingguan Investment Company Limited) for a consideration of RMB29.5 million (equivalent to approximately HK$28.4 million). The acquisition constituted a connected transaction of the Citychamp Group.

2. Disposals of assets

   (1) The Citychamp Group disposed of its 51% equity interest in 北京冠城蔚藍房地產經紀有限公司(Beijing Guancheng Weilan Real Estate Agency Company Limited) to 林玲玲 (Lin Lingling) for a consideration of RMB1.5 million (equivalent to approximately HK$1.5 million).

   (2) The Citychamp Group disposed of its 80% equity interest in 北京冠城房地產經紀有限公司 (Beijing Guancheng Real Estate Agency Company Limited) to 石于超 (Shi Yuchao) for a consideration of RMB6.3 million (equivalent to approximately HK$6.1 million).

   (3) The Citychamp Group disposed of its 43% equity interest in 福建易富投資有限公司(Fujian Yi Fu Investment Company Limited) to 黃旻楓 (Huang Minfeng) for a consideration of approximately RMB13.0 million (equivalent to approximately HK$12.5 million).

   (4) The Citychamp Group disposed of its 56.17% equity interest in 福州兆基進出口有限公司(Fuzhou Zhao Ji Import and Export Company Limited) to 張敦文 (Zhang Dunwen) for a consideration of approximately RMB5.6 million (equivalent to approximately HK$5.4 million).

IV. Employees and remuneration policy

As at 31 December 2005, the Citychamp Group had approximately 500 full-time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Citychamp Group also provides other benefits to its employees, including year end double pay, medical insurance and retirement benefits. In addition, an incentive bonus is provided with reference to the Citychamp Group's operating results and employee's individual performance.

For the six months ended 30 June 2006

I. Review of results

For the six months ended 30 June 2006, the Citychamp Group recorded revenue of approximately RMB1,475.0 million (equivalent of approximately HK$1,418.3 million). Profit before taxation and minority interests amounted to approximately RMB84.3 million (equivalent to approximately HK$81.1 million). Profit after taxation and minority interests was approximately RMB51.4 million (equivalent to approximately HK$49.4 million).

1. Manufacture and sale of enamelled copper wires

For the six months ended 30 June 2006 revenue from the enamelled copper wire business amounted to approxiamtley RMB1,133.7 million (equivalent to approximately HK$1,090.1 million).

2. Property development

During the period under review, revenue from the property business amounted to approximately RMB341.2 million (equivalent to approximately HK$328.1 million).

II. Financial position

1. Liquidity, financial resources and capital structure

As at 30 June 2006, the Citychamp Group had cash and bank balances of approximately RMB324.8 million (equivalent to approximately HK$312.3 million).

Based on total liabilities of approximately RMB2,700.0 million (equivalent to approximately HK$2,596.1 million) and shareholders' equity of approximately RMB721.3 million (equivalent to approximately HK$693.5 million as at 30 June 2006), the gearing ratio of the Citychamp Group was approximately 374.3%.

The bank borrowings of the Citychamp Group were denominated in RMB. As at 30 June 2006, 76.2% of the bank borrowings of the Citychamp Group were repayable within one year.

2. Contingent liabilities

(a) As at 30 June 2006, the Citychamp Group had the following guarantees:

(1) Providing RMB20,000,000 (equivalent to approximately HK$19.2 million) guarantee in favour of bank loan granted to 福州天宇電氣股份有限公司 (Fuzhou Tian Yu Electric Company Limited).

(2) Providing RMB19,100,000 (equivalent to approximately HK$18.4 million) guarantee in favour of bank loan granted to 福建三木集團股份有限公司 (Fuzhou San Mu Group Company Limited).

(3) Providing RMB121,000,000 (equivalent to approximately HK$116.3 million) guarantee in favour of bank loan granted to 福建省福抗藥業股份有限公司 (Fujian Province Fu Kang Pharmaceutical Company Limited) while the Citychamp Group had a RMB142,800,000 (equivalent to approximately HK$137.3 million) guarantee of bank loan that was provided by 福建省福抗藥業股份有限公司 (Fujian Province Fu Kang Pharmaceutical Company Limited).

(4) Providing RMB13,000,000 (equivalent to approximately HK$12.5 million) guarantee in favour of bank loan granted to 福建亞通新材料科技股份有限公司 (Fuzhou Ya Tong New Material Technology Company Limted), while the Citychamp Group's subsidiary had RMB50,000,000 (equivalent to approximately HK$48.1 million) guarantee of bank loan that was provided by to Fuzhou Ya Tong New Material Technology Company Limted.

(5) Providing RMB20,000,000 (equivalent to approximately HK$19.2 million) guarantee in favour of bank loan granted to Jiangsu Dartong.

(6) Providing RMB20,000,000 (equivalent to approximately HK$19.2 million) guarantee in favour of bank loan granted to Fuzhou Dartong.

(b) As at 30 June 2006, the Citychamp Group settled a letter of credit amounting RMB57,226,500 (equivalent to approximately HK$55.0 million) issued by the Mitsubishi Electric (Guangzhou) Compressor Company Limited whereby the Citychamp Group received the full amount before the due date. According to the agreement signed by the Group, Mitsubishi Electric (Guangzhou) Compressor Company Limited and the Citibank (Shenzhen), the Citychamp Group was not liable to repay any settled amount of the letter of credit. However, the Citychamp Group might subject to interest charges on the settled amount.

III. Asset transactions

1. Acquisitions of assets

(1) On 16 March 2006, Citychamp acquired a 10% equity interest in 北京太陽宮房地產開發有限公司(Beijing Taiyanggong Real Estate Company Limited) from the its shareholder, Fujian Fenrong. The consideration was approximately RMB15.4 million (equivalent to approximately HK$14.8 million).

(2) On 7 April 2006, Citychamp acquired a 100% equity interest in 福建華福華事達房地產公司 (Fujian Huafu Huashida Real Estate Company Limited) and 蘇州華事達房地產有限公司(Suzhou Huashida Real Estate Company Limited) through tenders. The consideration was RMB200.5 million (equivalent to approximately HK$192.8 million).

(3) On 20 March 2006, Citychamp acquired a 5% equity interest in Jiangsu Dartong from 官偉源 (Guan Weiyuan), 王明生 (Wang Minsheng), 鄭啟榮 (Zheng Qirong), being connected natural persons of the Citychamp Group. The consideration was RMB4.3 million (equivalent to approximately HK$4.1 million).

(4) On 30 May 2006, Citychamp acquired a 11% equity interest in 北京冠城新泰房地產開發有限公司(Beijing Guancheng Xintai Real Estate Company Limited) from 北京新紀房地產開發有限責任公司 (Beijing Xinji Real Estate Company Limited). The consideration was approximately RMB22.0 million (equivalent to approximately HK$21.2 million).

(5) On 30 May 2006, Citychamp acquired a 40% equity interest in 北京冠城新泰房地產開發有限公司(Beijing Guancheng Xintai Real Estate Company Limited) from its 95%-owned 北京太陽宮房地產開發有限公司 (Beijing Taiyanggong Real Estate Company Limited). The consideration was approximately RMB12.0 million (equivalent to approximately HK$11.5 million).

2. Post balance sheet events

The board of directors of Citychamp passed the resolution relating to the issue of 72.72 million tradable A Shares at an issue price of RMB4.95 (equivalent to approximately HK$4.76) per share to Starlex for the acquisition of a 100% equity interest in Jing Guan held by Starlex for a consideration of RMB360 million (equivalent to approximately HK$346.2 million). The remaining portion of the consideration will be payable by cash.

IV. Employees and remuneration policy

As at 30 June 2006, the Citychamp Group had approximately 500 full-time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Citychamp Group also provides other benefits to its employees, including year end double pay, medical insurance and retirement benefits. In addition, an incentive bonus is provided with reference to the Citychamp Group's operating results and employee's individual performance.

1. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REORGANISED GROUP

The following is the text of the letter from Baker Tilly Hong Kong Limited, the reporting accountants, prepared for the purpose of incorporation in this circular.

BAKER TILLY
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30 August 2006

The Board of Directors
China Haidian Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of the China Haidian Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), excluding the Group's interests in Beijing Jing Guan Property Development Company Limited ("Beijing Jing Guan") and its subsidiaries (the "Beijing Jing Guan Group") and including the Group's interest in Citychamp Dartong Company Limited ("Citychamp") and its subsidiaries (hereinafter collectively referred to as the "Reorganised Group") set out in Appendix III to the circular dated 30 August 2006 (the "Circular") issued by the Company, in connection with the proposed assets transaction in relation to the transfer of the entire issued share capital of Beijing Jing Guan from Starlex Limited ("Starlex") to Citychamp and the allotment and issue of the consideration shares by Citychamp to Starlex (the "Asset Transaction"). The pro forma financial information is unaudited and has been prepared by the directors of the Company, solely for illustrative purpose, to provide information about how the Asset Transaction might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our work, which involved on independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with the Statements of Auditing Standards issued by the HKICPA and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out in Appendix III to the Circular for illustrative purpose only and, because of its nature, it may not give an indicative of:

(a) the financial position of the Reorganised Group at 30 June 2006 or any future date; or

(b) the results and cash flows of the Reorganised Group for the year ended 31 December 2005 or any future period.

Opinion

In our opinion,

- the unaudited pro forma financial information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
For and on behalf of
Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong

Chan Cheuk Chi
Practising Certificate number P01137

2. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION ON THE REORGANISED GROUP

(i) Unaudited pro forma income statement of the Reorganised Group

The following is the unaudited pro forma income statement of the Reorganised Group, assuming that the Asset Transaction had been implemented as at the commencement of the year ended 31 December 2005 based on the audited income statement of the Group for the year ended 31 December 2005, extracted from the Company's annual report as set out in Appendix I to this circular and adjusted to reflect the effect of completion of the Asset Transaction.

The unaudited pro forma income statement of the Reorganised Group is prepared to provide the unaudited pro forma financial information of the Reorganised Group as a result of completion of the Asset transaction. As it has been prepared for illustrative purpose only and, because of its nature, it may not give a true picture of the results of the Reorganised Group for the financial period in respect of which it is prepared or for any future financial periods.

	Audited income statement of the Group for the year ended 31 December 2005	**Pro forma adjustments for the Asset Transaction**		**Unaudited pro forma income statement of the Reorganised Group**
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
REVENUE	620,709	(300,212)	*1*	320,497
Cost of sales	(537,975)	268,528	*1*	(269,447)
Gross profit	82,734	(31,684)		51,050
Other income	9,992	(2,604)	*1*	7,388
Selling and distribution costs	(53,665)	13,328	*1*	(40,337)
Administrative expenses	(71,636)	6,609	*1*	(65,027)
Other operating income, net	13,144	(2,405)	*1*	10,739
Gain on disposal of equity interests in the Beijing Jing Guan Group	–	233,439	*2*	233,439
Finance costs	(2,699)	–		(2,699)
(LOSS)/PROFIT BEFORE INCOME TAX	(22,130)	216,683		194,553
Income tax	(21,581)	18,219	*1*	(3,362)
(LOSS)/PROFIT FOR THE YEAR	(43,711)	234,902		191,191
Attributable to:				
Equity holders of the Company	(43,275)	234,466		191,191
Minority interests	(436)	436	*1*	–
	(43,711)	234,902		191,191

(ii) Unaudited pro forma balance sheet of the Reorganised Group

The following is the unaudited pro forma balance sheet of the Reorganised Group, assuming that the Asset Transaction had been implemented on 30 June 2006 based on the audited balance sheet of the Group as at 30 June 2006, extracted from the financial information as set out in Appendix I to this circular and adjusted to reflect the effect of completion of the Asset Transaction.

Based on the above basis, the pro forma current liabilities as at 30 June 2006 of the Reorganised Group exceeded the pro forma current assets by HK$51,982,000. The Directors have prepared its cash flow forecast for the next twelve months and consider that the Reorganised Group can be operated as a going concern. Accordingly the unaudited pro forma balance sheet is prepared on a going concern basis.

The unaudited pro forma balance sheet of the Reorganised Group is prepared to provide the unaudited pro forma financial information on the Reorganised Group as a result of completion of the Asset Transaction. As it has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Reorganised Group as at the date to which it is made up to or at any future date.

	Audited balance sheet of the Group as at 30 June 2006	Pro forma adjustments for the Asset Transaction		Unaudited pro forma balance sheet of the Reorganised Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	205,184	(8,902)	*3*	196,282
Investment properties	70,054	(30,583)	*3*	39,471
Prepaid land lease payments	46,748	–		46,748
Properties under development	661,849	(661,849)	*3*	–
Prepayments and deposits	84,643	(11,161)	*3*	73,482
Deferred tax assets	1,031	–		1,031
Available-for-sale investments	–	404,549	*4*	404,549
Total non-current assets	1,069,509	(307,946)		761,563
CURRENT ASSETS				
Properties for sale	103,732	(103,732)	*3*	–
Properties under development	19,742	(19,742)	*3*	–
Inventories	116,232	–		116,232
Trade and bills receivable	22,377	(13,289)	*3*	9,088
Prepaid land lease payments	3,654	–		3,654
Prepayments, deposits and other receivables	57,138	(29,122)	*3*	28,016
Securities measured at fair value through profit or loss	35,555	–		35,555
Due from minority equity holders	832	(832)	*3*	–
Due from related companies	43,825	(59)	*3*	43,766
Pledged deposits	11,289	(9,789)	*3*	1,500
Cash and cash equivalents	163,031	(97,400)	*3*	65,631
Total current assets	577,407	(273,965)		303,442

	Audited balance sheet of the Group as at 30 June 2006	Pro forma adjustments for the Asset Transaction		Unaudited pro forma balance sheet of the Reorganised Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
CURRENT LIABILITIES				
Trade payables	117,766	(67,099)	3	50,667
Deposits received from customers	156,655	(156,655)	3	–
Other payables and accruals	118,892	(49,565)	3	69,327
Tax payables	24,262	(17,963)	3	6,299
Interest-bearing bank borrowings	447,864	(388,349)	3	59,515
Due to related companies	–	169,616	3	169,616
Other loans	72,815	(72,815)	3	–
Total current liabilities	938,254	(582,830)		355,424
NET CURRENT LIABILITIES	(360,847)	308,865		(51,982)
TOTAL ASSETS LESS CURRENT LIABILITIES	708,662	919		709,581
NON-CURRENT LIABILITIES				
Deferred tax liabilities	1,274	(1,274)	3	–
Deferred income	179,634	(179,634)	3	–
Total non-current liabilities	180,908	(180,908)		–
Net assets	527,754	181,827		709,581
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	179,203	–		179,203
Reserves	315,761	212,433	3	528,194
Minority interests	32,790	(30,606)	3	2,184
Total equity	527,754	181,827		709,581

(iii) Unaudited pro forma cash flow statement of the Reorganised Group

The following is the unaudited pro forma cash flow statement of the Reorganised Group, assuming that the Asset Transaction had been implemented as at the commencement of the year ended 31 December 2005 based on the audited cash flow statement of the Group for the year ended 31 December 2005, extracted from the Company's annual report as set out in Appendix I to this circular and adjusted to reflect the effect of completion of the Asset Transaction.

The unaudited pro forma cash flow statement of the Reorganised Group is prepared to provide the unaudited pro forma financial information on the Reorganised Group as a result of completion of the Asset Transaction. As it has been prepared for illustrative purpose only and, because of its nature, it may not give a true picture of the cash flows of the Reorganised Group for the financial period in respect of which it is prepared or for any future financial periods.

	Audited cash flow statement of the Group for the year ended 31 December 2005	Pro forma adjustments for the Asset Transaction		Unaudited pro forma cash flow statement of the Reorganised Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/Profit before income tax	(22,130)	216,682	5	194,552
Adjustments for:				
Interest income	(4,397)	2,578	5	(1,819)
Finance costs	2,699	–		2,699
Dividend income from listed investment	(238)	–		(238)
Gain on disposal of property, plant and equipment, net	(1,429)	–		(1,429)
Gain on disposal of available-for-sale investments	(13,145)	–		(13,145)
Impairment of available-for-sale investments	3,477	–		3,477
Changes in fair value of investment properties	(3,378)	2,371	5	(1,007)
Depreciation	18,282	(176)	5	18,106
Amortisation of prepaid lease payments	3,585	–		3,585
Impairment of goodwill	4,816	–		4,816
Gain on disposal of an associate	(3,769)	–		(3,769)
Provision for inventories	3,775	–		3,775
Profit on disposal of subsidiaries	–	(233,439)	2	(233,439)

	Audited cash flow statement of the Group for the year ended 31 December 2005	Pro forma adjustments for the Asset Transaction		Unaudited pro forma cash flow statement of the Reorganised Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
Operating loss before working capital changes	(11,852)	(11,984)	*5*	(23,836)
Increase in properties under development and properties for sale	(196,447)	196,447	*5*	–
Increase in inventories	(14,402)	–		(14,402)
Increase in trade and bills receivables	(7,808)	12,922	*5*	5,114
Increase in prepayments, deposits and other receivables	(13,622)	(15,354)	*5*	(28,976)
Increase in securities measured at fair value through profit or loss	(31,418)	–		(31,418)
Decrease in non-pledged deposits with original maturity over three months when acquired	3,769	–		3,769
Increase in trade payables	18,771	(12,746)	*5*	6,025
Increase in other payables and accruals	15,447	(6,237)	*5*	9,210
Increase in deposits received from customers	163,647	(163,647)	*5*	–
Increase/(Decrease) in amounts due to related companies	(3,240)	5,337	*5*	2,097
Cash used in operations	(77,155)	4,738		(72,417)
Interest received	4,397	(2,578)	*5*	1,819
Interest paid	(2,699)	–		(2,699)
Hong Kong profits tax refunded	26	–		26
Overseas tax paid	(25,702)	23,729	*5*	(1,973)
Net cash outflow from operating activities	(101,133)	25,889		(75,244)

	Audited cash flow statement of the Group for the year ended 31 December 2005	Pro forma adjustments for the Asset Transaction		Unaudited pro forma cash flow statement of the Reorganised Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividends received from listed investments	238	–		238
Purchases of property, plant and equipment	(43,664)	5,450	*5*	(38,214)
Purchases of investment properties	(25,207)	25,207	*5*	–
Proceeds from disposal of property, plant and equipment	39,018	–		39,018
Proceeds from disposal of investment properties	47,200	–		47,200
Proceeds from disposal of available-for-sale investments	30,460	–		30,460
Acquisition of subsidiaries	1,510	(1,510)	*5*	–
Net cash payments of Asset Transaction	–	(111,052)	*5*	(111,052)
Disposal of an associate	120	–		120
Increase in pledged deposits	(13,808)	9,688	5	(4,120)
Net cash inflow/(outflow) from investing activities	35,867	(72,217)		(36,350)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans	74,234	(74,234)	*5*	–
Receipt of government grant	177,906	(177,906)	*5*	–
Net cash inflow/(outflow) from financing activities	252,140	(252,140)		–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	186,874	(298,468)		(111,594)
Effect of foreign exchange rate changes, net	978	(991)	*5*	(13)
Cash and cash equivalents at beginning of year	183,057	–		183,057
CASH AND CASH EQUIVALENTS AT END OF YEAR	370,909	(299,459)		71,450
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	339,439	(299,459)	*5*	39,980
Non-pledged time deposits with original maturity of less than three months when acquired	31,470	–	*5*	31,470
	370,909	(299,459)		71,450

Notes:

1. The adjustments reflect the effect of the Asset Transaction, which includes the exclusion of net profit of the Beijing Jing Guan Group of approximately HK$1.5 million for the year ended 31 December 2005 and transactions between the Reorganised Group and Beijing Jing Guan Group.

2. The adjustments reflect the effect of the Asset Transaction on the Reorganised Group, which are detailed as follows:

	HK$'million
Consideration calculated based on the proposed disposal of 72,720,000 shares in Citychamp at HK$5.6 each (being the closing price at 1 January 2005) and cash of HK$34,000	407
Less: Net assets of the Beijing Jing Guan Group as at 1 January 2005	(103)
Unamortised premium as at 1 January 2005	(69)
Relevant costs for the Asset Transaction	(2)
	233

3. The adjustments reflect the exclusion of the carrying value of assets and liabilities of the Beijing Jing Guan Group as at 30 June 2006 as a result of the Asset Transaction.

4. The adjustment reflect the share consideration of HK$404 million calculated based on the proposed acquisition of 72,720,000 shares in Citychamp at HK$5.56 each (being the closing price at 30 June 2006).

5. The adjustments reflect the effect on the cash flow statement of the Reorganised Group for the year ended 31 December 2005 as a result of the Asset Transaction.

The following is the text of the letter and valuation certificate prepared for the purpose of incorporation in this circular, received from Greater China Appraisal Limited, an independent property valuer, in connection with its valuation of the property as at 31 May 2006 held by the Jing Guan Group.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

30 August 2006

The Directors
China Haidian Holdings Limited
Suites 2701-2705 & 2715-2716
27th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Dear Sirs,

In accordance with the instructions from China Haidian Holdings Limited (referred to as the "Company") to value certain property interests of the Company and its subsidiaries (together referred to as the "Group") in the People's Republic of China (referred to as the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the market value of such property interests as at 31 May 2006 (referred to as the "date of valuation").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

BASIS OF VALUATION

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property 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 has each acted knowledgeably, prudently and without compulsion".

VALUATION METHODOLOGY

Unless stated as otherwise, all property interests are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

Similar approach is applied to valuation of land for development where land comparables were analysed and adjusted for application in the valuation. However, the residual method of valuation was used as a counter-check of the results derived from direct comparison method. In principle, the residual method is to estimate the present capital value of the future development and to deduct therefrom the cost of all the works and other expenses necessary to put the property into the state to command such value and an allowance for developer's risks.

In arriving at our valuations for those properties under development, we have taken into account the development costs already expended on the appraised properties. The capital value when completed represents our estimate of the open market value of the completed development as at the valuation date.

In undertaking our valuation for the property interests which are held for future development, we have considered their development or redevelopment potential.

ASSUMPTIONS

Our valuation has been made on the assumption that on the open market the owner sells the property interests in their continued use and in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the property interests.

For the property interests which are held under long term Land Use Rights, we have assumed that the owner of the property interests has free and uninterrupted rights to use, transfer or lease the property interests for the whole of the unexpired term of the respective land use rights term. In our valuation, we have assumed that the property interests can be freely disposed of, transferred and leased to third parties on the open market without any additional payment to the relevant government authorities. Unless otherwise stated, vacant possession is assumed for the properties concerned.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificate for the respective properties.

TITLESHIP INVESTIGATION

We have been provided with copies of title documents of the property interests owned by the Group. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any liabilities attached to the property.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.

LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant property but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificate. However, no structural survey has been made and we are therefore unable to report as to whether the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Company and have accepted advice given to us by it on such matters as planning approvals, statutory notices, easements, tenure, occupation, rentals, site and floor areas and in the identification of the property in which the Company has valid interests. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

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

OPINION OF VALUE

The valuation certificate has already shown the market value of the property interests.

REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures. In valuing the property interests, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

Property value is denominated in Chinese Renminbi (RMB).

We enclose herewith the summary of valuation and valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
Greater China Appraisal Limited
K. K. Ip
BLE LLD
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, who is a chartered valuation surveyor and a registered professional surveyor, has substantial experience in valuation of property interests in the PRC since 1992.

SUMMARY OF VALUATION

No.	Property	Market Value as at 31 May 2006 *(RMB)*	Interests attributable to the Group *(%)*	Market Value attributable to the Group as at 31 May 2006 *(RMB)*
Group I – Property Interests held by the Group under Development				
1.	Block Nos. 1, 2, 3, 4, 5, 6, 7 and 9 Eastern Land Group of Area E Taiyanggong New District Xiajiamen Village Taiyanggong Xiang Chaoyang District Beijing The PRC	466,000,000	100	466,000,000
Group II – Property Interests held by the Group for Future Development				
2.	Redevelopment Project Areas A & B Guang Qu Men Wai Nan Street Chongwen District Beijing The PRC	481,000,000	80	384,800,000
Group III – Property Interests held by the Group for Self-occupation or Investment				
3.	Portion of Level 7 Block 8 Guancheng Yuan Haidian District Beijing The PRC	6,400,000	100	6,400,000
4.	Level 4, Level 5 and Portion of Level 7 Block 8 Guancheng Yuan Haidian District Beijing The PRC	31,500,000	100	31,500,000
	Total:	984,900,000		888,700,000

VALUATION CERTIFICATES

Group I – Property Interests held by the Group under Development

No.	Property	Description and Tenure	Market Value of Existing State as at 31 May 2006 *(RMB)*	Estimated Construction Cost to be Expensed to Completion as at 31 May 2006 *(RMB)*	Market Value Assuming Completion as at 31 May 2006 *(RMB)*
1.	Block Nos. 1, 2, 3, 4, 5, 6, 7 and 9 Eastern Land Group of Area E Taiyanggong New District Xiajiamen Village Taiyanggong Xiang Chaoyang District Beijing The PRC	The property comprises 3 blocks of residential building (Block Nos. 2, 6 and 7), certain commercial spaces on Levels 1 to 3 of Block Nos. 3, 4, and 5, certain car parking spaces on Basement Level 1 of Block Nos. 1, 2, 3, 4, 5, 6 and 7 and Basement Level 2 of Block Nos. 3, 4, and 5 to be completed in June 2006 and a block of 25-storey residential building (Block No. 9) with 2-storey basement proposed to be completed in late 2006. The property forms part of a residential development namely Tai Yang Xing Cheng Shui Xing Yuan (太陽新城水星園). In respect of Block Nos. 1 to 7, the total saleable floor area of the residential units and commercial units is approximately 59,880.33 square metres (644,551.87 square feet) and the total number of basement car parking spaces is 439. Detailed breakdown is shown as follows:	466,000,000 (100% attributable to the Group: RMB466,000,000)	74,400,000	744,000,000

Type	Levels	Saleable Floor Area *Square metres*
Residential		
Block 2	1-23	25,662.93
Block 6	1-14	14,076.72
Block 7	1-14	16,577.53
Commercial		
Block 3, 4, 5	1	2,143.55
Block 3, 4, 5	2-3	1,419.60
Total:		59,880.33

No.	Property	Description and Tenure	Market Value of Existing State as at 31 May 2006 *(RMB)*	Estimated Construction Cost to be Expensed to Completion as at 31 May 2006 *(RMB)*	Market Value Assuming Completion as at 31 May 2006 *(RMB)*

		Nos. of Car Park
Carpark		
Block 1	B1	121
Block 2	B2	54
Block 3, 4, 5	B1	79
Block 3, 4, 5	B2	69
Block 6	B1	69
Block 7	B1	47
Total:		439

As at the date of valuation, the construction works of superstructure have been completed, installation and decoration works were in progress.

In respect of Block 9, the proposed gross floor area is approximately 23,184 square metres (249,552.58 square feet) including basement of 4,838 square metres. As at the date of valuation, the construction works up to the Level 2 has been completed.

The property is held by a land use right certificate for a term expiring on 27 February 2073 for residential portion, 27 February 2043 for ancillary portion and 27 February 2053 for basement car park portion.

Notes:

(i) According to a Land Use Right Certificate (京朝國用2003出字第0236號) issued by Beijing State-owned Land Administration Bureau on 28 July 2003, the property is held by 北京京冠房地產開發有限公司 ("Jing Guan", a 100%-owned subsidiary of the Company) for a term expiring on 27 February 2073 for residential portion, 27 February 2043 for ancillary portion and 27 February 2053 for basement car parking spaces. The land use right is subject to mortgage in favour of Xing Ye Bank Beijing Branch from 15 January 2004 to 15 January 2009.

(ii) According to a Construction Land Planning Approval and 6 Construction Works Planning Approvals, Jing Guan was allowed to construction the property.

(iii) Approximately RMB205,000,000 of construction costs reflecting the physical state of the construction on site was incurred as at the date of valuation. The incurred cost has already been taken into account in the valuation.

(iv) In our valuation, we have assumed that the property interests can be freely disposed of, transferred and leased to third parties on the open market without any additional payment to the relevant government authorities.

Group II – Property Interests held by the Group for Future Development

No.	Property	Description and Tenure	Particular of Occupancy	Market Value as at 31 May 2006 *(RMB)*
2.	Redevelopment Project Areas A & B Guang Qu Men Wai Nan Street Chongwen District Beijing The PRC	The property comprises a site of approximately 50,496 square metres on which a complex of office/hotel/residential/ commercial development is planned to be developed.	As at the date of valuation, the property was undergoing site clearance works. The construction works has not been started yet.	481,000,000 (80% attributable to the Group: RMB384,800,000)

As advised by the Group, the gross floor area of the property will be approximately 328,454 square metres (3,535,479 square feet) including the gross floor area of basement of 88,180 square metres. Detailed breakdown is shown as follows:

Building	No. of Storey	Gross Floor Area *Square metres*
Office	22	29,390
Apartment	14	34,840
Hotel	23	38,832
Commercial	5	5,420
Apartment	23	50,060
Commercial	3	8,193
Commercial	4 to 5	12,660
Basement Carpark	3	52,032
Club House	3	2,049
Residential	27	77,076
Residential	12	15,114
Kindergarten	3	2,788
Total:		328,454

The property is held by a land use right certificate for a term expiring on 27 February 2073 for residential portion, 27 February 2043 for ancillary portion and 27 February 2053 for basement car park portion.

Notes:

(i) According to 2 Land Use Right Grant Contracts dated 24 March 2005 made by Beijing State-owned Land Administration Bureau and 北京鑫陽房地產開發有限公司 ("Xin Yang", a 80%-owned subsidiary of the Company), the land use right of the property was agreed to be granted to Xin Yang for a term of 70 years for residential or apartment purpose, 40 years for commercial purpose and 50 years for car parking purpose.

(ii) According to a Construction Land Use Planning Approval dated 12 May 2006 issued by Beijing Town Planning Bureau, Xin Yang is allowed to use the subject land for construction.

(iii) According to a Letter stamped by Beijing Planning Committee dated 26 October 2005, the proposed building plan has been permitted.

(iv) In our valuation, we have assumed that the property interests can be freely disposed of, transferred and leased to third parties on the open market without any additional payment to the relevant government authorities.

Group III – Property Interests held by the Group for Self-occupation or Investment

No.	Property	Description and Tenure	Particular of Occupancy	Market Value as at 31 May 2006 *(RMB)*
3.	Portion of Level 7 Block 8 Guancheng Yuan Haidian District Beijing The PRC	The property comprises certain spaces on Level 7 within a 16-storey office tower above 2-storey basement completed in 1998. The gross floor area of the property is approximately 503.81 square metres (5,423 square feet). The property is held by the Company under a Sales and Purchase Agreement.	The property is occupied by the Group for office use.	6,400,000 (100% attributable to the Group: RMB6,400,000)

Notes:

(i) According to a Real Estate Ownership Certificate (京房權証市海其字第10024號) issued by Beijing State-owned Land Administration Bureau on 22 November 2001, the property is held by 北京民亨科技發展有限公司, which is the vendor to the Agreement of Sale and Purchase, for office purpose for a term of 50 years commencing on 10 February 1999.

(ii) According to a Sale and Purchase Agreement, the whole of Level 7, in which the property forms part, was purchased by Jing Guan from 北京民亨科技發展有限公司.

(iii) In our valuation, we have assumed that the property interests can be freely disposed of, transferred and leased to third parties on the open market without any additional payment to the relevant government authorities.

Group III – Property Interests held by the Group for Self-occupation or Investment

No.	Property	Description and Tenure	Particular of Occupancy	Market Value as at 31 May 2006 *(RMB)*
4.	Level 4, Level 5 and Portion of Level 7 Block 8 Guancheng Yuan Haidian District Beijing The PRC	The property comprises whole floor of Level 4, whole floor of Level 5 and certain spaces on Level 7 within a 16-storey office tower above 2-storey basement completed in 1998. The gross floor area of the property is approximately 2,459.28 square metres (26,471.69 square feet). The gross floor area of the property sets out as follows: **Floor** / **Gross Floor Area** *Square metres* 4/F: 947.85 5/F: 1,007.62 7/F: 503.81 Total: 2,459.28 The property is held by the Company under 3 sets of Sales and Purchase Agreement.	The property is currently leased to 5 tenants under 5 leases. The total rent receivable for May 2006 was approximately RMB250,500.	31,500,000 (100% attributable to the Group: RMB31,500,000)

Notes:

(i) According to a Real Estate Ownership Certificate (京房權証市海其字第10024號) issued by Beijing State-owned Land Administration Bureau on 22 November 2001, the property is held by 北京民亨科技發展有限公司, which is the vendor to the Agreement of Sale and Purchase, for office purpose for a term of 50 years commencing on 10 February 1999.

(ii) According to 3 sets of Sale and Purchase Agreement, the property were purchased by Jing Guan from 北京民亨科技發展有限公司.

(iii) In our valuation, we have assumed that the property interests can be freely disposed of, transferred and leased to third parties on the open market without any additional payment to the relevant government authorities.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of the directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

		Number of Shares held	
Name of Director	**Nature of interest**	**Long position**	**Percentage of shareholding**
Mr. Hon Kwok Lung	Corporate *(Note)*	625,393,515	34.9%

Note: These Shares were owned by Sincere View International Limited, which is owned as to 50% by Mr. Hon Kwok Lung and 20% by Ms. Lam Suk Ying, the wife of Mr. Hon Kwok Lung.

Save as disclosed above, as at the Latest Practicable Date, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) Interests of substantial shareholders

The Company

As at the Latest Practicable Date, so far as was known to the directors and chief executive of the Company, the following entity or person had, or was taken or deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Number of Shares held	
Name of Director	**Long position**	**Percentage of shareholding**
Sincere View International Limited	625,393,515	34.9%
Mr. Hon Kwok Lung *(Note)*	625,393,515	34.9%
Ms. Lam Suk Ying *(Note)*	625,393,515	34.9%

Note: As Sincere View International Limited is 50% owned by Mr. Hon Kwok Lung, Mr. Hon Kwok Lung is deemed to be interested in the 625,393,515 Shares held by Sincere View International Limited under Part XV of the SFO. Ms. Lam Suk Ying, being Mr. Hon Kwok Lung's spouse, is also deemed to be interested in the 625,393,515 Shares held by Sincere View International Limited under Part XV of the SFO.

Other members of the Group

As at the Latest Practicable Date, so far as was known to the directors and chief executive of the Company, the following person who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	**Name of shareholder**	**Percentage of shareholding**
北京鑫陽房地產開發有限公司 (Beijing Xin Yang Property Development Company Limited)	Mr. Li Shiqiang	12%

Save as disclosed above, the directors and chief executive of the Company were not aware of any entities or persons who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at the Latest Practicable Date.

3. COMPETING BUSINESS

None of the Directors and their respective associates has any interests in a business, which competes or is likely to compete with the business of the Group.

4. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, were entered into by the Group within the two years immediately preceding the Latest Practicable Date and are, or may be material:

(a) the sale and purchase agreement dated 5 November 2004 entered into between Wisdom Power Property Limited, a wholly-owned subsidiary of the Company, and Asset Castle Limited in relation to the disposal of the property at 29th floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong by Wisdom Power Property Limited for a consideration of HK$92,888,600;

(b) the sale and purchase agreements dated 29 November 2004 as amended by the supplemental agreements dated 1 December 2004, 28 February 2005, 25 June 2005 and 26 June 2006 entered into among the purchasers, being the Company and Jing Guan, and the vendors, being Beijing Haikai and Commercial Facility. Pursuant to the agreements, the purchasers agreed to acquire an aggregate of 21% interests in Beijing Haidian at a total consideration of RMB133,560,000 (equivalent to approximately HK$126,000,000);

(c) the joint venture agreement dated 27 April 2006 entered into between the Company and Citychamp in relation to the formation of Fuzhou Dartong, an equity joint venture in the PRC, in which the Company holds a 49% equity interest and Citychamp holds a 51% equity interest;

(d) the loan guarantee contract provided by EBOHR Luxuries on 29 December 2005 in favour of Citychamp in relation to a loan of RMB17 million (equivalent to approximately HK$16.3 million) granted to Citychamp;

(e) the loan guarantee contract provided by Jing Guan on 25 January 2006 in favour of Fuzhou Dartong in relation to a loan of RMB18 million (equivalent to approximately HK$17.3 million) granted to Fuzhou Dartong;

(f) the joint venture agreement and the revised articles of association dated 6 April 2006 among the Company, Citychamp and Qingjiang in relation to the Company's cash investment of RMB25 million (equivalent to approximately HK$24.0 million) for a 25% interest in the registered capital of Jiangsu Dartong;

(g) the placing agreement dated 8 June 2006 entered into between the Company and a placing agent, pursuant to which the placing agent agreed to place, on a best effort basis, 247,200,000 new Shares, at the placing price of HK$0.2 per placing share;

(h) the Asset Transaction Agreement; and

(i) the Revised Asset Transaction Agreement.

5. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

6. DIRECTORS' SERVICE CONTRACTS

Mr. Wang Shaolan, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 5 July 2004. In the event that the Company terminates the service contract prior to the expiry of the contract, Mr. Wang Shaolan will be entitled to a compensation equivalent to his twelve months' salaries, being HK$1,348,200.

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

7. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given an opinion of advice, which is contained or referred to in this circular:

Name	Qualifications
Baker Tilly Hong Kong Limited	Certified public accountants
K.P. Cheng & Co.	Certified public accountants
Greater China Appraisal Limited	Professional property valuer

(b) As at the Latest Practicable Date, Baker Tilly Hong Kong Limited, K.P. Cheng & Co. and Greater China Appraisal Limited did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Baker Tilly Hong Kong Limited, K.P. Cheng & Co. and Greater China Appraisal Limited have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters and reports and references to their name in the form and context in which they are included.

(d) Baker Tilly Hong Kong Limited, K.P. Cheng & Co. and Greater China Appraisal Limited do not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Company has been made up.

8. GENERAL

(a) The secretary of the Company is Mr. Lam Che Wah, Danny, who is an associate member of each of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(b) The qualified accountant of the Company is Mr. Fong Chi Wah, who is a Certified Practising Accountant (Australia).

(c) The registered office of the Company is at P.O. Box 309, Ugland House, South Church Street, Grand Cayman, the Cayman Islands and the principal place of business of the Company in Hong Kong is at Suites 2701-2705 & 2715-2716, 27th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(d) The share registrar and transfer office of the Company is Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office of the Company at Suites 2701-2705 & 2715-2716, 27th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal office hours on any weekday, except Saturdays, Sundays and public holidays, from the date of this circular up to and including 15 September 2006:

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

(b) the material contracts referred to in the section headed "Material contracts" in this Appendix;

(c) the annual reports of the Company for each of the three years ended 31 December 2005;

(d) the interim report of the Company for the six months ended 30 June 2006;

(e) the accountants' report of the Group prepared by Baker Tilly Hong Kong Limited, the text of which is set out in Appendix I to this circular;

(f) the accountants' report of the Citychamp Group prepared by K.P. Cheng & Co., the text of which is set out in Appendix II to this circular;

(g) the letter on the unaudited pro forma financial information of the Reorganised Group prepared by Baker Tilly Hong Kong Limited, the text of which is set out in Appendix III to this circular;

(h) the valuation report of properties of the Jing Guan Group prepared by Greater China Appraisal Limited, the text of which is set out in Appendix IV of this circular;

(i) the service contract referred to in the section headed "Directors' service contracts" in this Appendix;

(j) the written consents referred to in the section headed "Expert and consents" in this Appendix; and

(k) all the circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company, being 31 December 2005.

CHINA HAIDIAN HOLDINGS LIMITED
中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Haidian Holdings Limited (the "**Company**") will be held at Kellett Room I, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, 15 September 2006 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as an ordinary resolution of the Company:

"**THAT**

(a) the conditional agreement dated 3 August 2006 (the "**Revised Asset Transaction Agreement**") entered into between Starlex Limited ("**Starlex**") and 冠城大通股份有限公司 (Citychamp Dartong Company Limited) ("**Citychamp**") in relation to the transfer of the entire issued share capital of 北京京冠房地產開發有限公司 (Beijing Jing Guan Property Development Company Limited) ("**Jing Guan**") by Starlex to Citychamp for a consideration of RMB360 million as contemplated under the Revised Asset Transaction Agreement, a copy of which has been produced to this meeting marked "A" and signed by the Chairman of this meeting for identification purpose, be and is hereby approved, ratified and confirmed; and

(b) any of the directors of the Company be and is/are hereby authorised to execute all such documents and/or to do all such acts on behalf of the Company he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Revised Asset Transaction Agreement and the transactions contemplated therein."

By Order of the Board
LAM CHE WAH, DANNY
Company Secretary

Hong Kong, 30 August 2006

Registered office:
P.O. Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Islands

Principal place of business:
Suites 2701-2705 & 2715-2716
27th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the Company's share registrar, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting (or adjourned meeting as the case may be).

3. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he was solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.