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)

MAJOR TRANSACTIONS –
PROPOSED RESUMPTION OF THE PRC LAND
AND
JOINT ARRANGEMENT

Financial Adviser to China Haidian Holdings Limited

Quam Financial Services Group Quam Capital Limited

A notice convening the EGM to be held at Marina Room II, 2nd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 15 January 2008 at 10:30 a.m. is set out on pages 90 to 91 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 in Hong Kong, 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.

27 December 2007

CONTENTS

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

"associates"	has the meaning ascribed thereto in the Listing Rules
"Auction PRC Land"	50% of area of the PRC Land to be auctioned for sale at the Open Auction
"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
"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
"Compensation"	compensation to be paid to Seti by the Shenzhen Government in respect of the Land Resumption
"connected person"	has the meaning ascribed thereto in the Listing Rules and the word "connected" shall be construed accordingly
"Director(s)"	the director(s) of the Company
"EBOHR Luxuries"	依波精品（深圳）有限公司 (EBOHR Luxuries International Co., Ltd.), 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 Land Resumption Agreement, the Joint Arrangement 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 previously wholly-owned subsidiary of the Company
"Joint Arrangement"	the arrangement to cooperate in the Land Restoration between Seti and Citychamp pursuant to the Joint Arrangement Agreement
"Joint Arrangement Agreement"	the conditional agreement dated 3 December 2007 entered into between Seti and Citychamp in relation to the Joint Arrangement
"Land Restoration"	restoration of the PRC Land pursuant to the Land Resumption Agreement
"Land Resumption"	resumption of the PRC Land by the Shenzhen Government pursuant to the Land Resumption Agreement
"Land Resumption Agreement"	the conditional agreement dated 3 December 2007 entered into between Seti and the Shenzhen Government in relation to the Land Resumption
"Latest Practicable Date"	21 December 2007, 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
"Open Auction"	the auction of the Auction PRC Land at the 深圳市土地房產交易中心 (Shenzhen Land and Real Estate Exchange Centre)
"PRC"	The People's Republic of China
"PRC Land"	a land parcel located at 深圳市南山區月亮灣大道93號 (93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, the PRC) with an area of 101,576.7 sq. m.
"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
"Retained PRC Land"	50% of area of the PRC Land to be retained by the Shenzhen Government
"RMB"	Renminbi, the lawful currency of the PRC, and the exchange rate for RMB into HK$ for the purpose of this circular is RMB1.00 = HK$1.04
"Seti"	Seti Timber Industry (Shenzhen) Co., Ltd. 森帝木業(深圳)有限公司, a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"SFO"	the Securities and 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 Shares
"Shenzhen Government"	深圳市南山區人民政府 (People's Government of the Nanshan District of the Shenzhen Municipal)
"SSE"	The Shanghai Stock Exchange

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"sq. m."	square metre(s)
"%"	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

27 December 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS – PROPOSED RESUMPTION OF THE PRC LAND AND JOINT ARRANGEMENT

INTRODUCTION

南山半島大氣污染綜合整治方案 (Nanshan Peninsula Comprehensive Air Pollution Regulatory Program) is the Shenzhen Government's initiative aiming at improving air quality in the 南山半島 (Nanshan Peninsula) area. The PRC Land, currently being occupied by Seti, a wholly-owned subsidiary of the Company, for its production plant, is located within the 南山半島 (Nanshan Peninsula) area. Seti is principally engaged in the manufacture and distribution of timber products. The Shenzhen Government has ordered Seti to cease its operations and to revert the PRC Land to the Shenzhen Government as part of its execution of the 南山半島大氣污染綜合整治方案(Nanshan Peninsula Comprehensive Air Pollution Regulatory Program).

In light of the above circumstance, Seti and the Shenzhen Government entered into the Land Resumption Agreement on 3 December 2007 pursuant to which the Shenzhen Government will resume the PRC Land currently granted to Seti. The Shenzhen Government will retain 50% of area of the PRC Land and will arrange for the remaining 50% of area of the PRC Land to be auctioned for sale at the Open Auction. The Shenzhen Government will compensate Seti for the Land Resumption by paying Seti 89.5% of the proceeds from the sale of the Auction PRC Land at the Open Auction.

Pursuant to the Land Resumption Agreement, Seti is required to restore the PRC Land prior to reverting it to the Shenzhen Government. On 3 December 2007, Seti and Citychamp entered into the Joint Arrangement Agreement pursuant to which Citychamp agreed to contribute cash for the Land Restoration. Pursuant to the Joint Arrangement Agreement, Seti's interest in the PRC Land and Citychamp's cash contribution represent 71.27% and 28.73% interests in the Joint Arrangement respectively.

Each of the Land Resumption and the Joint Arrangement constitutes a "major transaction" of the Company under Chapter 14 of the Listing Rules. Both of the transactions are 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 Land Resumption Agreement, the Joint Arrangement Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, details of the Land Resumption and the Land Restoration; and the notice of the EGM.

THE LAND RESUMPTION AGREEMENT

Date

3 December 2007

Parties involved

(a) The Shenzhen Government; and

(b) Seti.

The Shenzhen Government is the district government of the Nanshan District of the Shenzhen Municipal of the Guangdong Province of the PRC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Shenzhen Government is a third party independent of and not connected with the Company or its connected persons.

Subject matter

Pursuant to the Land Resumption Agreement, the Shenzhen Government will resume the PRC Land currently leased to Seti, a wholly-owned subsidiary of the Company. The Shenzhen Government will retain 50% of area of the PRC Land and will arrange for the remaining 50% of area of the PRC Land to be auctioned for sale at the Open Auction.

The Open Auction

Pursuant to the Land Resumption Agreement, Seti will revert the Auction PRC Land to the Shenzhen Government to arrange for the Open Auction at the 深圳市土地房產交易中心 (Shenzhen Land and Real Estate Exchange Centre), upon fulfillment of the following by the Shenzhen Government:

(a) obtaining the approval from 深圳市規劃局 (Shenzhen Bureau of Town Planning) for the change of land use from industrial and warehouse uses to residential, hotel and office uses;

(b) obtaining the approvals from 深圳市規劃局 (Shenzhen Bureau of Town Planning) and 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) for the following land use ratios of the Auction PRC Land:

  (i) 50% of area, equivalent to approximately 25,394 sq. m., to be used for residential development with plot ratio not less than 3.6 times, representing a gross floor area of approximately 91,419 sq. m.; and

  (ii) the remaining 50% of area to be used for hotel, office and commercial developments with plot ratio not less than 4.5 times, representing a gross floor area of approximately 114,273 sq. m.; and

(c) obtaining the consent from 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) to resume the lease term of the Auction PRC Land from the date of the land use right grant contract pursuant to the Open Auction.

None of the above requisite approvals had been obtained by the Shenzhen Government as at the Latest Practicable Date.

The Open Auction is expected to be completed within 60 days from the date the Land Resumption Agreement becomes unconditional.

Seti has the right to bid at the Open Auction and the Shenzhen Government has waived its requirement for Seti to deposit an auction escrow fee in the event that Seti decides to participate at the Open Auction independently or partnering with the Citychamp Group. Seti may participate at the Open Auction independently or partnering with Citychamp. In the event that Seti decides to participate at the Open Auction, the Company will ensure compliance with the relevant requirements of the Listing Rules in due course.

The Land Restoration

Pursuant to the Land Resumption Agreement, Seti is required to fulfill certain obligations in respect of the Land Restoration before reverting the PRC Land to the Shenzhen Government, including cessation of all operations on the PRC Land; disposal of machineries, materials and inventories; demolition of buildings on the PRC Land; settlement of related borrowings and other payables of Seti; and settlement of severance pay for the employees of Seti.

It is estimated that the cost for the Land Restoration amounts to approximately RMB198 million (equivalent to approximately HK$206 million).

The Compensation

The Compensation that Seti will receive from the Shenzhen Government for the Land Resumption amounts to 89.5% of the proceeds from the Open Auction of the Auction PRC Land. The Shenzhen Government will assume the remaining 10.5% of the proceeds from the Open Auction for funding the development of the Retained PRC Land. The Compensation is expected to be paid by the Shenzhen Government to Seti within 60 days after the Shenzhen Government received the proceeds from the sale of the PRC Land at the Open Auction.

The Shenzhen Government has not indicated the reserve price of the Auction PRC Land at the Open Auction.

Use of the Compensation

Seti intends to apply its share of the Compensation for (i) financing any costs of the Land Restoration exceeding the contribution by Citychamp pursuant to the Joint Arrangement Agreement; and (ii) the remaining amount for the Group's general working capital.

Condition precedent

The Land Resumption Agreement is conditional on the approval by the Shareholders in respect of the resolution for the Land Resumption Agreement and the transactions contemplated thereunder at the EGM.

Completion

The Land Resumption is expected to be completed within 300 days from the date the Land Resumption Agreement becomes unconditional.

JOINT ARRANGEMENT AGREEMENT

Date

3 December 2007

Parties involved

(a) Citychamp; and

(b) Seti.

Citychamp is a company listed on the SSE. The Citychamp Group is principally engaged in property development and investment, and manufacture and sale of enamelled copper wires.

The Company is interested in approximately 16.4% of the issued share capital of Citychamp.

Fujian Fengrong, the single largest shareholder of Citychamp, is interested in approximately 26.8% 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 of 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 100% equity interests in Sincere View International Limited, the controlling Shareholder. Hence, Ms. Lu is also a connected person of the Company. Save as the aforesaid and 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 26.8% interests in Citychamp, have control over the board of directors of Citychamp and its subsidiaries and thus Ms. Sit and Ms. Lu are not able 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.

Fuzhou Dartong, a jointly-controlled entity of the Company, is owned as to 51% by Citychamp and 49% by the Company with the voting power equally shared between the two shareholders. Jiangsu Dartong, an associate of the Company, is owned as to 41.25%, 33.75% and 25% by Citychamp, Qingjiang and the Company respectively. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Qingjiang and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Save as Ms. Lu and Ms. Sit, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Citychamp and its other ultimate beneficial owners are third parties independent of and not connected with the Company or its connected persons.

Subject matter

Pursuant to the Joint Arrangement Agreement, Seti and Citychamp have agreed to cooperate in the Land Restoration as set out in the Land Resumption Agreement.

Citychamp

Citychamp agreed to contribute RMB180 million cash (equivalent to approximately HK$187 million) for the Land Restoration.

The estimated costs of the Land Restoration is approximately RMB198 million (equivalent to approximately HK$206 million). Any costs of the Land Restoration exceeding the cash contribution by Citychamp to the Joint Arrangement will be funded by the Group's internal resources.

Seti

Based on a valuation carried out by Greater China Appraisal Limited, an independent valuer in Hong Kong, the price realised from the Open Auction will reflect the market value of the Auction PRC Land which is estimated to be RMB700 million (equivalent to approximately HK$728 million) as at 20 November 2007. No value has been assigned for the Retained PRC Land. Seti and Citychamp agreed that the consideration of the PRC Land was to be RMB446.5 million (equivalent to approximately HK$464.6 million), being the estimated compensation fee from the Land Resumption equivalent to 89.5% of the estimated price realised from the Open Auction of the Auction PRC Land less the cost of the Land Restoration contributed by Citychamp which amounts to RMB180 million (equivalent to approximately HK$187 million).

Interests in the Joint Arrangement

Based on the agreed value of the PRC Land owned by Seti of HK$464.6 million and the cash contribution of HK$187 million by Citychamp, the respective interests of Seti and Citychamp in the Joint Arrangement is 71.27% and 28.73%.

In the event that a third party succeeds in its bid for the Auction PRC Land at the Open Auction, Seti and Citychamp will liquidate the Joint Arrangement and share the net proceeds in proportion of their respective interests in the Joint Arrangement.

In the event that Seti participates in the Open Auction jointly with Citychamp and succeeds in the bid for the Auction PRC Land, Seti and Citychamp will form a joint venture and inject their respective capital in the Joint Arrangement into the joint venture. It is intended that Seti will own 30% interest in the joint venture and Citychamp will own 70% interest in the joint venture. The registered capital and the investment amount of the joint venture will be determined by Seti and Citychamp in due course based on the auction price of the Auction PRC Land. The terms of capital injection into the joint venture will be determined by Seti and Citychamp in due course. The joint venture will be principally engaged in the future development of the Auction PRC Land. Pursuant to the Land Resumption Agreement, the Auction PRC Land will be used for residential, hotel and office developments. Should the abovementioned joint venture be formed, the Directors will ensure compliance with the Listing Rules and further announcement will be made as and when necessary in this regard.

Conditions precedent

The Joint Arrangement Agreement is conditional upon:

(a) the approval by the shareholders of Citychamp of the Joint Arrangement Agreement and the transactions contemplated thereunder; and

(b) the approval by the Shareholders of the Joint Arrangement Agreement and the transactions contemplated thereunder at the EGM.

None of the above conditions had been satisfied up to the Latest Practicable Date.

INFORMATION OF THE PRC LAND

The PRC Land is located at 深圳市南山區月亮灣大道93號 (93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, the PRC) with a total area of 101,576.7 sq. m.. The PRC Land is dedicated for industrial and warehouse uses with a lease term expiring on 22 December 2018. The PRC Land is currently occupied by Seti for its production plant. According to a valuation carried out by Greater China Appraisal Limited, an independent valuer in Hong Kong, the price realised from the Open Auction will reflect the market value of the Auction PRC Land which is estimated to be RMB700 million (equivalent to approximately HK$728 million) as at 20 November 2007. No value has been assigned for the Retained PRC Land. The unaudited net asset value of the PRC Land was approximately HK$43.2 million as at 31 October 2007. A valuation report on the PRC Land is set out in appendix II to this circular.

REASONS FOR AND BENEFITS OF THE LAND RESUMPTION AND THE JOINT ARRANGEMENT

Given the Shenzhen Government's decision to resume the PRC Land as part of its execution of the 南山半島大氣污染綜合整治方案(Nanshan Peninsula Comprehensive Air Pollution Regulatory Program), Seti has entered into the Land Resumption Agreement with the Shenzhen Government to set out the arrangement of the Land Resumption, including the terms of the Compensation. The terms of the Land Resumption Agreement were reached after arm's length negotiation between Seti and the Shenzhen Government.

The Compensation will be determined by a bidding process at the Open Auction. In addition, the Land Resumption provides the Company an opportunity to exit a loss-making business with compensation. Pursuant to the Land Resumption Agreement, the Shenzhen Government will apply to change the usage of the Auction PRC Land from industrial and warehouse uses to residential, hotel and office uses. The change in land usage is expected to increase the value of the Auction PRC Land considerably. Therefore, the economic benefit of the Land Resumption Agreement to the Group is expected to be greater than continuing or disposing of the Seti business. As such, the Directors consider that the terms of the Land Resumption Agreement, including the terms of the Compensation, are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Pursuant to the Land Resumption Agreement, Seti is required to restore the PRC Land prior to reverting it to the Shenzhen Government. The Citychamp Group has a proven track record and management expertise in land development, including restoration of land, in the PRC. The Joint Arrangement allows the Group to benefit from the Citychamp Group's expertise in land development and to obtain funding for the Land Restoration. Therefore, the Directors consider that the Joint Arrangement is in the interests of the Group and the Shareholders as a whole. The Directors also consider that the terms of the Joint Arrangement Agreement are on normal commercial terms, and fair and reasonable.

IMPACT OF THE LAND RESUMPTION AND THE JOINT ARRANGEMENT ON THE GROUP

Upon completion of the Land Resumption and the Joint Arrangement, Seti will cease to own the land use right of the PRC Land. The gain expected to accrue to Seti as a result of the Land Resumption and the Joint Arrangement would be the difference between Seti's share of the Compensation less any costs of the Land Restoration that is funded by the Group's internal resources and the unaudited net asset value of the PRC Land of approximately HK$43.2 million as at 31 October 2007. The net asset value of the Group would increase by the gain on the Land Resumption according to Hong Kong accounting standards upon completion of the Land Resumption and the Joint Arrangement.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and sale of watches and clocks; property investment; manufacture and distribution of timber products; and manufacture and sale of enamelled copper wires in the PRC. The financial information of the Group is set out in appendix I to this circular.

EGM

Each of the Land Resumption and the Joint Arrangement constitutes a "major transaction" of the Company under Chapter 14 of the Listing Rules. Both of the transactions are 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 Land Resumption Agreement, the Joint Arrangement Agreement and the transactions contemplated thereunder. No Shareholder is required to abstain from voting at the EGM.

Set out on pages 90 to 91 of this circular is a notice of the EGM to be held at Marina Room II, 2nd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 15 January 2008 at 10:30 a.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.

PROCEDURES FOR DEMANDING A POLL

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 Land Resumption Agreement and the Joint Arrangement Agreement are 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 resolutions 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. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three years ended 31 December 2006 extracted from the relevant annual reports of the Company.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Revenue	434,758	320,497	313,594
Cost of sales	(367,672)	(269,447)	(275,383)
Gross profit	67,086	51,050	38,211
Other revenue and financial revenue	14,919	7,387	7,897
Selling and distribution costs	(48,339)	(40,337)	(36,597)
Administrative expenses	(82,278)	(65,027)	(58,544)
Profit/(loss) on disposal of financial assets at fair value through profit or loss, net	38,589	(329)	2,214
Net surplus on revaluation of investment properties	22,031	996	–
Other operating income/ (expenses), net	15,826	10,072	39,372
Finance costs	(5,061)	(2,699)	(6,845)
Write-back of provision for other receivables	–	–	–
Share of results of associates	5,028	–	–
Gain on disposals of subsidiaries	–	–	59
Gain on disposals of an associate	–	–	–
Write-back of provision for long term receivables	–	–	–
Profit/(loss) before income tax	27,801	(38,887)	(14,233)
Income tax expense	(7,815)	(3,362)	(2,458)
Profit/(loss) after tax from continuing operations	19,986	(42,249)	(16,691)
Discontinued operations			
Profit/(loss) from discontinued operations	2,081	(1,462)	28,108
Profit/(loss) for the year	22,067	(43,711)	11,417
Attributable to:			
Equity holders of the Company	22,347	(43,275)	11,373
Minority interest	(280)	(436)	44
Profit/(loss) for the year	22,067	(43,711)	11,417

CONSOLIDATED BALANCE SHEET

	At 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS AND LIABILITITES			
Non-current assets			
Property, plant and equipment	220,684	213,587	229,810
Investment properties	159,748	66,689	84,971
Prepaid land lease payments	46,545	48,029	50,679
Goodwill	–	–	4,816
Interest in an associate	29,272	–	–
Available-for-sale financial assets	–	–	–
Investment securities	–	–	20,240
Long term investment	–	–	3,477
Properties under development	–	291,046	61,503
Prepayments and deposits	41,982	48,128	2,626
Deferred tax assets	1,062	1,021	1,000
	479,293	668,500	459,122
Current assets			
Properties held for sale	–	70,330	–
Properties under development	–	194,133	289,102
Inventories	114,424	105,922	95,295
Trade and bills receivables	90,937	25,288	17,480
Prepaid land lease payments	3,764	3,619	3,546
Prepayments, deposits and other receivables	33,391	37,212	68,539
Financial assets at fair value through profit or loss	48,765	44,210	12,792
Due from minority equity holders	–	7,480	–
Pledged deposits	4,892	18,653	4,845
Cash and cash equivalents	39,836	370,909	186,826
	336,009	877,756	678,425
Assets in disposal group classified as held for sale	1,262,408	–	–
	1,598,417	877,756	678,425

	At 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade payables	46,683	108,760	89,989
Deposits received from customers	1,613	255,163	91,516
Other payables and accruals	58,623	98,135	91,881
Tax payable	9,597	12,007	16,896
Borrowings	116,353	96,154	28,269
Due to related companies	180,000	134	3,374
	412,869	570,353	321,925
Liabilities in disposal group classified as held for sale	1,038,855	–	–
	1,451,724	570,353	321,925
Net current assets	146,693	307,403	356,500
Total assets less current liabilities	625,986	975,903	815,622
Non-current liabilities			
Borrowings	55,348	317,308	310,959
Deferred tax liabilities	–	794	–
Deferred income	–	177,906	–
Due to an associate	–	–	3,649
	55,348	496,008	314,608
Net assets	570,638	479,895	501,014
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	179,203	154,483	154,483
Reserves	348,715	304,535	344,410
Income and expense recognised directly in equity relating to disposal group	10,017	–	–
	537,935	459,018	498,893
Minority interest	32,703	20,877	2,121
Total equity	570,638	479,895	501,014

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

The following are the audited consolidated financial statements of the Group extracted from the annual report of the Company for the year ended 31 December 2006.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Continuing operations:			
Revenue	6	434,758	320,497
Cost of sales		(367,672)	(269,447)
Gross profit		67,086	51,050
Other revenue	7	13,195	5,331
Selling and distribution expenses		(48,339)	(40,337)
Administrative expenses		(82,278)	(65,027)
Gain/(loss) on fair value changes in financial assets at fair value through profit or loss, net		38,589	(329)
Net surplus on revaluation of investment properties		22,031	996
Other operating income, net		15,826	10,072
Operating profit/(loss)		26,110	(38,244)
Financial revenue	7	1,724	2,056
Finance costs	8	(5,061)	(2,699)
Share of results of an associate		5,028	–
Profit/(loss) before income tax	9	27,801	(38,887)
Income tax expense	10	(7,815)	(3,362)
Profit/(loss) after income tax from continuing operations		19,986	(42,249)
Discontinued operations:			
Profit/(loss) for the year from discontinued operations	11	2,081	(1,462)
Profit/(loss) for the year		22,067	(43,711)
Attributable to:			
Equity holders of the Company	12	22,347	(43,275)
Minority interest		(280)	(436)
Profit/(loss) for the year		22,067	(43,711)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Earnings/(loss) per share from continuing operations attributable to equity holders of the Company	*14*		
Basic		HK1.29 cents	HK(2.74) cents
Diluted		N/A	N/A
Earnings/(loss) per share from discontinued operations attributable to equity holders of the Company	*14*		
Basic		HK0.15 cent	HK(0.06) cent
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET
As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	200,684	213,587
Investment properties	18	159,748	66,689
Prepaid land lease payments	19	46,545	48,029
Interest in an associate	24	29,272	–
Available-for-sale financial assets	25	–	–
Properties under development	26	–	291,046
Prepayments and deposits	27	41,982	48,128
Deferred tax assets	37	1,062	1,021
		479,293	668,500
Current assets			
Properties held for sale	26	–	70,330
Properties under development	26	–	194,133
Inventories	28	114,424	105,922
Trade and bills receivables	29	90,937	25,288
Prepaid land lease payments	19	3,764	3,619
Prepayments, deposits and other receivables	27	33,391	37,212
Financial assets at fair value through profit or loss	30	48,765	44,210
Due from minority equity holders	31	–	7,480
Pledged deposits	32	4,892	18,653
Cash and cash equivalents	32	39,836	370,909
		336,009	877,756
Assets in disposal group classified as held for sale	11	1,262,408	–
		1,598,417	877,756
Current liabilities			
Trade payables	33	46,683	108,760
Deposits received from customers		1,613	255,163
Other payables and accruals	34	58,623	98,135
Tax payable		9,597	12,007
Borrowings	35	116,353	96,154
Due to related companies	36	180,000	134
		412,869	570,353
Liabilities in disposal group classified as held for sale	11	1,038,855	–
		1,451,724	570,353
Net current assets		146,693	307,403

	Notes	2006 HK$'000	2005 HK$'000
Total assets less current liabilities		625,986	975,903
Non-current liabilities			
Borrowings	35	55,348	317,308
Deferred tax liabilities	37	–	794
Deferred income	38	–	177,906
		55,348	496,008
Net assets		570,638	479,895
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	39	179,203	154,483
Reserves	41	348,715	304,535
Income and expense recognised directly in equity relating to disposal group		10,017	–
		537,935	459,018
Minority interest		32,703	20,877
Total equity		570,638	479,895

BALANCE SHEET
As at 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*17*	6,360	1,969
Interests in subsidiaries	*21*	377,095	297,771
Due from disposal group	*22*	1,735	–
Interests in a jointly-controlled entity	*23*	46,203	46,199
Interests in an associate	*24*	24,244	–
Deposits	*27*	27,000	27,000
		482,637	372,939
Current assets			
Prepayments and deposits	*27*	6,987	4,135
Financial assets at fair value through profit or loss	*30*	37,627	28,297
Pledged deposits	*32*	4,892	7,500
Cash and cash equivalents	*32*	3,812	23,238
		53,318	63,170
Current liabilities			
Other payables and accruals	*34*	12,847	13,597
Borrowings	*35*	3,652	–
		16,499	13,597
Net current assets		36,819	49,573
Total assets less current liabilities		519,456	422,512
Non-current liabilities			
Borrowing	*35*	55,348	–
Net assets		464,108	422,512
EQUITY			
Share capital	*39*	179,203	154,483
Reserves	*41*	284,905	268,029
Total equity		464,108	422,512

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000* (Restated)
Cash flows from operating activities of continuing and discontinued operations			
Profit/(Loss) before income tax			
Continuing operations		27,801	(38,887)
Discontinued operations	*11*	12,912	16,757
Total		40,713	(22,130)
Adjustments for:			
Interest income		(2,813)	(4,397)
Finance costs	*8*	5,061	2,699
Dividend income from financial assets at fair value through profit & loss	*7*	(756)	(238)
Loss/(Gain) on disposal/write off of property, plant and equipment, net	*9*	31	(1,429)
Gain on disposal of available-for-sale investments	*9*	–	(13,145)
Impairment of available-for-sale financial assets	*9, 25*	–	3,477
Gain on revaluation of investment properties		(25,214)	(3,378)
Depreciation		21,908	18,282
Recognition of prepaid land lease payments	*9, 19*	3,465	3,585
Share of results of associate		(5,028)	–
Impairment of goodwill	*9, 20*	–	4,816
Gain on disposals of an associate	*9*	–	(3,769)
Impairment for doubtful debts	*9*	1,997	–
Write-back for Inventories	*9*	(6,379)	–
Provision for inventories	*9*	261	3,775

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
Operating profit/(loss) before working capital changes		33,246	(11,852)
Increase in properties under development		(393,585)	(126,117)
Decrease/(Increase) in properties held for sale		166	(70,330)
Increase in inventories		(2,384)	(14,402)
Increase in trade and bills receivables		(73,940)	(7,808)
Increase in prepayments, deposits and other receivables		(39,254)	(13,622)
Increase in financial assets at fair value through profit or loss		(4,555)	(31,418)
Decrease in non-pledged deposits with original maturity over three months when acquired		–	3,769
Increase in trade payables		27,696	18,771
Increase in other payables and accruals		18,756	15,447
Increase in deposits received from customers		16,938	163,647
Decrease in amounts due from minority equity holders		7,480	–
Increase/(Decrease) in amounts due to related companies		163	(3,240)
Cash used in operations		(409,273)	(77,155)
Interest received		2,813	4,397
Interest paid		(5,061)	(2,699)
Hong Kong profits tax refunded		–	26
Overseas tax paid		(6,895)	(25,702)
Net cash used in operating activities		(418,416)	(101,133)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Cash flows from investing activities of continuing and discontinued operations			
Dividends received from financial assets at fair value through profit or loss	*7*	756	238
Purchases of property, plant and equipment		(21,986)	(43,664)
Purchases of investment properties	*18*	(88,795)	(25,207)
Proceeds from disposal of property, plant and equipment		–	39,018
Proceeds from disposal of investment properties		–	47,200
Proceeds from disposal of available-for-sale financial assets		–	30,460
Acquisition of an associate	*24*	(24,244)	–
Acquisition of a subsidiary		–	1,510
Disposal of an associate		–	120
(Increase)/Decrease in pledged deposits		5,670	(13,808)
Net cash (used in)/generated from investing activities		(128,599)	35,867
Cash flows from financing activities of continuing and discontinued operations			
New bank loans		207,800	74,234
Receipt of government grant		–	177,906
Proceeds from issue of new shares		48,420	–
Repayment of bank loan and other loans		(73,000)	–
Contribution from minority interest		12,019	–
Loan from a related party		180,000	–
Net cash generated from financing activities		375,239	252,140

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
Net (decrease)/increase in cash and cash equivalents		(171,776)	186,874
Cash and cash equivalents at 1 January		370,909	183,057
Effect of foreign exchange rate changes, net		35,483	978
Cash and cash equivalents at 31 December		234,616	370,909
Analysis of balances of cash and cash equivalents			
Cash at bank and in hand			
Continuing operations	*32*	39,836	39,946
Discontinued operations	*11*	194,780	299,493
Non-pledged time deposits with original maturity of less than three months when acquired		–	31,470
		234,616	370,909

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Equity attributable to equity holders of the Company								
	Share capital	Share premium account*	Goodwill arising on consolidation*	Statutory reserves*	Exchange fluctuation reserve*	Retained profits/ (accumulated losses)*	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005, as previously reported as equity	154,483	677,882	(15,300)	10,620	478	(329,270)	498,893	–	498,893
At 1 January 2005, as previously reported separately as minority interests	–	–	–	–	–	–	–	2,121	2,121
Effect of changes in accounting policies resulting from the adoption of HKAS 39 "Financial Instruments; Recognition and Measurement"	–	–	–	–	–	(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 total income and expense for the year recognised directly in equity	–	–	–	–	6,325	–	6,325	45	6,370
Transfer to statutory reserves	–	–	–	4,127	–	(4,127)	–	–	–
Net loss for the year	–	–	–	–	–	(43,275)	(43,275)	(436)	(43,711)
Total recognised income and expense for the year	–	–	–	4,127	6,325	(47,402)	(36,950)	(391)	(37,341)
Acquisition of a subsidiary	–	–	–	–	–	–	–	19,147	19,147
Cancellation of share premium	–	(677,882)	–	–	–	677,882	–	–	–
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 total income and expense for the year recognised directly in equity	–	–	–	–	8,150	–	8,150	87	8,237
Transfer to statutory reserves	–	–	–	3,072	–	(3,072)	–	–	–
Net profit for the year	–	–	–	–	–	22,347	22,347	(280)	22,067
Total recognised income and expense for the year	–	–	–	3,072	8,150	19,275	30,497	(193)	30,304
Issue of new shares	24,720	23,700	–	–	–	–	48,420	–	48,420
Increase in paid up capital of a subsidiary	–	–	–	–	–	–	–	12,019	12,019
Balance at 31 December 2006	179,203	23,700	(15,300)	17,819	14,953	317,560	537,935	32,703	570,638
Income and expense recognised directly in equity relating to disposal group	–	–	–	–	(10,017)	–	(10,017)	–	(10,017)
Balance excluding income and expense recognised directly in equity relating to disposal group at 31 December 2006	179,203	23,700	(15,300)	17,819	4,936	317,560	527,918	32,703	560,621

* *These reserve accounts comprise the consolidated reserves of HK$348,715,000 (2005: HK$304,535,000) in the consolidated balance sheet.*

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Haidian Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Suites 2701–2705 & 2715–2716, 27th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the principal activities of the Company and, its subsidiaries (together referred to as the "Group") include:

– Manufacture and distribution of watches and timepieces

– Manufacture and distribution of timber products

– Property investment

The principal activities of a jointly-controlled entity of the Group are manufacture and distribution of enamelled copper wires.

On 15 September 2006, a shareholders' resolution was passed to dispose of the entire paid-up capital of two subsidiaries, namely Beijing Jing Guan Property Development Company Limited ("Jing Guan") and Beijing Xin Yang Property Development Company Limited ("Xin Yang") (which is 80% owned by Jing Guan). Jing Guan and Xin Yang were both incorporated in the People's Republic of China (the "PRC") and are principally engaged in the property development. These two subsidiaries are collectively referred to as the "Disposal Group" hereafter whilst the Company and the remaining subsidiaries are collectively referred to as the "Remaining Group". Details of this transaction have been set out in the Company's circular dated on 30 August 2006 (the "Circular").

As the property development carried out by the Disposal Group represents a component of the Group's business, the operation and cash flow of which can be clearly distinguished from the rest of the Group and which represents a separate main line of business, the Group presented, in its financial statements during the year, the operations of the Disposal Group as discontinued operation in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 5. Further details regarding the Disposal Group's results for the years ended 31 December 2006 and 2005 and its assets and liabilities as at 31 December 2006 are set out in Note 11.

The financial statements on pages 35 to 140 have been prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 December 2006 were approved for issue by the board of directors on 25 April 2007.

2. ADOPTION OF NEW OR REVISED HKFRS

2.1 During the year, the Group has applied, for the first time, a number of new and amended HKFRSs, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. These include the following:

HKAS 1, HKAS 27 & HKFRS 3 (Amendments)	Presentation of Financial Statements, Consolidated and Separate Financial Statements & Business Combinations – Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of the above new and amended HKFRSs has resulted in changes to the Group's accounting policies as set out below, but these had no material effect on the amounts reported for the current and prior accounting periods:

(a) Financial guarantee contracts

In the current year, the Group has adopted the amendments to HKAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts" which is effective for annual period beginning on or after 1 January 2006. A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Group act as the issuer of financial guarantee contracts.

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligations and the amount can be estimated reliably.

Upon the adoption of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". In connection with financial guarantees in favour of certain banks for mortgage loans granted by the bankers of the Group's properties under development (Note 46) and a financial guarantee to a bank for a loan granted by the bank to the joint venturer (Note 23) this change in accounting policy has had no material effect on the Group's amounts reported for the current and prior accounting periods.

(b) Leases

In the current year, the Group has adopted HK(IFIC) – Int 4 which concludes that an arrangement may contain a lease if the substance of the transaction (for a series of transactions) is the transfer of the right to use a specific asset or assets for an agreed period of time in return for a payment (or a series of payments) even if there is no legal form of a lease.

The Group has followed the guidance in HK(IFRIC)-Int 4 to assets its outsourcing arrangements and does not identify material arrangements containing leases. Accordingly, this change has had no material effect on the Group's results for the current and prior accounting periods.

2.2 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company is currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 1 (Amendment)	"Presentation of Financial Statements" – Capital Disclosures [1]
HKFRS 7	"Financial Instruments: Disclosures" [1]
HKFRS 8	"Operating segments" [2]
HK(IFRIC) Interpretation 7	"Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies" [3]
HK(IFRIC) Interpretation 8	"Scope of HKFRS 2" [4]
HK(IFRIC) Interpretation 9	"Reassessment of Embedded Derivatives" [5]
HK(IFRIC) Interpretation 10	"Interim Financial Reporting and Impairment" [6]
HK(IFRIC) Interpretation 11	"Group and Treasury Share Transactions" [7]
HK(IFRIC) Interpretation 12	"Service Concession Arrangements" [8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on the historical cost convention except for:

– investment properties and

– financial assets at fair value through profit or loss,

which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.1.2 Going concern

The financial statements have been prepared on a going concern basis through the Remaining Group had net current liabilities of HK$76,860,000 (2005: net current assets of HK$307,403,000) as at 31 December 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:

(i) to impose tight cost controls;

(ii) to raise funds as and when necessary;

(iii) to obtain extension of repayment of existing borrowings; and

(iv) to obtain necessary funding from bankers.

The directors are of the 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 financial requirements.

In addition, one of the related companies has taken to extend the repayment date of the amount of HK$144,000,000 due to it from the Group to 18 December 2008 if the Group is not financially viable to make the repayment on or before 18 December 2007 (Note 36) and 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 and when they fall due for the next twelve months from 31 December 2006 without 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.

3.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than those the combining entities are group entities) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interest is presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceed the minority interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest until the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decision relating to the activity require the unanimous consent of the venturers.

Interests in jointly controlled entities are accounted for using proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, investment in jointly controlled entities is stated at cost less any impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

3.5 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is adjusted for the post-acquisition changes in the Group's share of the associate's net assets unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investment in associates is stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3.6 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the 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 3.7). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the Group's interest in the associate or jointly controlled entity.

Any excess of the 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 or an investment in an associate or a jointly controlled entity is recognised immediately in income statement.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

Goodwill relating to business combinations or investments in associates or jointly controlled entities prior to 1 January 2001 continues to be held in reserves and will be charged to the retained profits at the time when the business, associate or jointly controlled entity to which the goodwill relates is disposed of or when a cash-generating unit to which goodwill relates becomes impaired.

3.7 Impairment of assets

Goodwill, property, plant and equipment and prepaid land lease payments measured under the cost model and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that it is impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 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.

3.9 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the buildings could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment are also stated at cost less accumulated depreciation and impairment losses.

Depreciation on other assets is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method at the following rates per annum:

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%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3.10 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair values or the sale of an investment property is included in the income statement for the period in which they arise.

3.11 Properties under development

Properties under development with undermined future use are stated at cost which includes all development expenditure, interest charges and other costs directly attributable to such properties, less any impairment and were classified as non-current assets.

Properties under development which had either been pre-sold or which were intended for sale are stated at lower of cost and net realisable value and were classified as current assets.

3.12 Properties held for sale

Properties for sale held at the balance sheet date 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.

3.13 Lease

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases except for property held under operating lease that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounting for as if held under a financial lease (see Note 3.10).

(ii) Operating lease charges as the lessee

Where the Group has the use of asses held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(iii) Prepaid land lease payments

Prepaid land lease payments are up-front payments made for the leasehold land and land use rights. These are recognised at cost less accumulated impairment losses and are amortised on a straight-line basis over the period of the respective leases.

3.14 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Financial assets are classified into the following categories:

– financial assets at fair value through profit or loss

– loans and receivables

– available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. 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.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are mainly financial assets held for trading and they are acquired for the purpose of selling in the near term.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of other categories of financial assets.

For available-for-sale investments in equity securities which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Loans and receivables

Loans and receivables are provided for impairment losses which are recognised in the income statement when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or where appropriate, a shorter period.

(ii) Available-for-sale financial assets

When there is evidence that there is impairment loss on available-for-sale financial assets, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

3.15 Financial liabilities

The Group's financial liabilities include bank loans, other loans and trade and other payables. They are included in balance sheet line items as borrowings under current or non-current liabilities or trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument and are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. All interest related charges are recognised as an expense in finance costs in the income statement.

(i) Borrowings

Borrowings are mainly bank and other loans raised for support of funding of the Group's operations. They are recognised initially at proceeds, net of transaction and direct issue costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost less settlement payments, using the effective interest rate method.

3.16 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using 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 the estimated selling price in the ordinary course of business less any applicable selling expenses.

3.17 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.18 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 expenditures expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.19 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.20 Government grants

Government grants are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Grants related to depreciable assets are included in non-current liabilities as deferred income and are recognised in the income statement on a straight line basis over the useful lives of the assets.

3.21 Revenue recognition

Revenue comprises the fair value for the sale of goods and services and the use by others of the Group's assets yielding interest, royalties and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Revenue arising from the sale of properties held for sale within the Disposal Group is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received.

Rental income, on a time proportion basis over the lease terms;

Interest income is recognised on a time proportion basis using the effective interest method; and

Dividend is recognised when the right to receive payment is established.

3.22 Retirement benefit costs and short term employee benefits

Defined contribution plan

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 Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), 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.

Pension schemes and other retirement benefits

Pursuant to the relevant regulations of the government in the PRC, the subsidiaries operating in the PRC have participated in central pension schemes (the "Schemes") operated by local municipal governments, whereby the subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the PRC. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to the income statement as incurred. There are no provisions under the Schemes whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

3.23 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed.

3.24 Foreign currency translation

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the Company's functional currency and all values are rounded to the nearest thousand except when otherwise indicated.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the exchange fluctuation reserve in equity.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.25 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.26 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, prepaid land lease payments, inventories, receivables and operating cash, and mainly exclude investment properties and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and exclude items such as tax payable and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment.

In respect of geographical segment reporting, revenue are based on the country in which the customers are located and total assets and capital expenditure are where the assets are located.

3.27 Assets in disposal group classified as held for sale

Disposal groups are classified as assets held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use and stated at the lower of carrying amount and fair value less costs to sell.

The adoption of HKFRS 5 has resulted in a change in the accounting policy for disposal groups held for sale. The disposal groups held for sale were previously neither classified nor presented as current assets or liabilities and there was no difference in measurement for disposal groups held for sale or continuing use.

The application of HKFRS 5 does not impact on the prior-year financial statements other than a change in the presentation of the results and cash flows of discontinuing operations.

3.28 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical judgements in applying the entity's accounting policies

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.

4.2 Critical accounting estimates and assumptions

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

Estimated 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 20 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 Note 3.7. 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.

Estimated impairment of trade receivable

The impairment loss on trade receivables of the Group is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

5. SEGMENT INFORMATION

Primary reporting format – business segments

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) manufacture and distribution of watches and timepieces;

(b) manufacture and distribution of timber products;

(c) manufacture and distribution of enamelled copper wires;

(d) property investment; and

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

Property development carried out by the Disposal Group as mentioned in Note 1 during the year have been classified as discontinued operations for the year (Note 11).

Intersegment sales are charged at prevailing market prices.

2006

	Continuing operations						Discontinued operations
	Watches and timepieces	Timber products	Enamelled copper wires	Property investment	Corporate and others	Total	Property development
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and gains:							
Sales to external customers	130,358	103,984	196,414	4,002	–	434,758	282,953
Other revenue and financial revenue	1,884	1,917	9,515	2	1,601	14,919	5,690
Total	132,242	105,901	205,929	4,004	1,601	449,677	288,643
Segment results	22,067	(31,065)	7,168	22,832	6,832	27,834	12,912
Share of results of an associate						5,028	–
Finance costs						(5,061)	–
Profit before income tax						27,801	12,912
Income tax						(7,815)	(10,831)
Profit for the year						19,986	2,081
Segment assets	107,031	246,299	165,273	160,735	135,964	815,302	1,262,408
Segment liabilities	32,458	237,185	112,406	8,259	77,909	468,217	1,038,855

	Continuing operations						Discontinued operations
	Watches and timepieces	Timber products	Enamelled copper wires	Property investment	Corporate and others	Total	Property development
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:							
Depreciation and amortisation of prepaid land lease payments	2,735	17,774	2,444	–	804	23,757	1,616
Net suplus on revaluation of investment properties	–	–	–	(22,031)	–	(22,031)	(3,183)
(Write-back)/Provision for inventories	261	(6,379)	–	–	–	(6,118)	–
Capital expenditure	1,065	13	2,108	88,795	5,195	97,176	865

2005

	Continuing operations							Discontinued operations
	Property development	Watches and timepieces	Timber products	Enamelled copper wires	Property investment	Corporate and others	Total	Property development
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)		(Restated)
Segment revenue and gains:								
Sales to external customers	–	122,884	174,010	18,332	5,271	–	320,497	299,339
Other revenue and financial revenue	–	835	3,632	1,778	–	1,142	7,387	3,477
Total	–	123,719	177,642	20,110	5,271	1,142	327,884	302,816
Segment results	–	18,940	(37,578)	(612)	4,186	(21,124)	(36,188)	16,757
Finance costs							(2,699)	–
Profit/(Loss) before income tax							(38,887)	16,757
Income tax							(3,362)	(18,219)
Loss for the year							(42,249)	(1,462)
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 amortisation of prepaid lease payments	–	2,539	16,301	1,553	–	720	21,113	756
Impairment of goodwill	–	–	4,816	–	–	–	4,816	–
Net Surplus of revaluation investment properties	–	–	–	–	(996)	–	(996)	(2,382)
Provision for inventories	–	–	3,775	–	–	–	3,775	–
Impairment of available-for-sale investments	–	–	–	–	–	3,477	3,477	–
Capital expenditure	–	570	393	35,547	25,207	110	61,827	7,044

Secondary reporting format – Geographical segments

The Group's operations are located in two main geographical areas. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services.

Sales revenue by geographical markets:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Continuing operations:		
Hong Kong	27,938	33,785
PRC	406,820	286,712
	434,758	320,497
Discontinued operations:		
PRC	282,953	299,339
	717,711	619,836

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

	Segment assets		Capital expenditures	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)
Continuing operations:				
Hong Kong	135,964	84,359	93,990	110
PRC	679,338	514,445	3,186	61,717
	815,302	598,804	97,176	61,827
Discontinued operations:				
PRC	1,262,408	947,452	865	7,044
	2,077,710	1,546,256	98,041	68,871

6. REVENUE AND TURNOVER

Revenue on continuing operation, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and rental income received and receivable. Revenue recognised during the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Revenue on continuing operation		
Sales of goods	428,620	315,226
Gross rental income	6,138	5,271
	434,758	320,497

7. OTHER REVENUE AND FINANCIAL REVENUE

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
(a) Other revenue on continuing operations		
PRC value-added tax refund	2,929	3,030
Income from sale ofscrapped materials	9,515	1,757
Others	751	544
	13,195	5,331
(b) Financial revenue on continuing operations		
Interest income	968	1,818
Dividend income from financial assets at fair value through profit or loss	756	238
	1,724	2,056

8. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Interests on bank and other loans wholly repayable within five years	5,061	2,699

9. PROFIT/(LOSS) BEFORE INCOME TAX

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Profit/(loss) before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	367,672	269,447
Depreciation	20,292	17,528
Amortisation of prepaid land lease payments	3,465	3,585
Impairment of goodwill	–	4,816
Minimum lease payments under operating leases in respect of land and buildings	4,218	4,380
Auditors' remuneration	1,000	1,408
Gross rental income	(6,138)	(5,271)
Less: direct operating expenses	861	2,342
Net rental income	(5,277)	(2,929)
Gain on disposals of an associate	–	(3,769)
Gain on disposals of available-for-sale financial assets	–	(13,145)
Impairment of available-for-sale financial assets	–	3,477
Loss/(gain) on disposals/write off of property, plant and equipment, net	31	(1,429)
Impairment for doubtful debts	1,997	–
Write-back for inventories	(6,379)	–
Provision for inventories	261	3,775

10. INCOME TAX EXPENSE

For the year ended 31 December 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 (2005: 17.5%). The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 33%.

Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2006	**2005**
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Current tax for the year:		
Hong Kong	2,294	303
Elsewhere	3,304	3,085
Under/(Over)provision in respect of prior years	2,217	(26)
Total income tax expense	7,815	3,362

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2006	**2005**
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) before income tax on continuing operations	27,801	(38,887)
Tax at the applicable rates to profit/(loss) in the tax jurisdictions concerned	5,644	(4,562)
Lower tax rate for specific provinces	–	2,944
Income not subject to tax	(1,909)	(3,653)
Expenses not deductible for tax	1,825	4,766
Adjustments in respect of income tax of previous periods	2,218	(26)
Other temporary differences not recognised	(166)	587
Tax losses utilised from previous periods	203	(112)
Tax losses not recognised	–	3,418
Income tax expense	7,815	3,362

11. ASSETS IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

As described in Note 1, on 15 September 2006, a shareholders' resolution was passed to dispose of the entire paid-up capital of the Disposal Group to Citychamp Dartong Company Limited ("Citychamp") for a consideration of RMB360 million. Citychamp is the joint venturer of the Group's jointly controlled entity and a company listed in the Shanghai Stock Exchange in the PRC. In return, Citychamp has conditionally agreed to allot and issue 72,720,000 shares ("Consideration Shares") and pay RMB36,000 to the Group as the consideration. The issue price of the Consideration Shares is RMB4.95 each. Details of this transaction have been set out in the Company's Circular.

This transaction becomes unconditional subject to the following conditions:

(i) Citychamp's shareholders resolution passed at its general meeting approving the transaction;

(ii) The Company's Shareholders ordinary resolution at the Extraordinary General Meeting approving the transaction;

(iii) Approval from the Ministry of Commence of the PRC for the transaction;

(iv) Approval from the Commerce Department in Beijing for the change of the equity structure of Jing Guan; and

(v) Approval from the China Securities Regulatory Commission (the "CSRC") for the allotment and issue of the Consideration Shares to the Group by Citychamp and waiving all such mandatory general offer obligations, as a result of the transaction.

As at 31 December 2006, conditions (i), (ii), (iii) and (iv) have been satisfied. As the condition (v) where approval from the CSRC is required has been obtained on 11 April 2007, the completion date of the transaction shall take place within 60 business days from 11 April 2007.

The Group presented, in its financial statements during the year, the operations, property development, of the Disposal Group as discontinued operations in accordance with HKFRS 5.

An analysis of the results of the Disposal Group for the year ended 31 December 2006, with the comparatives for illustrative purpose, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue	282,953	299,339
Cost of sales	(267,615)	(268,527)
Gross profit	15,338	30,812
Other revenue	3,844	898
Selling and distribution expenses	(4,330)	(13,328)
Administrative expenses	(7,087)	(6,608)
Net surplus on revaluation of investment properties	3,183	2,382
Other operating income, net	118	22
Operating profit	11,066	14,178
Financial revenue	1,846	2,579
Profit before income tax on discontinued operations	12,912	16,757
Income tax expense *(Note)*	(10,831)	(18,219)
Profit/(loss) after income tax on discontinued operations	2,081	(1,462)
Operating cash flows	(153,956)	(25,889)
Investing cash flows	732	(38,835)
Financing cash flows	32,019	252,140
Total cash (outflows)/inflows	(121,205)	187,416

Note: The current tax and deferred tax for the year ended 31 December 2006 amounted to HK$10,213,000 (2005: HK$17,425,000) and HK$618,000 (2005: HK$794,000) respectively.

An analysis of the assets and liabilities of the Disposal Group as at 31 December 2006 is as follows:

	HK$'000
Assets included in disposal group classified as held for sale:	
Property, plant and equipment	8,658
Investment properties *(Note)*	31,900
Properties under development	890,406
Properties held for sale	70,164
Trade receivables	5,806
Prepayments, deposits and other receivables	52,115
Due from minority equity holders	489
Pledged deposits	8,090
Cash and cash equivalents	194,780
	1,262,408
Liabilities included in disposal group classified as held for sale:	
Trade payables	89,773
Deposits received from customers	270,488
Other payables and accruals	58,271
Tax payables	13,560
Interest-bearing bank borrowings	330,000
Other loans	90,000
Due to related companies	296
Deferred tax liabilities	1,444
Deferred income	185,023
	1,038,855
Net assets	223,553

Note: At 31 December 2006, the relevant title certificates for these properties have not yet been obtained. The Group's legal advisors have confirmed that Jing Guan is the rightful and equitable owners of these properties.

These properties have been revalued by Greater China Appraisal Limited, independent professionally qualified valuer, at HK$31,900,000 in aggregate on an open market, existing use basis. Net surplus on revaluation of investment properties HK$3,183,000 (2005: HK$2,382,000) has been included in the results of the Disposal Group.

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$22,347,000 (2005: Loss of HK$43,275,000), a loss of HK$6,824,000 (2005: HK$48,708,000) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The board of directors did not recommend any payment of dividends during the year (2005: Nil).

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) from continuing and discontinued operations per share is based on the profit from continuing operations attributable to equity holders of the Company of HK$19,986,000 (2005: loss of HK$42,249,000) and the profit from discontinued operations attributable to equity holders of the Company of HK$2,361,000 (2005: loss of HK$1,026,000) on the weighted average of 1,548,928,000 (2005: 1,544,831,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2006 and 2005 have not been disclosed as no dilutive events existed during the years.

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	**2005**
	HK$'000	*HK$'000*
Continuing operations		(Restated)
Wages and salaries	38,033	47,702
Termination benefit	8,616	48
Pension costs – defined contribution plans	1,643	2,399
Less: forfeited contributions	–	(18)
	48,292	50,131

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

16.1 Directors' emoluments

16.1.1 Executive director and non-executive directors

	Fees	**Salaries, allowances and benefits in kind**	**Contributions to pension scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2006				
Executive directors				
Mr. Hon Kwok Lung	–	1,690	12	1,702
Mr. Wang Shaolan	–	1,580	12	1,592
Mr. Shang Jianguang	–	1,725	60	1,785
Mr. Shi Tao	–	1,707	–	1,707
Mr. Lam Toi Man	–	1,430	12	1,442
Non executive director				
Mr. Sit Lai Hei	100	–	–	100
Independent non-executive directors				
Mr. Fung Tze Wa	133	–	–	133
Dr. Kwong Chun Wai, Michael	100	–	–	100
Mr. Li Qiang	100	–	–	100
	433	8,132	96	8,661

	Fees	Salaries, allowances and benefits in kind	Contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2005				
Executive directors				
Mr. Hon Kwok Lung	–	1,690	12	1,702
Mr. Wang Shaolan	–	1,581	11	1,592
Mr. Shang Jianguang	–	1,721	72	1,793
Mr. Shi Tao	–	2,044	–	2,044
Mr. Lam Toi Man	–	1,430	12	1,442
Non executive director				
Mr. Sit Lai Hei	100	–	–	100
Independent non-executive directors				
Mr. Fung Tze Wa	100	–	–	100
Dr. Kwong Chun Wai, Michael	100	–	–	100
Mr. Li Qiang	100	–	–	100
	400	8,466	107	8,973

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

16.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and their emoluments are reflected in the analysis present above.

No emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	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 book amount	131,427	3,740	65,765	19,167	9,711	229,810
Year ended 31 December 2005						
Opening net book 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	–	–	–	88	1,154	1,242
Depreciation	(4,135)	(1,125)	(8,675)	(3,018)	(1,329)	(18,282)
Exchange realignment	1,835	41	1,595	362	197	4,030
Closing net book amount	88,232	3,166	94,605	17,479	10,105	213,587
At 31 December 2005						
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 book amount	88,232	3,166	94,605	17,479	10,105	213,587
Year ended 31 December 2006						
Opening net book amount	88,232	3,166	94,605	17,479	10,105	213,587
Additions	–	144	1,817	591	6,694	9,246
Disposals/write-off	–	–	–	–	(30)	(30)
Depreciation	(5,378)	(1,383)	(10,171)	(2,498)	(2,478)	(21,908)
Exchange realignment	10,378	80	116	(3,112)	985	8,447
Reclassified to assets in disposal group classified as held for sale *(Note 11)*	(5,062)	(55)	–	(600)	(2,941)	(8,658)
Closing net book amount	88,170	1,952	86,367	11,860	12,335	200,684
At 31 December 2006						
Cost	107,458	5,417	120,196	26,074	15,250	274,395
Accumulated depreciation	(19,288)	(3,465)	(33,829)	(14,214)	(2,915)	73,711
Net carrying amount	88,170	1,952	86,367	11,860	12,335	200,684

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total Total *HK$'000*
At 1 January 2005				
Cost	1,767	819	713	3,299
Accumulated depreciation	(171)	(167)	(515)	(853)
Net book amount	1,596	652	198	2,446
Year ended 31 December 2005				
Opening net book amount	1,596	652	198	2,446
Additions	–	111	–	111
Disposals/write-off	–	(16)	–	(16)
Depreciation	(354)	(158)	(60)	(572)
Closing net book amount	1,242	589	138	1,969
At 1 January 2006				
Cost	1,767	880	713	3,360
Accumulated depreciation	(525)	(291)	(575)	(1,391)
Net carrying amount	1,242	589	138	1,969
Year ended 31 December 2006				
Opening net book amount	1,242	589	138	1,969
Additions	–	76	5,118	5,194
Depreciation	(352)	(161)	(290)	(803)
Closing net book amount	890	504	4,966	6,360
At 31 December 2006:				
Cost	1,767	956	5,831	8,554
Accumulated depreciation	(877)	(452)	(865)	(2,194)
Net book amount	890	504	4,966	6,360

The Group's buildings separated from the element of the land included above are situated in the PRC and are held under the following lease terms:

	2006	2005
	HK$'000	*HK$'000*
At cost:		
Short term leases	2,612	2,536
Medium term leases	104,846	99,902
	107,458	102,438

At 31 December 2006, certain of the Group's buildings with carrying value of HK$83,738,000 (2005: HK$79,985,000), situated in the PRC have been pledged to secure certain banking facilities granted to the Group (Note 35).

At 31 December 2006, the Group has not yet obtained the title certificates for certain leasehold buildings situated in Shenzhen with an aggregate carrying value of approximately HK$18,985,000 (2005: HK$24,652,000). The Group's legal advisors have confirmed that the Group has legally obtained the rights to use the buildings. The directors are now in process of obtaining the relevant title certificates from the relevant government authorities.

18. INVESTMENT PROPERTIES – GROUP

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Changes to the carrying amounts presented in the balance sheet can be summarised as follows:

	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	66,689	84,971
Transfer from prepayments	9,845	–
Additions	88,795	25,207
Disposals	–	(47,200)
Net surplus on revaluation of investment properties	25,214	3,378
Exchange alignment	1,105	333
Reclassified to assets in disposal group classified as held for sale *(Note 11)*	(31,900)	–
Carrying amount at 31 December	159,748	66,689

The Group's investment properties included above are situated in the PRC and are held under medium term leases.

The Group's investment properties were revalued at 31 December 2006 by Chung, Chan & Associates and Greater China Appraisal Limited, independent professionally qualified valuers, at HK$159,748,000 in aggregate on an open market, existing use basis. The net surpluses on revaluation of HK$22,031,000 (2005: HK$996,000) and HK$3,183,000 (2005: HK$2,382,000) have been credited to the income statement on the continuing and discontinued operations respectively.

At 31 December 2006, the Group had certain investment properties located in Dongguan, the PRC with aggregate carrying value of HK$24,000,000 (2005: HK$23,085,000). The Group has not yet obtained the relevant title certificate for these properties. The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these properties.

At 31 December 2006, certain of the Group's investment properties with carrying value of HK$120,000,000 (2005: HK$27,613,000) have been pledged to secure banking facilities granted to the Group (Note 35).

19. PREPAID LAND LEASE PAYMENTS – GROUP

The Group's prepaid land lease payments represent its interests in leasehold land and land use rights in the PRC. Changes to the carrying amounts presented in the balance sheet can be summarized as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Carrying amount at 1 January	51,648	54,225
Amortisation during the year	(3,465)	(3,585)
Exchange realignment	2,126	1,008
Carrying amount at 31 December	50,309	51,648
Less: Current portion	(3,764)	(3,619)
Non-current portion	46,545	48,029

At 31 December 2006, certain of the Group's prepaid land lease payments in the PRC with carrying value of HK$44,495,000 (2005: HK$46,382,000), have been pledged to secure certain banking facilities granted to the Group (Note 35).

Their net book value are analysed as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Short term leases	45,196	46,382
Medium term leases	5,113	5,266
	50,309	51,648

20. GOODWILL – GROUP

The main changes in the carrying amounts of goodwill resulted from the acquisition of certain subsidiaries as well as the impairment of previously recognised goodwill. The net carrying amount of goodwill can be analyzed as follows:

	2006	**2005**
	HK$'000	*HK$'000*
At 1 January		
Gross amount	4,816	5,838
Effect of changes in accounting policy resulting from adoption of HKFRS 3	–	(1,022)
As restated	4,816	4,816
Accumulated amortisation and impairment	–	(5,838)
Effect of changes in accounting policy resulting from adoption of HKFRS 3	–	1,022
As restated	–	(4,816)
Gross amount	4,816	4,816
Accumulated impairment	(4,816)	(4,816)
Net carrying amount at 31 December	–	–

With adoption of the transitional provision of HKFRS 3 "Business Combination" by the Group, goodwill arising from business combinations prior to 2001 had been eliminated against the consolidated reserves. The remaining amounts of goodwill in the consolidated reserves, arising from the acquisition of subsidiaries, was HK$15,300,000 (2005: HK$15,300,000).

With adoption of HKFRS 3, accumulated amortisation of the goodwill, arising after 2001, as at 1 January 2005 had been debited to the gross amount of goodwill.

In 2005, the directors considered that the carrying amount of goodwill attributable to the timber business of HK$4,816,000 was fully impaired due to the consecutive losses in recent years and the directors expected that further losses would be incurred by the timber business. Accordingly, an impairment of goodwill of HK$4,816,000 was charged to the consolidated income statement for the year ended 31 December 2005. There were no changes in the impairment and carrying amount of goodwill during the year ended 31 December 2006.

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2006	**2005**
	HK$'000	*HK$'000*
Unlisted investments, at cost	128,174	128,174
Due from subsidiaries	552,624	473,300
	680,798	601,474
Less: Provision for impairment	(303,703)	(303,703)
	377,095	297,771

Amounts due from subsidiaries are unsecured, interest-free and are not expected to be repaid within the next twelve months. These balances are classified as non-current assets accordingly.

Particulars of the principal subsidiaries at 31 December 2006 are as follows:

Name	Place/ country of incorporation	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held Directly	Indirectly	Principal activities and place of operation
Qingapen Limited	Hong Kong	HK$2	100	–	Property investment in the PRC
China Haidian Commercial Network Services Limited	Hong Kong	HK$2	100	–	Property investment in the PRC
Haidian-Creation International Limited	British Virgin Islands	US$1	100	–	Investment holding in Hong Kong
Sure Best Management Limited	Hong Kong	HK$1	100	–	Property investment in Hong Kong
EBOHR Luxuries International Co., Limited ("Ebohr")	PRC	HK$30,000,000	–	100	Manufacture and sale of watches and timepieces in the PRC
Seti Timber Industry (Shenzhen) Co., Ltd	PRC	US$45,525,860	–	100	Manufacture and sale of timber products 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 also 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 be engaged in the manufacture and the sale of computer casing products with third parties. Due to the non-disclosure of certain material transactions by the Sunto's management and its minority shareholder, the Group had reasonable doubts as to the reliability of the financial information provided by Sunto. The directors of the Company are of the opinion that Sunto is practically in a management dead-lock, and the recoverability of the Group's investment in Sunto and the amount due from Sunto of HK$60.5 million in aggregate is doubtful. Accordingly, the Group's interest in this unconsolidated subsidiary has been fully provided for since 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.

22. DUE FROM DISPOSAL GROUP – COMPANY

Amounts due from the Disposal Group are unsecured, interest-free and are not expected to be repaid within the next twelve months. These balances are classified as non-current assets accordingly.

23. INTERESTS IN A JOINTLY-CONTROLLED ENTITY – COMPANY

	2006	**2005**
	HK$'000	*HK$'000*
Unlisted investments, at cost	46,030	46,030
Due from a jointly-controlled entity	173	169
	46,203	46,199

Amounts due from the jointly-controlled entity are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entity at 31 December 2006 are as follows:

Name	**Place/ country of incorporation**	**Percentages of ownership interest**	**Percentage of voting power**	**Percentage of profit sharing**	**Principal activities and place of operation**
Fuzhou Dartong Mechanic and Electronic Company Limited ("Fuzhou Dartong")	PRC	49	50	49	Manufacture and sale of enamelled copper wire in the PRC

Fuzhou Dartong is the jointly controlled entity held by the Group. Its financial statements have been incorporated into the Group's consolidated financial statements using proportionate consolidation. The aggregate amounts relating to Fuzhou Dartong that have been included in the Group's consolidated financial statements are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Non-current assets	36,789	35,697
Current assets	128,484	12,422
Current liabilities	(112,494)	(1,616)
Net assets	52,779	46,503
Revenue	196,413	18,333
Other revenue and financial revenue	9,515	1,777
Total revenue	205,928	20,110
Total costs and expenses	(201,641)	(20,723)
Income tax	–	–
Profit/(loss) after income tax	4,287	(613)

Fuzhou Dartong has given the following guarantee for a bank loan granted to Citychamp, the joint venturer.

	2006	2005
	HK$'000	*HK$'000*
Guarantee for bank loan to a joint venturer	25,000	–

24. INTERESTS IN AN ASSOCIATE

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January				
Acquisition of an associate - Unlisted investment at cost	24,244	–	24,244	–
Share of an associate's results				
– excess of the Group's share of the net identifiable assets over cost of acquisition	4,725	–	–	–
– profit before income tax	486	–	–	–
– income tax	(183)	–	–	–
Balance at 31 December	29,272	–	24,244	–

The excess of the Group's share of the net identifiable assets over cost of acquisition of HK$4,725,000 has been included in the share of results of an associate.

Particulars of the associate at 31 December 2006 are as follows:

Name	Particulars of equity held	Country of incorporation	Percentage of interest held
Jiangsu Dartong Qingjiang M&E Co., Ltd ("Jiangsu Dartong")	Paid up capital of RMB25,000,000	PRC	25

The summarised financial information of the Group's associate extracted from its management accounts for the year ended 31 December 2006 are as follows:

	2006	2005
	HK$'000	*HK$'000*
Assets	352,335	–
Liabilities	235,525	–
Revenues	935,338	–
Profit for the year	13,661	–

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investment, at cost	3,477	3,477
Provision for impairment	(3,477)	(3,477)
	–	–

The Group originally held 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 in 2003. In 2004, the Group disposed of its 24.5% equity interest in Hefei Everbright to independent third parties at a consideration of HK$2,980,000. In accordance with the subcontracting agreement 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" in 2004. 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 Heifei Everbright was designated as available-for-sale investment upon adoption of HKAS 39.

Having regard to the deteriorating financial positions of Hefei Everbright since the year ended 31 December 2005, the directors are in the opinion that the investment in Hefei Everbright is not likely to be recoverable and accordingly, an impairment loss of HK$3,477,000 had been charged to consolidated income statement in 2005. As the financial position of Hebei Everbright continued to be deteriorating during the year, there was no change in the accumulated impairment as at 31 December 2006.

26. PROPERTIES UNDER DEVELOPMENT – GROUP

	2006	2005
	HK$'000	*HK$'000*
Cost as at 31 December	–	555,509
Transferred to properties held for sale	–	(70,330)
Portion classified as current assets	–	(194,133)
Non-current assets	–	291,046

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. Deposits received from buyers of the Group's properties under development in respect of which no profit had been recognised were carried as a current liability at the balance sheet date.

Properties under development and held for sale are all directly associated with the Disposal Group and have been transferred to assets in disposal group classified as held for sale as at 31 December 2006 as described in Note 11.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits for the acquisition of:				
Associates *(Note a)*	27,000	38,054	27,000	27,000
Investment property *(Note b)*	–	9,845	–	–
Other receivables	20,348	10,509	5,183	1,183
Prepayments	26,290	24,381	190	1,333
Deposits	1,735	2,551	1,614	1,619
Carrying amount at 31 December	75,373	85,340	33,987	31,135
Less: Current portion	(33,391)	(37,212)	(6,987)	(4,135)
Non-current portion	41,982	48,128	27,000	27,000

Note a: In 2004, the Company and Jing Guan 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. Deposits of HK$27,000,000 and HK$11,054,000 were paid by the Company and Jing Guan respectively to the Vendors in 2005.

In March 2007, the Company and Jing Guan have further extended the completion date of the proposed acquisition to 28 July 2007 as the approval from the local authorities have not been obtained. Further details of the proposed acquisition were set out in the Company's various press announcements made during the period from 2 December 2004 to 29 March 2007 and the circular dated 25 April 2005 to the Company's shareholders. As at 31 December 2006, the deposit of HK$27,000,000 paid by the Company is stated as a non-current asset whilst the deposit of HK$11,161,000 paid by Jing Guan has been classified under "assets in disposal group classified as held for sale".

Note b: In 2005, the Group entered into a sale and purchase agreement for the acquisition of an investment property in Hong Kong at a consideration of HK$98,426,000 and a deposit of HK$9,845,000 was paid in 2005. During the year ended 31 December 2006, the acquisition has been completed and the deposit is transferred to the cost of the investment properties (Note 18).

28. INVENTORIES – GROUP

	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	32,859	16,746
Work in progress	12,822	9,384
Finished goods	68,743	79,792
	114,424	105,922

29. TRADE AND BILLS RECEIVABLES – GROUP

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 three months (2005: one month extending up to three months), for major customers except for customers of the Group's discontinued operations where settlements were 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.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	**2005**
	Rmb'000	*Rmb'000*
Renminbi ("RMB")	90,937	26,299

The ageing analysis of the trade and bills receivables (including amounts due from related party of trading in nature as disclosed in Note 44.1(vi)) as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
1 to 3 months	90,846	24,827
4 to 6 months	40	–
7 to 12 months	51	461
	90,937	25,288

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		**Company**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investment in Hong Kong, at market value	48,765	44,210	37,627	28,297

The financial assets at fair value through profit or loss are held for trading purposes.

31. DUE FROM MINORITY EQUITY HOLDERS – GROUP

Amounts due from the minority equity holders in 2005 were unsecured, interest-free. The balance has been repaid during the year.

32. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	39,836	339,439	3,812	4,188
Time deposits with original maturity less than three months	4,892	50,123	4,892	26,550
	44,728	389,562	8,704	30,738
Less: Deposits pledged for short term banking facilities	(4,892)	(18,653)	(4,892)	(7,500)
Cash and cash equivalents	39,836	370,909	3,812	23,238

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.

Included in the cash and bank balances of the Group is HK$35,612,000 (2005: HK$358,421,000) of bank balances denominated in RMB placed with banks in the PRC. 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.

33. TRADE PAYABLES – GROUP

The ageing analysis of the trade payables as at balance sheet dates is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 – 30 days	45,155	97,763
31 – 60 days	727	2,811
61 – 90 days	–	935
Over 90 days	801	7,251
	46,683	108,760

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	**2005**
	HK$'000	*HK$'000*
Denominated in RMB	46,683	113,110

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

34. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	12,322	16,414	1,989	2,740
Deposits received	–	7,616	–	–
Other payables	46,301	74,105	10,858	10,857
	58,623	98,135	12,847	13,597

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

35. BORROWINGS

		Interest rate per annum	Group		Company	
			2006	**2005**	**2006**	**2005**
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current						
Bank borrowings	Floating	6.3%	55,348	317,308	55,348	–
Current						
Bank borrowings	Floating	5.85% – 6.3%	52,652	–	3,652	–
Bank borrowings	Fixed	5.5% – 7%	63,701	96,154	–	–
			116,353	96,154	3,652	–
Total borrowings			171,701	413,462	59,000	–

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

(i) the pledge of the Group's time deposits amounting to HK$Nil (2005: HK$18,653,000);

(ii) a legal charge over certain of the Group's prepaid land lease payments and buildings situated in the PRC (Notes 19 and 17);

(iii) a legal charge over certain of the Group's investment properties (Note 18); and

(iv) guarantees granted by a director of the Company and certain independent third parties.

As at 31 December 2006, the Group's bank loans were repayable as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	116,353	96,154	3,652	–
In the second year	3,652	317,308	3,652	–
In the third to fifth year	10,955	–	10,955	–
Repayable within five years	130,960	413,462	18,259	–
After the fifth year	40,741	–	40,741	–
	171,701	413,462	59,000	–

36. DUE TO A RELATED COMPANIES

Amount due to related companies are unsecured, interest bearing at rates ranging between 5.022% and 5.58% per annum and repayable on 18 December 2007, amounted to HK$180,000,000 (2005: HK$134,000). One of the related companies has undertaken to extend the repayment date of the amount of HK$144,000,000 due to it from the Group to 18 December 2008 if the Group is not financially viable to make the repayment on or before 18 December 2007.

37. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement on the deferred tax liabilities/(assets) is as follows:

Deferred tax liabilities

	2006	**2005**
	HK$'000	*HK$'000*
Balance at 1 January	794	–
Exchange difference	32	–
Deferred tax charged to the results of the Disposal Group during the year	618	794
Transferred to liabilities directly associated with disposal group classified as held for sale *(Note 11)*	(1,444)	–
Balance at 31 December	–	794

Deferred tax assets

	2006	**2005**
	HK$'000	*HK$'000*
Balance at 1 January	1,021	1,000
Exchange difference	41	21
Balance at 31 December	1,062	1,021

As at 31 December 2006, the Group has tax losses arising in Hong Kong of HK$76,221,000 (2005: HK$72,710,000), 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 year, 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.

38. DEFERRED INCOME

	2006	**2005**
	HK$'000	*HK$'000*
Balance at 1 January	177,906	–
Additions	–	177,906
Exchange difference	7,117	–
Transferred to liabilities in disposal group classified as held for sale *(Note 11)*	(185,023)	–
Balance at 31 December	–	177,906

In 2005, the Group received government grants of HK$177,906,000 which represented the 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, the project was still in progress and the related costs incurred by the Group 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.

No government grants were recognised as income during the year ended 31 December 2006. As at that date, government grants have all been classified as liabilities directly associated with assets in disposal group classified as held for sale (Note 11).

39. SHARE CAPITAL

	2006		**2005**	
	Number of shares		**Number of shares**	
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	2,000,000	200,000	2,000,000	200,000

	Number of shares	Ordinary shares
	'000	*HK$'000*
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	1,544,831	154,483
Placement of new shares	247,200	24,720
At 31 December 2006	1,792,031	179,203

On 8 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.

40. SHARE-BASED EMPLOYEE COMPENSATION

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 year, no share options were granted or exercised and there were no outstanding options at 31 December 2006 (2005: Nil).

41. RESERVES

Group

The amounts of the Group's reserves and the movements therein during the year 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 Company passed on 29 September 2005, the share premium account was cancelled and utilised to eliminate the accumulated losses of the Group for the year ended 31 December 2005.

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 the directors of these companies, in accordance with their joint venture agreements and/or articles of association. The statutory reserve fund is non-distributable and has restricted use.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated reserves as explained in Note 20 to the financial statements.

Company

	Share premium account	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*
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	23,700	–	23,700
Net loss for the year *(Note 12)*	–	(6,824)	(6,824)
At 31 December 2006	23,700	261,205	284,905

Pursuant to a shareholders' special resolution of the Company passed in September 2005, the share premium account of the Company was cancelled and utilised to eliminate the accumulated losses of the Company for the year ended 31 December 2005.

42. OPERATING LEASE COMMITMENTS

42.1 At 31 December 2006, the total future minimum sublease payments expected to be received by the Group under non-cancellable subleases by the Group is as follows:

	2006	2005
	HK$'000	*HK$'000*
Remaining group:		
Within one year	9,068	6,457
In the second to fifth years	30,335	19,186
After five years	49,006	51,301
	88,409	76,944
Disposal group:		
Within one year	–	–
In the second to fifth years	–	–
After five years	–	–
	–	–
Total	88,409	76,944

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

42.2 At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Remaining group:				
Within one year	4,787	5,008	4,189	3,987
In the second to fifth years	2,192	5,602	–	3,740
After five years	–	778	–	–
	6,979	11,388	4,189	7,727
Disposal group:				
Within one year	451	661	–	–
In the second to fifth years	–	–	–	–
After five years	–	–	–	–
	451	661	–	–
Total	7,430	12,049	4,189	7,727

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

In addition, the Group is required to pay annual fee 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. During the year, an annual fee of HK$420,000 (2005: HK$397,000) was charged to the consolidated income statement of the Group.

43. CAPITAL COMMITMENTS

Group

	2006 *HK$'000*	2005 *HK$'000*
Authorised, but not contracted for		
Remaining group:		
Acquisition of an associate	–	24,038
Disposal group:		
Construction work in respect of properties under development	–	1,745,145
	–	1,769,183
Contracted, but not provided for		
Remaining group:		
Acquisition of Beijing Haidian *(Note 27)*	65,621	64,731
Purchases of property, plant and equipment	–	10,332
Purchases of an investment property	–	88,581
	65,621	163,644
Disposal group:		
Acquisition of Beijing Haidian *(Note 27)*	25,934	25,165
Construction work in respect of properties under development	106,828	75,523
	132,762	100,688
Total commitments, contracted but not provided for	198,383	264,332
Total capital commitments	198,383	2,033,515

Company

	2006 *HK$'000*	2005 *HK$'000*
Authorised, but not contracted for		
Acquisition of an associate	–	24,038
Contracted, but not provided for		
Acquisition of Beijing Haidian *(note 27)*	65,621	64,731
Total capital commitments	65,621	88,769

44. RELATED PARTY TRANSACTIONS

44.1 Other than those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(i) Sales of goods

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods to the joint venturer	195,061	18,332

Sales to the joint venturer of the Group's jointly-controlled entity, of which a director of the Company is also a director.

(ii) Purchases of goods

	2006	**2005**
	HK$'000	*HK$'000*
Purchases of goods from the joint venturer	966	–

Purchases from the joint venturer of the Group's jointly controlled entity, of which a director of the Company is also a director.

(iii) Purchases of plant and machinery

	2006	**2005**
	HK$'000	*HK$'000*
Purchases of plant and machinery from joint venturer	352	11,703

Purchases of plant and machinery from the joint venturer of the Group's jointly controlled entity, of which a director of the Company is also a director.

(iv) Rental expenses

	2006	**2005**
	HK$'000	*HK$'000*
Rental expenses paid to minority equity holders	–	305

(v) Rental income

	2006	**2005**
	HK$'000	*HK$'000*
Rental income received	642	626

The rentals received from a company of which a director of the Company is also directors were charged at HK$52,000 per month on average (2005: HK$52,000).

(vi) Outstanding balances arising from sales of goods included in trade and other receivables as appropriate:

	2006	**2005**
	HK$'000	*HK$'000*
Receivable from related party		
– Jointly-controlled entity	80,522	1,917

(vii) ***Acquisition of associate***

In April 2006, the Group entered into an agreement with the joint venturer and an independent third party for the acquisition of 25% equity interest in Jiangsu Dartong from these two parties for a consideration of HK$24,244,000 (Note 24). In September 2006, the acquisition was completed and Jiangsu Dartong has been accounted for as an associate of the Group using the equity method since that date.

44.2 Key management personnel compensation:

Included in staff costs are key management personnel compensation and comprises the following categories:

	2006	**2005**
	HK$'000	*HK$'000*
Short term employee benefits	8,132	8,466
Post-employment benefits	96	107
	8,228	8,573

The key management represents the executive directors of the Group. Further details of directors' emoluments are included in Note 16 to the financial statements.

45. 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, financial assets at fair value through profit or loss, 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 has reviewed and agreed policies for managing each of these risks and they are summarised below.

45.1 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 70% of its interest-bearing borrowings at fixed interest rates. The Group currently had not implemented any procedures to hedge its cash flow interest rate risk.

45.2 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. Approximately 14% (2005: 6%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 12% (2005: 5.2%) of costs and expenses are denominated in other than the functional currency of the operating units incurring these costs and expenses. The Group currently had not implemented any procedures to hedge its foreign currency risk.

45.3 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 and financial assets 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.

45.4 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. The Group's policy is that not more than 75% of borrowings should mature in any 12-month period. 73.4% (2005: 23.3%) of the Group's debts would mature in less than one year as at 31 December 2006.

46. FINANCIAL GUARANTEE CONTRACTS

The Group's discontinued operations 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$328 million (2005: HK$242 million) in aggregate. As at the balance sheet date, mortgage loans in aggregate of approximately HK$265 million (2005: HK$200 million) were utilised by the buyers of the Group's properties under development and properties for sale. At the balance sheet date, no provision for the Group's obligation under the guarantee contract has been made as the directors considered that it was not probable that the banks would exercise the guarantee for repayment of the loans when they are in default.

The Group's jointly controlled entity has executed guarantees amounting to approximating HK$25,000,000 (2005: HK$Nil) with respect to bank loans to the joint venturer (Note 23). Under the guarantee, the Group's jointly controlled entity would be liable to pay the bank if the bank is unable to recover the loan. At the balance sheet date, no provision for the obligation of the Group's jointly controlled entity under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

47. CONTINGENT LIABILITIES

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

48. POST BALANCE SHEET EVENTS

48.1 On 15 February 2007, the Group entered into an acquisition agreement with Citychamp Industries Limited ("Citychamp Industries"), whereby the Group will purchase from Citychamp Industries two properties in Hong Kong for a cash consideration of HK$9,950,000 in aggregate. The controlling shareholder of Citychamp Industries is the son of a director of the Company. Further details of which are set out in the Company's press announcement dated 15 February 2007.

48.2 On 29 March 2007, the Group agreed with the two independent third parties to further extend the completion date from 28 March 2007 to 28 July 2007 in respect of the proposed acquisition of an aggregate of 21 % equity interests in Beijing Haidian (Note 27).

48.3 On 11 April 2007, the approval from the China Securities Regulatory Commission was obtained for the allotment and issue of the Consideration Shares to the Group by Citychamp and waiving all such mandatory general offer obligations as a result of the transaction as described in Note 11.

49. COMPARATIVE AMOUNTS

As further explained in Notes 1 and 3.27 to the financial statements, due to the adoption of HKFRS 5 during the current year, the comparative figures relate to the discontinued operations for the year ended 31 December 2006 have been re-presented.

3. INDEBTEDNESS

Borrowings

At the close of business on 30 November 2007, 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$283.2 million, which are current bank borrowings of approximately HK$114.2 million and amount due to related companies of approximately HK$169.0 million. The Group's bank borrowings of approximately HK$114.2 million were secured by legal charges over certain of the Group's leasehold buildings and leasehold land situated in the PRC; and guarantees granted by a Director and certain independent third parties.

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 30 November 2007.

Disclaimer

As at the close of business on 30 November 2007, 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 note 47 to the financial statements of the Group for the year ended 31 December 2006 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 30 November 2007 up to the Latest Practicable Date.

4. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that following the completion of the Land Resumption and the Joint Arrangement, 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.

5. MATERIAL CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group have been made up.

6. FINANCIAL AND TRADING PROSPECT OF THE GROUP

Robust economic growth, strong capital inflows and rising incomes in the next few years in the PRC will benefit the Group's watches and timepieces, enamelled copper wires and real estate investment segments.

With a sizable land bank in different cities in the PRC, Citychamp will perform well and make significant contribution to the Group in the years to come. The Group is actively looking for new real estate projects in the Southern PRC.

Leveraging on its market leading position and comprehensive sales network, EBOHR Luxuries will introduce premium products addressing the huge demand for such products in the PRC. These products will further strengthen sales and net profit to EBOHR Luxuries in the years to come.

After improving the quality of products, Fuzhou Dartong and Jiangsu Dartong have managed to attract more leading local and multinational customers, who are important for the long term profitability. The Group is actively seeking further growth of the enamelled copper wires business by acquiring and teaming up with its peers.

The performance of the real estate investment portfolio will improve due to the higher rental income to be generated.

The reversion of the PRC Land by Seti is expected to generate significant cashflow to the Group. The termination of the timber business will prevent Seti from incurring further loss for the Group and most importantly, provide funds for developing other business segments of the Group.

The Group's various segments are bearing fruit. Recurring profit of the Group will increase gradually driven by the increasing dividends from Citychamp, the growth of EBOHR Luxuries, Fuzhou Dartong and Jiangsu Dartong, the increase in rental income and the contributions from new real estate development projects. The Group will continue to grow by developing its existing businesses and expanding rapidly the real estate development and investment businesses.

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 PRC Land as at 20 November 2007.

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

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

27 December 2007

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 (“the Company”) for us to value the land parcel (“the Land”) located at No. 93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (“the PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the market value of the property as at 20 November 2007 (referred to as the “valuation date”).

It is our understanding that this valuation is for major transaction.

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

Basis of Valuation

The valuation of such property 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 had each acted knowledgeably, prudently and without compulsion.”

Valuation Methodology

The property is 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 analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

In the course of our valuation, the residual method 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. The gross development value is the capital value of the proposed development when completed which is arrived at by valuing the completed development based on sales prices realized or market prices of comparable properties.

Assumptions

Our valuation has been made on the assumption that the owner sells the property on the open market in its existing state 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.

With regard to the property held for development, we have assumed that they will be developed immediately after successful site assembly, completion of negotiation with government or obtaining approval of building plans.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we assumed that no encroachment or trespass exists, unless noted in the report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other special assumptions of the valuation, if any, have been stated out in the footnote of the valuation certificate for the property.

Titleship Investigation

We have been provided with copies of legal documents regarding the property under valuation. However, we have not searched the original documents to verify ownership or to verify the existence of any amendments to the documents which do not appear on the copies handed to us.

In the course of our valuation, we have relied upon the legal opinions as stated in the title report given by 廣東景達律師事務所 (the "PRC Lawyer") in relation to the legal title to the property located in the PRC under valuation.

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 set out in this report.

Limiting Conditions

We have not carried out detailed site measurements to verify the correctness of the area in respect of the Land but have assumed that the area shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspection for the Land. 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, lettings, construction costs, rentals, site and permissible floor areas and in the identification of the Land. 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 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 its value.

Where the property is located in a relatively under-developed market such as the PRC those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised its professional judgment in arriving at the value, investors are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

Opinion of Value

The valuation certificate has already shown the capital value of the property.

Remarks

Our valuation has been prepared in accordance with generally accepted valuation procedures. In valuing the property, 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.

Valuation of the property is denominated in Chinese Renminbi (RMB).

The valuation certificate is enclosed herewith.

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

VALUATION CERTIFICATE

PROPERTY HELD BY THE COMPANY FOR DEVELOPMENT

Property	Description and tenure	Particulars of Occupancy	Market Value as at 20 November 2007
Land (Lot no. T101–0007) located at No. 93 Yue Liang Wan Main Road Nanshan District Shenzhen Guangdong Province The PRC	The property comprises a parcel of land (the "Land"), with a land area of approximately 101,576.70 square metres. On the Land, there are 11 blocks of buildings ("the Buildings") with a total gross floor area of approximately 48,083.30 square metres and various structures erected in between 1988 and 1994. The structures include ancillary workshops, boundary walls, chimney, oil tanks, water tanks, entrance gates, fire services, greenery works, internal roads and etc. are found in the property. The property is currently held for a term of 30 years commencing from 22 December 1988 and expiring on 22 December 2018. The valuation of the property is subject to an agreement and a supplementary agreement between Shenzhen Nanshan People's Government and the Company.	As at the date of inspection, the property was occupied as timber products manufacturing plant.	RMB626,500,000 *(Please see notes (iv) and (v) below for the Market Value of Remaining Land and assumptions made)*

Notes:

(i) As stipulated in 10 sets of Real Property Ownership Certificate dated 19 June 2006 issued by the People's Government of Shenzhen, the land use rights of the Land and the building ownership rights of 10 blocks of the Buildings (with a total gross floor area of approximately 45,451.66 square metres) are held by 森帝木業(深圳)有限公司 ("Seti", a wholly-owned subsidiary of the Company) for a term of 30 years commencing on 22 December 1988 and expiring on 22 December 2018 for industrial and warehouse uses.

(ii) According to a Construction Planning Approval dated 26 December 1996 and a Construction Works Commencement Permit dated 3 June 1997, an office building with gross floor area of approximately 2,631.64 square metres was allowed to be built on the Land.

(iii) Pursuant to an Agreement and a Supplementary Agreement entered into between Shenzhen Nanshan People's Government and China Haidian Holdings Limited ("the Company") dated 28 September 2007, it was mutually agreed that:

(a) 50% of the Land, that is 50,788.35 square metres, will be resumed by Shenzhen Nanshan People's Government with nil consideration;

(b) the remaining 50% of the Land, that is 50,788.35 square metres ("the Remaining Land"), will put to tender or auction publicly with land use changed from industrial to residential, hotel and office purposes with the following conditions;

(1) Proposed gross floor area for residential portion should not be less than 91,419.05 square metres;

(2) Proposed gross floor area for hotel and office portions should not be less than 114,273.81 square metres;

(3) Land use rights term will be restarted from the date of land use right grant contract to be signed.

(c) the Company will be entitled a compensation fee equivalent to 89.5% of the price realized from the auction or tender;

(d) the Company will be responsible for the demolition of the buildings on the Land.

(iv) The valuation of property held by the Company is our estimate of the compensation fee equivalent to 89.5% of the price realized from the auction or tender of the Remaining Land. No value has been assigned for the parts of the Land which will be retained by Shenzhen Nanshan People's Government as mentioned in (iii)(a) above.

(v) Our valuation of the Remaining Land has been made with the following assumptions:

(a) The land resumption process will be completed with no impediments;

(b) The price realized from the auction or tender will reflect the market value of the Remaining Land which is estimated to be RMB700,000,000;

(c) The proposed gross floor areas mentioned in (iii) will be built on the Remaining Land;

(d) The agreements mentioned in (iii) will be executed, the terms and conditions form parts of our valuation basis;

(e) The Remaining Land will held for a term of 70 years from residential use and 40 years for commercial use commencing from the date of the Land Use Rights Certificate to be issued.

(vi) We understand that the Company may rely on our valuation of the Remaining Land for property redevelopment. We have to emphasize that, in a public auction or tender, there exists a chance that the Company may not be successful in obtaining the land use rights of the Remaining Land.

(vii) Opinions of the PRC Lawyer are summarized as follows:

(a) Seti is the legal owner of the land use rights of the Land with land area of 101,576.70 square metres for a term expiring on 22 December 2018 for industrial and warehouse uses;

(b) The Agreement and the Supplementary Agreement are valid and legally binding;

(c) The execution of the Agreement and the Supplementary Agreement will have no legal impediments.

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)*	669,555,515	37.4%

Note: These Shares were owned by Sincere View International Limited, which is owned as to 80% 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

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 Shareholder	**Long position**	**Percentage of shareholding**
Sincere View International Limited	669,555,515	37.4%
Mr. Hon Kwok Lung *(Note)*	669,555,515	37.4%
Ms. Lam Suk Ying *(Note)*	669,555,515	37.4%

Note: As Sincere View International Limited is 80% owned by Mr. Hon Kwok Lung, Mr. Hon Kwok Lung is deemed to be interested in the 669,555,515 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 669,555,515 Shares held by Sincere View International Limited under Part XV of the SFO.

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 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;

(b) 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;

(c) 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;

(d) 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;

(e) the agreement dated 19 July 2006 which was superseded in its entirety by a revised agreement dated 3 August 2006 entered into between Starlex Limited, a wholly-owned subsidiary of the Company, and Citychamp in relation to the disposal of the Company's entire equity interest in Jing Guan for a consideration of RMB360 million (equivalent to approximately HK$346.2 million) satisfied by Citychamp by way of the allotment and issue of 72.72 million new shares of Citychamp and RMB360,000 (equivalent to approximately HK$34,615) in cash;

(f) the sale and purchase agreement dated 15 February 2007 entered into between Wisdom Power Property Limited, a wholly-owned subsidiary of the Company, and Citychmap Industries Limited, a connected person of the Company, in relation to the acquisition of a residential unit at Flat B, 21st Floor, Jolly Villa, No. 8 Tai Hang Road, Hong Kong and the car parking space No. 32 on 3rd Floor of the same building by Wisdom Power Property Limited for a consideration of HK$9,950,000;

(g) the Land Resumption Agreement; and

(h) the Joint Arrangement 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

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. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

No contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had, or has had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Company were made.

8. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given opinions or advice, which are contained or referred to in this circular:

Names	**Qualifications**
Greater China Appraisal Limited	Professional property valuer
廣東景達律師事務所 (Jianda Law Firm)	PRC legal advisers

(b) As at the Latest Practicable Date, Greater China Appraisal Limited and 廣東景達律師事務所 (Jianda Law Firm) 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) Both Greater China Appraisal Limited and 廣東景達律師事務所 (Jianda Law Firm) have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their respective letters and reports (as the case may be) and references to their names in the form and context in which they respectively appear.

(d) Both Greater China Appraisal Limited and 廣東景達律師事務所 (Jianda Law Firm) 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 2006, the date to which the latest published audited financial statements of the Company have been made up.

9. GENERAL

(a) The company secretary and qualified accountant of the Company is Mr. Fong Chi Wah, who is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of Certified Practising Accountant (Australia) and a Chartered Financial Analyst.

(b) 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.

(c) The share registrar and transfer office of the Company is Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text.

10. 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 January 2008:

(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 2006;

(d) the valuation report of the PRC Land prepared by Greater China Appraisal Limited, the text of which is set out in appendix II to this circular;

(e) the written consents referred to in the section headed "Experts and consents" in this appendix; and

(f) 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 2006.

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 Marina Room II, 2nd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 15 January 2008 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions of the Company:

1. "**THAT** the conditional agreement dated 3 December 2007 (the "Land Resumption Agreement") entered into between Seti Timber Industry (Shenzhen) Co., Ltd. and 深圳市南山區人民政府 (People's Government of the Nanshan District of the Shenzhen Municipal of the Guangdong Province of the People's Republic of China) (the "Shenzhen Government") in relation to the resumption of the land parcel located at 深圳市南山區月亮灣大道93號 (93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China) by the Shenzhen Government as contemplated under the Land Resumption 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 **THAT** 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 Land Resumption Agreement and the transactions contemplated thereunder."

2. "**THAT** the conditional agreement dated 3 December 2007 (the "Joint Arrangement Agreement") entered into between Seti Timber Industry (Shenzhen) Co., Ltd. and 冠城大通股份有限公司 (Citychamp Dartong Company Limited) ("Citychamp") pursuant to which Citychamp agreed to contribute cash for the project to restore the land parcel located at 深圳市南山區月亮灣大道93號 (93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China) as contemplated under the Joint Arrangement Agreement, a copy of which has been produced to this meeting marked "B" and signed by the Chairman of this meeting for identification purpose, be and is hereby approved, ratified and confirmed; and **THAT** 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 Joint Arrangement Agreement and the transactions contemplated thereunder."

By Order of the Board
Hon Kwok Lung
Chairman

Hong Kong, 27 December 2007

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.