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, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

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 AND CONNECTED TRANSACTION AND APPLICATION FOR WHITEWASH WAIVER

Financial Adviser to China Haidian Holdings Limited

Quam Capital Limited

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

Optima Capital Limited

A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 17 of this circular. A letter from Optima Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in respect of the Acquisition and the Whitewash Waiver, is set out on pages 18 to 35 of this circular.

A notice convening the EGM to be held at Tang Room I, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Tuesday, 30 September 2008 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 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, Tricor 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.

12 September 2008

CONTENTS

DEFINITIONS

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

"Acquisition"	acquisition of the entire issued share capital of Jia Cheng by the Company under the Agreement
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Actor Investments"	Actor Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Jia Cheng
"Agreement"	the conditional agreement dated 20 August 2008 entered into among the Company, the Vendor and the Guarantor in respect of the Acquisition
"Announcement"	the announcement of the Company dated 25 August 2008 in relation to the Acquisition and the Whitewash Waiver
"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"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 Main Board of the Stock Exchange
"Completion"	completion of the Acquisition
"connected person"	has the meaning ascribed thereto in the Listing Rules and the word "connected" shall be construed accordingly
"Consideration"	the consideration payable by the Company for the Acquisition
"Consideration Share(s)"	new Share(s) to be allotted and issued by the Company in settlement of the Consideration pursuant to the Agreement
"Director(s)"	the director(s) of the Company

"EGM"	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the transactions contemplated under the Agreement, the issue of the Consideration Shares and the Whitewash Waiver
"Enlarged Group"	the Group, Jia Cheng, Actor Investments, Rossini and Ocean Montres SA (Ocean Watches Ltd.)
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
"Fujian Fengrong"	福建豐榕投資有限公司 (Fujian Fengrong Investment Company Limited), a company established in the PRC and is beneficially owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively
"Group"	the Company and its subsidiaries
"Guarantor"	Mr. Hon
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the committee of the Board, comprising the independent non-executive Directors that has been formed to advise the Independent Shareholders on the terms of the Agreement and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than Sincere View, its ultimate beneficial owners, their respective associates and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) and those who (if any) are involved in or interested in the Acquisition and the Whitewash Waiver
"Jia Cheng"	Jia Cheng Investment Limited, a company incorporated in the British Virgin Islands with limited liability
"Jia Cheng Group"	Jia Cheng and its subsidiaries
"Latest Practicable Date"	9 September 2008, 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
"Long Stop Date"	31 December 2008 or such other date as the parties to the Agreement may agree in writing
"Mr. Hon"	Mr. Hon Kwok Lung, an executive Director
"Ms. Lam"	Ms. Lam Suk Ying, the wife of Mr. Hon
"Ms. Lu"	Ms. Lu Xiaojun, a shareholder of Fujian Fengrong
"Ms. Sit"	Ms. Sit Lai Hei, a shareholder of Fujian Fengrong and a non-executive Director
"Optima Capital"	Optima Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"PRC"	the People's Republic of China
"Relevant Period"	the period commencing on 25 February 2008 (being the date falling six months immediately prior to the date of the Announcement) and ending on the Latest Practicable Date
"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$1.14
"Rossini"	珠海羅西尼錶業有限公司 (Zhuhai Rossini Watch Industry Ltd.), a company established in the PRC with limited liability
"Rossini Group"	Rossini and its subsidiary
"SFC"	the Securities and Futures Commission of Hong Kong
"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 share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)

"Sincere View"	Sincere View International Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 80% by Mr. Hon and 20% by Ms. Lam
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Vendor"	Full Day Limited, a company incorporated in the British Virgin Islands with limited liability
"Whitewash Waiver"	a waiver from the obligation to make a mandatory offer under Note 1 on dispensations from Rule 26 of the Takeovers Code as a result of the issue of the Consideration Shares
"%"	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:
Unit 1902–04
Level 19
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

12 September 2008

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

It was announced that on 20 August 2008, the Company, the Vendor and the Guarantor entered into the Agreement pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of Jia Cheng for a consideration of HK$525 million to be satisfied entirely by the allotment and issue of 1,750 million Consideration Shares at HK$0.30 each.

Upon the issue of the Consideration Shares, the interest of the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) in the Company would increase from approximately 38.14% to approximately 68.70%. As the interest of the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will increase by more than 2%, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will be obliged to make an unconditional mandatory offer for all the issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26.1 of the Takeovers Code. An application has been made to the Executive by the Vendor for the Whitewash Waiver.

The purpose of this circular is to give you, among other things, (i) further details of the Acquisition and the Whitewash Waiver; (ii) a letter from the Independent Board Committee; (iii) a letter from Optima Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the Whitewash Waiver; and (iv) the notice of the EGM.

THE AGREEMENT

Date

20 August 2008

Parties

Purchaser:	the Company
Vendor:	Full Day Limited
Guarantor:	Mr. Hon

The Vendor is an investment holding company ultimately beneficially wholly-owned by Mr. Hon, an executive Director. Mr. Hon and Ms. Lam wholly own Sincere View, the controlling Shareholder. Mr. Hon is the sole director of the Vendor.

Subject matter

Pursuant to the Agreement, the Company agreed to acquire and the Vendor agreed to sell the entire issued share capital of Jia Cheng at a consideration of HK$525 million. Jia Cheng is an investment holding company. Its sole asset is its equity interest in the entire issued share capital of Actor Investments, which is in turn interested in 91% of the issued share capital of Rossini. Rossini is principally engaged in manufacture and sale of watches mainly in the PRC.

The Guarantor has unconditionally and irrevocably guaranteed to the Company the due and punctual performance and observance by the Vendor of all its obligations, commitments, undertakings, warranties, indemnities and covenants under or pursuant to the Agreement and agreed to indemnify the Company against all losses, damages, costs and expenses which the Company may suffer through or arising from any breach by the Vendor of such obligations, commitments, warranties, undertakings, indemnities or covenants.

Consideration

The Consideration of HK$525 million will be satisfied by the Company entirely by the allotment and issue of 1,750 million Consideration Shares at HK$0.30 each to the Vendor upon Completion. The Consideration Shares will be issued under a specific mandate to be sought from the Shareholders at the EGM.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendor taking into consideration of (i) the substantial improvement in Rossini's recent operating results after the takeover by Mr. Hon's family, details of which is set out in the section headed "Information of the Jia Cheng Group" below; (ii) the "Rossini" brand is well recognised by customers and was awarded 中國馳名商標 (Chinese Renowned Brand) by 國家工商行政管理總局商標局 (the Trademark Office of the PRC State Administration for Industry and Commerce); (iii) Rossini's watches were awarded 中國名牌產品 (China Top Brand Products) by 國家質量監督檢驗檢疫總局 (Central Administration of Quality Supervision, Inspection and Quarantine of the PRC); and (iv) the synergy and strategic value of Rossini on the future development of the Group, details of which are set out in the section headed "Reasons for and benefits of the Acquisition" below.

The issue price of the Consideration Shares of HK$0.30 each was arrived at after arm's length negotiations between the Company and the Vendor after taking into account the recent Share prices, in particular the average closing prices of the Shares for the five trading days prior to the signing of the Agreement. The issue price represents:

(i) a premium of approximately 3.45% over the closing price of HK$0.29 per Share as quoted on the Stock Exchange on 20 August 2008, being the last trading day prior to the signing of the Agreement;

(ii) a premium of approximately 1.69% over the average closing price of approximately HK$0.295 per Share for the five trading days up to and including 20 August 2008;

(iii) a discount of approximately 1.64% to the average closing price of approximately HK$0.305 per Share for the ten trading days up to and including 20 August 2008;

(iv) a discount of approximately 11.76% to the closing price of HK$0.34 per Share on the Latest Practicable Date; and

(v) a discount of approximately 55.88% to the audited consolidated net asset value per Share attributable to the equity holders of the Company of approximately HK$0.68 as at 31 December 2007.

The 1,750 million Consideration Shares represent approximately 97.65% of the existing issued share capital of the Company and approximately 49.41% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The Consideration Shares will rank pari passu in all respects with the existing Shares then in issue. There is no restriction on the subsequent disposal of the Consideration Shares by the Vendor under the Agreement.

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions precedent

Completion is conditional upon:

(i) the Company having notified the Vendor that it is satisfied with the results of the due diligence review and investigation as to the financial, legal, commercial and taxation aspects of the Jia Cheng Group and titles to its assets;

(ii) the receipt of a PRC legal opinion in respect of the Jia Cheng Group to the satisfaction of the Company;

(iii) the approval by the Shareholders in general meeting in accordance with the requirements of the Listing Rules and the Takeovers Code of the Acquisition, the transactions contemplated under the Agreement, the allotment and issue of the Consideration Shares, and the Whitewash Waiver;

(iv) the Executive granting Mr. Hon and parties acting in concert with him the Whitewash Waiver;

(v) if applicable, the obtaining of all consents by the Vendor from government or regulatory authorities or third parties which are necessary in connection with the execution and performance of the Agreement and any of the transaction contemplated thereunder;

(vi) there having been no breach by the Vendor or the Guarantor of any obligations, undertakings, representations and warranties under the Agreement; and

(vii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares.

The Company may waive the above conditions (i), (ii) and (vi). If (a) any fact which would prevent any of the above conditions precedent from being satisfied on the date initially set for Completion comes to the knowledge of the Company; or (b) any of the above conditions precedent (other than condition (vi)) is not fulfilled (or waived) on or before the Long Stop Date; or (c) above condition (vi) is not fulfilled at the time of Completion, the Company will be entitled to treat the Agreement as terminated. In such event, all obligations of the Vendor and the Company under the Agreement shall cease, provided that rights and liabilities of the parties thereto which have accrued prior to termination shall subsist. If the above conditions (iii) and (iv) are not satisfied, the Agreement and the Whitewash Waiver will not proceed.

Completion shall take place on the third business day after all the above conditions precedent (other than condition (vi)) have been fulfilled or waived or such other date as the parties to the Agreement may mutually agree in writing on which Completion is to take place. Save for condition (ii), none of the above conditions precedent had been fulfilled as at the Latest Practicable Date.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company:

	As at the Latest Practicable Date		**Immediately after Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Sincere View	683,441,515	38.14%	683,441,515	19.29%
Vendor	–	–	1,750,000,000	49.41%
Sincere View and parties acting in concert with it	683,441,515	38.14%	2,433,441,515	68.70%
Public Shareholders	1,108,589,154	61.86%	1,108,589,154	31.30%
Total	1,792,030,669	100.00%	3,542,030,669	100.00%

The issue of the Consideration Shares will not result in a change in control of the Company.

WHITEWASH WAIVER

As at the Latest Practicable Date, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) were interested in 683,441,515 Shares, representing approximately 38.14% of the issued share capital of the Company.

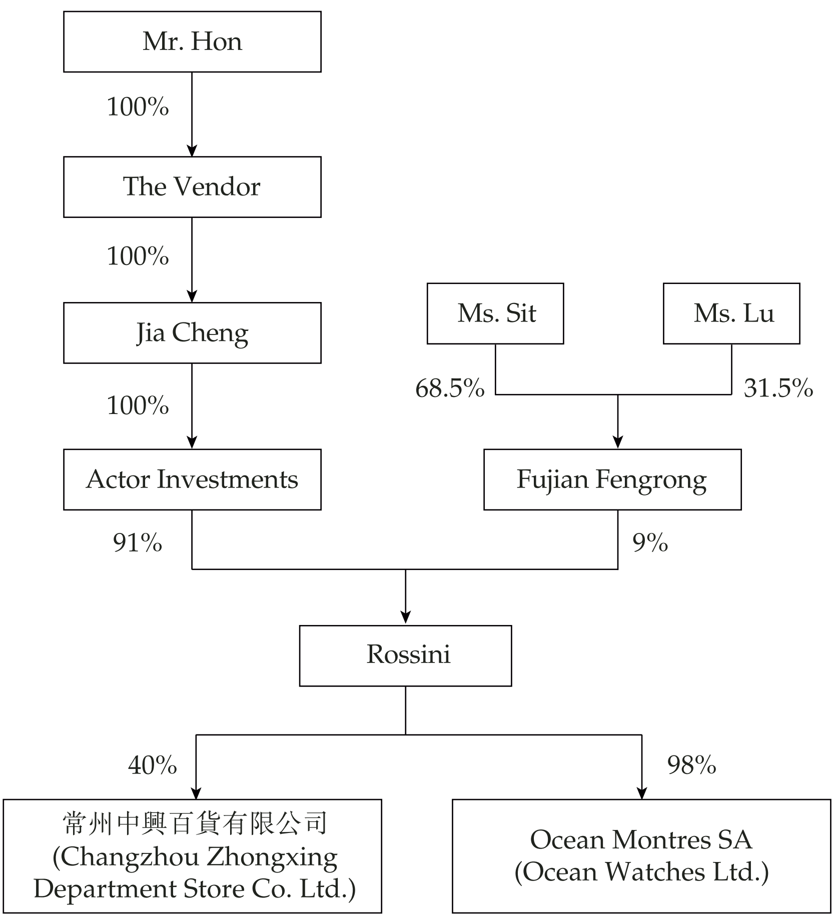
Upon Completion and assuming no Shares will be issued or repurchased by the Company before then, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) would be interested in 2,433,441,515 Shares, representing approximately 68.70% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

As the interest of the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) would increase by more than 2% as a result of the issue of the Consideration Shares, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will be obliged to make an unconditional mandatory offer for all the issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26.1 of the Takeovers Code. Completion of the transactions contemplated under the Agreement is subject to, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders at the EGM by poll in accordance with the Takeovers Code. An application has been made to the Executive by the Vendor for the Whitewash Waiver and the Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders taken by poll at the EGM in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code.

Upon Completion, the aggregate shareholding interests of Sincere View and the Vendor will exceed 50% of the voting rights of the Company. Accordingly, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengong, Ms. Sit and Ms. Lu) may increase their holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

INFORMATION OF THE JIA CHENG GROUP

The following chart sets out the structure of the Jia Cheng Group as at the Latest Practicable Date:



Jia Cheng

Jia Cheng is a company incorporated in the British Virgin Islands on 20 January 2006. Jia Cheng has not carried on any business or operation save for investment holdings.

Actor Investments

Actor Investments is a company incorporated in Hong Kong on 19 March 2008. Save for its ownership of a 91% interest in Rossini, Actor Investments has not carried on any business or operation.

Financial information of Jia Cheng and Actor Investments

For the period from 20 January 2006, being the date of incorporation of Jia Cheng, to 31 December 2006, Jia Cheng recorded audited net loss before and after taxation of HK$14,700 according to Hong Kong accounting standards. For the year ended 31 December 2007, the audited net loss before and after taxation of Jia Cheng was HK$5,880. For the six months ended 30 June 2008, the audited consolidated net loss before and after taxation of Jia Cheng and Actor Investments was HK$32,120.

As at 30 June 2008, the consolidated audited capital deficiency of Jia Cheng and Actor Investments amounted HK$52,692 according to Hong Kong accounting standards.

The audited financial statements of Jia Cheng and Actor Investments for the period from 20 January 2006 to 31 December 2006, the year ended 31 December 2007 and six months ended 30 June 2008 are set out in Appendix II to this circular.

Rossini

Shareholding structure

Rossini is a company established in the PRC on 13 June 1985. Fujian Fengrong acquired the entire issued share capital of Rossini through a public auction in November 2007 for a consideration of RMB262 million (equivalent to approximately HK$298.7 million). Fujian Fengrong is a company established in the PRC and owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively. Ms. Sit is a non-executive Director. In addition, both Ms. Sit and Ms. Lu are daughters-in-law of Mr. Hon. None of Ms. Sit, Ms. Lu and Fujian Fengrong holds any Shares as at the Latest Practicable Date and was involved in the negotiation of the Acquisition. After corporate reorganisation of Mr. Hon's family business, Rossini is currently owned as to 91% by Actor Investments and 9% by Fujian Fengrong. Mr. Hon's family's acquisition cost attributable to the 91% interest in Rossini owned by Actor Investments was approximately RMB238.4 million (equivalent to approximately HK$271.8 million).

Business

Rossini is principally engaged in manufacture and sale of watches mainly in the PRC. The watches are being marketed under the brand "Rossini". Rossini has established an extensive distribution network in the PRC. Its products are distributed through retail outlets and authorised dealers in the PRC. The brand "Rossini" was awarded 中國馳名商標 (Chinese Renowned Brands) by 國家工商行政管理總局商標局 (the Trademark Office of the PRC State Administration for Industry and Commerce) and was one of the 2007 China 500 Most Influential Brands according to the World Brand Laboratory. In addition, Rossini's watches were awarded 中國名牌產品 (China Top Brand Products) by 國家質量監督檢驗檢疫總局 (Central Administration of Quality Supervision, Inspection and Quarantine of the PRC). Rossini's factory premise is located in Zhuhai, Guangdong Province with a gross floor area of approximately 4,206.8 square meters. It currently has 319 employees.

Investments

Rossini owns the following investments:

(i) a 98% interest in Ocean Montres SA (Ocean Watches Ltd.), a private company incorporated in Switzerland with limited liability and is principally engaged in manufacture, sale and distribution of timepieces and relevant products. Its products are distributed in the PRC.

Each of Mr. Jean-Christophe Song and Mr. Lihua Mao owns 1% interest in Ocean Montres SA (Ocean Watches Ltd.). Mr. Jean-Christophe Song and Mr. Lihua Mao are third parties independent of and not connected with the Company or its connected persons and do not hold any Shares; and

(ii) a 40% interest in 常州中興百貨有限公司 (Changzhou Zhongxing Department Store Co. Ltd.), a private company established in the PRC with limited liability. It is engaged in the operation of a department store, sale of labour insurance products and household electrical appliances in the PRC.

The remaining 60% interest of 常州中興百貨有限公司 (Changzhou Zhongxing Department Store Co. Ltd.) is held by 12 shareholders. These shareholders and their respective ultimate beneficial owners are independent of and not connected with the Company or its connected persons and do not hold any Shares.

Financial information of Rossini

For the two years ended 31 December 2006 and 2007, the audited consolidated profit before taxation attributable to the 91% interest of Rossini owned by Actor Investments were approximately RMB20.9 million (equivalent to approximately HK$23.8 million) and RMB28.1 million (equivalent to approximately HK$32.0 million) respectively based on Hong Kong accounting standards. Consolidated profit after taxation attributable to the 91% interest of Rossini for each of the two years ended 31 December 2007 were approximately RMB17.6 million (equivalent to approximately HK$20.1 million) and RMB23.7 million (equivalent to approximately HK$27.0 million) respectively.

After the takeover of Rossini by Mr. Hon's family, its operating results have improved substantially under the leadership of the new management team. In the first half of 2008, Rossini's consolidated net profit was about the same as the whole year's net profit in 2007. For the six months ended 30 June 2008, the audited consolidated profit before and after taxation attributable to the 91% interest of Rossini owned by Actor Investments were approximately RMB28.9 million (equivalent to approximately HK$32.9 million) and RMB23.4 million (equivalent to approximately HK$26.7 million) respectively based on Hong Kong accounting standards.

As at 30 June 2008, Actor Investments' 91% share of the consolidated net asset value of Rossini was approximately RMB44.6 million (equivalent to approximately HK$50.8 million).

The audited consolidated financial statements of the Rossini Group for the three years ended 31 December 2007 and six months ended 30 June 2008 are set out in Appendix III to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the manufacture and sale of watches and timepieces; property investment; and manufacture and sale of enamelled copper wires in the PRC.

The Group sells watches under its brand "EBOHR" whereas Rossini owns the brand "Rossini". According to January to December 2007 monthly statistics issued by the China National Commercial Information Center, sales of "Rossini" brand and "EBOHR" brand of watches accounted for approximately 6.91% and 3.99% on average of the total sales of watches in large retail outlets in the PRC respectively. Among the domestic brands, "Rossini" and "EBOHR" were ranked first and third in terms of total sales in 2007 respectively. The Acquisition, therefore, provides an attractive opportunity for the Group to acquire the best-selling domestic brand to expand its watch business in the PRC. The Acquisition enables the Group to broaden its income stream and also increase its market share in the PRC watch market. Furthermore, the Group will be in a more advantageous position to negotiate better leasing terms with department store operators.

FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Upon Completion, Jia Cheng will become a wholly-owned subsidiary of the Company and the results of the Jia Cheng Group will be consolidated into the financial statements of the Group.

As at 31 December 2007, the Group's audited total assets and total liabilities were approximately HK$1,685.4 million and HK$469.6 million, representing approximately HK$0.94 and HK$0.26 per Share respectively based on 1,792,030,669 Shares in issue as at 31 December 2007. Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group set out in Appendix IV to this circular, the total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$2,276.8 million and HK$531.0 million assuming that Completion had taken place on 30 June 2008, representing approximately HK$0.64 and HK$0.15 per Share respectively based on 3,542,030,669 Shares to be in issue upon Completion. The Group had an audited net asset value after minority interests of approximately HK$1,213.4 million as at 31 December 2007, representing approximately HK$0.68 per Share based on 1,792,030,669 Shares in issue as at 31 December 2007. Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, the net asset value after minority interests of the Enlarged Group would have been increased to approximately HK$1,738.4 million upon Completion, representing approximately HK$0.49 per Share based on 3,542,030,669 Shares to be in issue then.

The Rossini Group recorded net profit after taxation of RMB26.1 million (equivalent to approximately HK$29.8 million) for the year ended 31 December 2007 and RMB25.7 million (equivalent to approximately HK$29.3 million) for the six months ended 30 June 2008. Jia Cheng and Actor Investments recorded consolidated net loss after taxation of HK$32,120 for the six months ended 30 June 2008. Upon Completion, the results of the Jia Cheng Group will be accordingly reflected in the accounts of the Group.

INFORMATION ON THE VENDOR

The Vendor is an investment holding company ultimately beneficially wholly-owned by Mr. Hon, an executive Director. Mr. Hon and Ms. Lam wholly own Sincere View, the controlling Shareholding.

It is the intention of the Vendor to continue to carry on the businesses of the Group and to continue the employment of the employees of the Group. The Vendor has no intention to introduce any changes to the businesses of the Group including redeployment of the fixed assets of the Group.

EGM

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Vendor is ultimately beneficially wholly-owned by Mr. Hon, an executive Director. Furthermore, Mr. Hon and Ms. Lam wholly own Sincere View, the controlling Shareholder. As such, the Vendor is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM by poll. There is no prior transaction which is required to be aggregated with the Agreement under Rule 14.22 of the Listing Rules.

The EGM will be convened at which resolutions will be proposed to seek the Independent Shareholders' approval of the transactions contemplated under the Agreement, the issue of the Consideration Shares and the Whitewash Waiver. Sincere View, its ultimate beneficial owners, their respective associates and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) and those who (if any) are involved in or interested in the Acquisition and the Whitewash Waiver are required to abstain from voting at the EGM. Sincere View controlled the voting right in respect of 683,441,515 Shares as at the Latest Practicable Date. Save as Sincere View, none of the above parties held any Shares as at the Latest Practicable Date.

The Independent Board Committee, comprising the independent non-executive Directors, has been formed to advise the Independent Shareholders on the terms of the Agreement and the Whitewash Waiver. Ms. Sit, the non-executive Director, is considered not independent to become a member of the Independent Board Committee as (i) she is a daughter-in-law of Mr. Hon, the owner of the Vendor; and (ii) Ms. Sit through her 68.5% interest in Fujian Fengrong indirectly owns 9% interest in Rossini. Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Set out on pages EGM-1 to EGM-2 of this circular is a notice of the EGM to be held at Tang Room I, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Tuesday, 30 September 2008 at 11:00 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, Tricor 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 by 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 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 (other than the independent non-executive Directors whose letter of recommendation is set out on page 17 of this circular) are of the opinion that the terms of the Agreement and the Whitewash Waiver are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (other than the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Agreement and the Whitewash Waiver.

You are advised to read carefully the letters from the Independent Board Committee and Optima Capital contained in this circular before deciding whether or not to vote in favour of the resolutions to be proposed at the EGM to approve the Agreement, the issue of the Consideration Shares and the Whitewash Waiver.

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

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 AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER

12 September 2008

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular dated 12 September 2008 issued by the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

The Independent Board Committee, comprising the independent non-executive Directors, has been formed by the Board for the purpose of advising the Independent Shareholders in connection with the terms of the Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board in the Circular. Optima Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of the advice from Optima Capital together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 18 to 35 of the Circular.

Having considered the terms of the Agreement and the Whitewash Waiver, the interest of the Independent Shareholders, the principal factors and reasons considered by Optima Capital and the advice of Optima Capital, we consider that the terms of the Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Agreement and the Whitewash Waiver.

Yours faithfully,
Independent Board Committee
Fung Tze Wa　**Kwong Chun Wai, Michael**　**Li Qiang**
Independent non-executive Directors

The following is the text of a letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders prepared for incorporation in this Circular.

OPTIMA CAPITAL

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

12 September 2008

To the Independent Board Committee and
the Independent Shareholders of
China Haidian Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the Whitewash Waiver, details of which are set out in the circular of the Company dated 12 September 2008 (the "Circular") to the Shareholders of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 20 August 2008, the Company and the Vendor entered into the Agreement pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of Jia Cheng for a consideration of HK$525 million to be satisfied entirely by the allotment and issue of 1,750 million Consideration Shares at HK$0.30 each.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Vendor is beneficially wholly-owned by Mr. Hon, an executive Director. Mr. Hon and Ms. Lam wholly own Sincere View, the controlling Shareholder. As such, the Vendor is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to the approval by the Independent Shareholders at the EGM by poll.

Upon Completion and assuming no Shares will be issued or repurchased by the Company before Completion, the interests held by the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will be increased from approximately 38.14% of the issued share capital of the Company as at the date of the Agreement to approximately 68.70% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

As the interest of the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will increase by more than 2% as a result of the issue of the Consideration Shares, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will be obliged to make an unconditional mandatory offer for all the issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26.1 of the Takeovers Code. An application has been made to the Executive by the Vendor for the Whitewash Waiver. Completion of the Agreement is subject to, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders at the EGM by poll in accordance with the Takeovers Code.

The EGM will be convened at which resolutions will be proposed to seek the Independent Shareholders' approval of the transactions contemplated under the Agreement, the issue of the Consideration Shares and the Whitewash Waiver. Sincere View, its ultimate beneficial owners, their respective associates and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) and those who (if any) are involved in or interested in the Acquisition and the Whitewash Waiver will abstain from voting at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. Fung Tze Wa, Kwong Chun Wai, Michael and Li Qiang has been constituted to consider the terms of the Agreement and the Whitewash Waiver and to make a recommendation to the Independent Shareholders on how to vote on the relevant resolutions to be proposed at the EGM. We, Optima Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Jia Cheng Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation on whether the terms of the Agreement and the Whitewash Waiver are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into consideration the following principal factors and reasons:

I. The Agreement

1. *Background of and reasons for the Agreement*

(i) Watches and timepieces business of the Group

The Group is principally engaged in the manufacture and sale of watches and timepieces, property investment and the manufacture and sale of enamelled copper wires in the PRC.

The Group sells watches under its brand "EBOHR". We note from the latest published annual report of the Company for the year ended 31 December 2007 ("2007 Annual Report") that EBOHR Luxuries International Company Limited ("EBOHR Luxuries"), a wholly-owned subsidiary of the Group principally engaged in the manufacture and sale of watches and timepieces of the "EBOHR" brand, contributed a revenue of approximately HK$165.3 million for the year ended 31 December 2007, representing an increase of 27% over the revenue generated by EBOHR Luxuries for the year ended 31 December 2006.

As referred to in the 2007 Annual Report, the Group's satisfactory performance was primarily underpinned by two factors, including (i) the corporate action of the Company in relation to, among others, the disposal of the entire equity interest in Beijing Jing Guan Property Development Co. Ltd.; and (ii) the growth in operating profit and net profit after tax of EBOHR Luxuries as a result of the expanded product lines and markets.

As stated in the "Chairman's Statement" contained in the 2007 Annual Report, the Group has been evaluating investment opportunities in property investment; developing the watches and timepieces business; and expanding the enamelled copper wire business. Leveraging on the substantial experience, the Group will continue to make investments with prudence in those businesses.

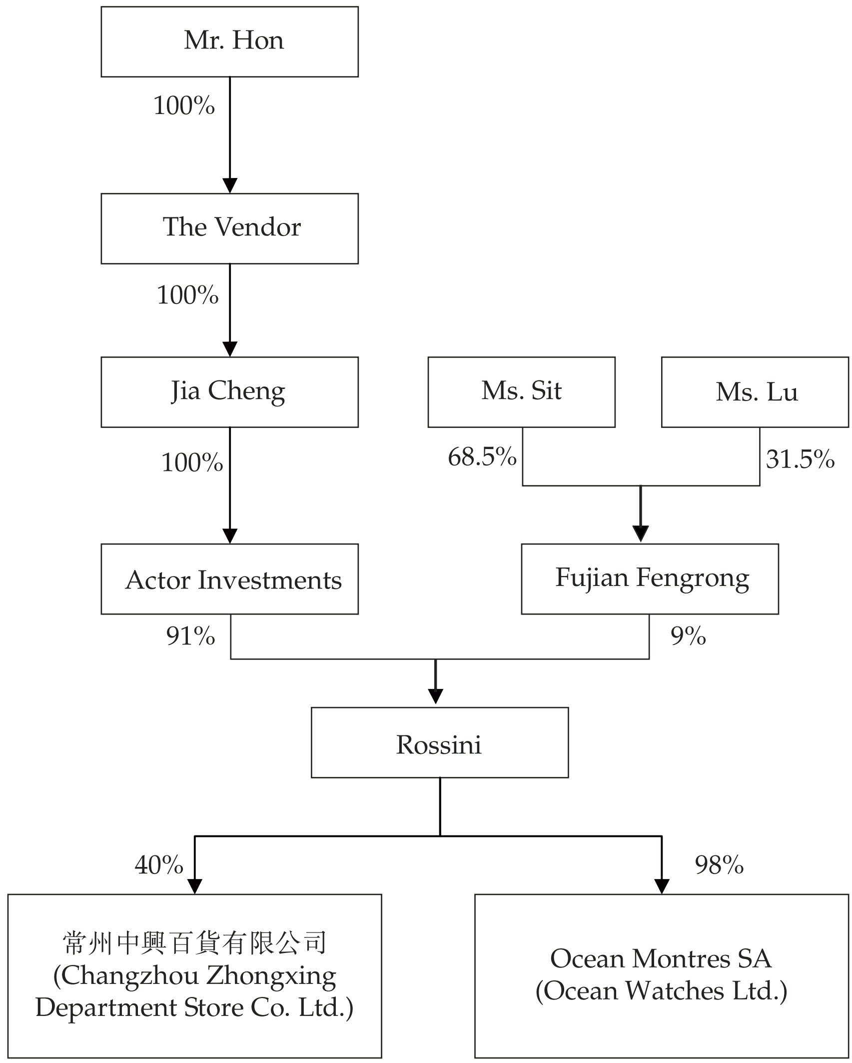
Set out below are the segment results of the continuing operations of the Group as extracted from the 2007 Annual Report:

	Segment results							
	Watches and timepieces		Enamelled copper wires		Property investment		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
For the year ended 31 December 2006 (restated)	20,514	41	7,168	14	22,832	45	50,514	100
For the year ended 31 December 2007	37,636	51	4,295	6	31,275	43	73,206	100

Given the satisfactory performance of the watch and timepiece business of the Group, being one of the major profit contributors of the Group for the two years ended 31 December 2007, we concur with the Directors that the Acquisition, which enables the Group to further expand its watch and timepiece business by, among others, increasing its market share in the PRC watch market, would be in the interest of the Company and the Shareholders as a whole and is in line with the business objective of the Group for developing the watch and timepiece business.

(ii) Information of the Jia Cheng Group

The following chart shows the structure of Jia Cheng Group as at the Latest Practicable Date:



As set out in the letter from the Board contained in the Circular ("Letter from the Board"), Jia Cheng, incorporated in the British Virgin Islands on 20 January 2006, is an investment holding company without any business or operations. Actor Investments, a wholly-owned subsidiary of Jia Cheng incorporated in Hong Kong on 19 March 2008, has no business or operations save for the ownership of a 91% interest in Rossini.

Rossini is a company established in the PRC on 13 June 1985. Fujian Fengrong acquired the entire issued share capital of Rossini through a public auction in November 2007 for a consideration of RMB262 million (equivalent to approximately HK$298.7 million). Fujian

Fengrong is a company established in the PRC and owned as to approximately 68.5% and 31.5% by Ms. Sit, a non-executive Director, and Ms. Lu respectively. Both Ms. Sit and Ms. Lu are daughters-in-law of Mr. Hon.

None of Ms. Sit, Ms. Lu and Fujian Fengrong holds any Shares as at the Latest Practicable Date or was involved in the negotiation of the Acquisition. After corporate reorganisation of Mr. Hon's family business, Rossini is currently owned as to 91% by Actor Investments and 9% by Fujian Fengrong. Mr. Hon's family's acquisition cost attributable to the 91% interest in Rossini owned by Actor Investments was approximately RMB238.4 million (equivalent to approximately HK$271.8 million).

Rossini is principally engaged in manufacture and sale of watches mainly in the PRC. The watches are being marketed under the brand "Rossini". Rossini has established an extensive distribution network in the PRC with its products distributed through retail outlets and authorised dealers in the PRC. Rossini's factory premise is located in Zhuhai, Guangdong Province with a gross floor area of approximately 4,206.8 square meters. It currently has 319 employees.

According to January to December 2007 monthly statistics issued by the China National Commercial Information Center, sales of watches of "Rossini" brand accounted for approximately 6.91% on average of the total sales of watches in large retail outlets in the PRC respectively. Among the domestic brands, "Rossini" was ranked first in terms of total sales in 2007.

The brand "Rossini" was awarded 中國馳名商標(Chinese Renowned Brands) by 國家工商行政管理總局商標局 (the Trademark Office of the PRC State Administration for Industry and Commerce) and was one of the 2007 China 500 Most Influential Brands according to the World Brand Laboratory. In addition, Rossini's watches were awarded 中國名牌產品(China Top Brand Products) by 國家質量監督檢驗檢疫總局(Central Administration of Quality Supervision, Inspection and Quarantine of the PRC).

Rossini owns the following investments:

(a) a 98% interest in Ocean Montres SA (Ocean Watches Ltd.), a private company incorporated in Switzerland with limited liability and is principally engaged in manufacture, sale and distribution of timepieces and relevant products. Its products are distributed in the PRC; and

(b) a 40% interest in 常州中興百貨有限公司(Changzhou Zhongxing Department Store Co. Ltd.), a private company established in the PRC with limited liability. It is engaged in the operation of a department store, sale of labour insurance products and household electrical appliances in the PRC.

(iii) financial information of the Rossini Group

Set out below are the audited financial information of the Rossini Group for the two years ended 31 December 2007 and the six months ended 30 June 2007 and 2008 respectively as extracted from the accountants' report of the Rossini Group contained in Appendix III to the Circular:

	For the six months ended 30 June		**For the year ended 31 December**	
	2008	**2007**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	86,455	79,617	168,115	143,889
Cost of sales	30,071	36,710	75,565	70,406
Gross profit	56,384	42,907	92,550	73,483
Profit for the year/ period	25,685	14,095	26,065	19,350

As referred to in the Letter from the Board, after the takeover of Rossini by Mr. Hon's family, its operating results have been improved substantially under the leadership of the new management team. As set out in the above table, a profit of approximately RMB25.7 million was recorded for the six months ended 30 June 2008, representing an increase of approximately 82.2% as compared to the profit for the six months ended 30 June 2007. The profit recorded for the six months ended 30 June 2008 has almost reached the profit of approximately RMB26.1 million for the whole year ended 31 December 2007.

We note that the substantial increase in the profit for the six months ended 30 June 2008 was largely attributable to (i) the increase in turnover of approximately 8.6%; (ii) the improvement in gross profit margin to approximately 65.2% from approximately 53.9%; and (iii) the decrease in selling and distribution costs of approximately 9.1%, as compared to the six months ended 30 June 2007. Based on the management discussion provided by the Company commenting the increase in profit of Rossini for the six months ended 30 June 2008, we are advised that several measures were introduced by the new management team subsequent to the takeover of Rossini by Mr. Hon's family, including (i) the expansion of its sales network by the introduction of new point-of-sales ("POS") in major cities in the PRC such as Beijing, Shanghai and Nanjing; (ii) the expansion of supply chain of mechanical movement, which improved its productivity for mechanical watches; (iii) the furtherance of the group purchase business; (iv) the strengthening of the brand awareness of "Rossini" through pertinent television advertising; and (v) the implementation of stringent cost management in production and procurement, which are believed to have contributed to the substantial increase in the profit for the six months ended 30 June 2008.

(iv) Reasons for and benefits of the Acquisition

As referred to the Letter from the Board, the Directors consider that the Acquisition provides an attractive opportunity for the Group to acquire the best-selling domestic brand in the PRC to expand its watch business in the PRC. The Acquisition enables the Group to broaden its income stream and also increase its market share in the PRC watch market. Furthermore, the Group will be in a more advantageous position to negotiate better leasing terms with department store operators.

Given the major awards obtained by "Rossini" including 中國馳名商標(Chinese Renowned Brands) and 中國名牌產品(China Top Brand Products) and that "Rossini" was ranked first in terms of total sales among domestic brands in 2007 which demonstrated its leading market position and brand value, we concur with the Directors that the Acquisition provides an attractive opportunity for the Group to bring in the best-selling domestic brand in the PRC and to expand its watch business in the PRC.

As advised by the management of the Company, the leasing of POS represented one of the major cost components of its watches and timepieces business. On the basis of an increased share in the watches and timepieces market which is expected to place the Group in a more advantageous position to negotiate better leasing terms with department store operators, we are of the view that the Acquisition would have synergetic benefits for the Group which are in the interest of the Company and its Shareholders as a whole.

Having taken into account (i) the market share and the market position of the "Rossini" brand in the PRC in terms of its sales of watches and the awards gained; (ii) the profitable track record of Rossini; (iii) the positive effect to the results of Rossini after the takeover by Mr. Hon's family; (iv) the Acquisition is in line with the business objective of the Group and is expected to be complimentary to the existing watches and timepieces business of the Group, we concur with the view of the Directors that the entering into the Agreement is in the interests of the Company and the Shareholders as a whole.

2. *Principal terms of the Agreement*

(i) Consideration for the Acquisition

Pursuant to the Agreement, the Company agreed to acquire and the Vendor agreed to sell the entire issued share capital of Jia Cheng at a consideration of HK$525 million.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendor taking into consideration of (i) the substantial improvement in Rossini's recent operating results after the takeover by Mr. Hon's family; (ii) "Rossini" brand is well recognised by customers and was awarded 中國馳名商標 (Chinese Renowned Brand) by 國家工商行政管理總局商標局 (the Trademark Office of the PRC State Administration for Industry and Commerce); (iii) Rossini's watches were awarded 中國名牌產品(China Top Brand Products) by 國家質量監督檢驗檢疫總局 (Central Administration of Quality Supervision, Inspection and Quarantine of the PRC); and (iv) the synergy and strategic value of Rossini on the future development of the Group.

As the business of the Jia Cheng Group, comprising mainly the manufacture and sale of watch in the PRC conducted through Rossini, is not an asset based business, we consider that it is not appropriate to value the Jia Cheng Group by reference to its net asset value. The Consideration of HK$525 million represents approximately 19.39 times the audited net profit of the Rossini Group for the year ended 31 December 2007 attributable to the 91% interest held by Jia Cheng of approximately RMB23.75 million (equivalent to approximately HK$27.08 million).

In assessing the fairness of the Consideration, we have, to our best efforts, identified 9 companies, being all companies listed in Hong Kong or the PRC which are engaged in the watches and timepieces business with sales in the PRC ("Comparable Companies") for the comparison of the price to earning ratio ("PER") to that of the implied

PER of the Consideration. Details of which are shown in the following table:

Name of the company	Stock code	Stock Exchange	Principal business	Market capitalisation as at the Latest Practicable Date *('million)*	Latest financial year end date	PER as at the Latest Practicable Date
Asia Commercial Holdings Limited	104	Hong Kong	Sales of watches, property leasing and provision of programming service	HK$420.49	31 March 2008	6.14
Dickson Concepts (International) Limited	113	Hong Kong	Trading of luxury good	HK$1,533.92	31 March 2008	6.62
Oriental Watch Holdings Limited	398	Hong Kong	Watch trading	HK$649.74	31 March 2008	3.95
Peace Mark (Holdings) Limited	304	Hong Kong	Manufacturing, trading, distributing, retailing and related service of timepiece products	HK$1,888.22	31 March 2008	3.41 *(Note)*
Shenzhen FIYTA Holdings Limited ("Shenzhen Fiyta")	000026	Shenzhen	Designs, manufactures and markets watches and clocks, with products include quartz watches, artistic clocks, scratch proof precious stone watches and timing regulators; property rental business	RMB1,398.99	31 December 2007	25.72
Sincere Watch (Hong Kong) Limited	444	Hong Kong	Brand management and wholesale distribution of watches in Hong Kong, Macau and the PRC	HK$306.00	31 March 2008	8.93
Stelux Holdings International Limited	84	Hong Kong	Retail and trading of watch and optical, and property investment	HK$618.37	31 March 2008	4.81
The Company	256	Hong Kong	Manufacture and distribution of watches and timepieces, enamelled copper wires and property investment	HK$609.29	31 December 2007	5.96
Xinyu Hengdeli Holdings Limited	3389	Hong Kong	Retail and distribution of internationally branded watches, and the related after-sale services and other extended goods	HK$5,217.45	31 December 2007	10.96
				Average		8.50
				Highest		25.72
				Lowest		3.41
						Implied PER of the Consideration
Rossini Group					31 December 2007	19.39

Source: Bloomberg

Note : the trading of shares of Peace Mark (Holdings) Limited has been suspended since 18 August 2008, the PER is based on the closing price of Peace Mark (Holdings) Limited on 15 August 2008, being the last trading day prior to the suspension in trading of its shares.

PER is regarded as one of the most common valuation methods to value a company with recurrent income base. Whilst we understand that valuation of a company can be affected by a number of factors such as industry prospects, trading performance and company-specific fundamental values of a company as well as its particular business and financial position, we consider that the comparative figures of the Comparable Companies as shown in the above table would give us a general indication on how the market would value the Company by reference to its earnings.

Furthermore, notwithstanding the difference in scale of the Comparable Companies in terms of market capitalisation, we are not aware from the above table that the market would accord the valuation of a particular company based on their market capitalisation, i.e. Comparable Companies with higher market capitalisation would not necessarily be accorded with higher PERs. As such, we do not consider it necessary to include market capitalisation as one of the selection criteria for the identification of the Comparable Companies. For the purpose of objective analysis, our selection criteria would also be able to provide a reasonable number of Comparable Companies.

From the table above, the implied PER of the Consideration of approximately 19.39 times is within the range of the PER from approximately 3.41 times to 25.72 times of the Comparable Companies but higher than the average PER of approximately 8.50. Although the implied PER of the Consideration is only lower than that of Shenzhen FIYTA among the Comparable Companies, given (i) the implied PER of the Consideration is the historical PER of the Rossini Group calculated based on the audited net profit of the Rossini Group for the year ended 31 December 2007 attributable to the 91% interest held by Jia Cheng of approximately RMB23.75 million (equivalent to approximately HK$27.08 million), which has not reflected the substantial improvement in financial results for the six months ended 30 June 2008, with an increase in profit of approximately 82.2% as compared to the profit for the six months ended 30 June 2007, brought about by the new management team after the takeover of Rossini by Mr. Hon's family; and (ii) the leading market position of the brand "Rossini" as discussed in the sub-paragraph headed "Information of the Jia Cheng Group" above, we consider that the Consideration to be fair and reasonable so far as the Shareholders are concerned.

(ii) Issue price

The Consideration will be satisfied by the Company entirely by the allotment and issue of 1,750 million Consideration Shares at HK$0.30 each to the Vendor (or as the Vendor may direct) upon Completion. The Consideration Shares will be issued under a special mandate to be sought from the Shareholders at the EGM.

The issue price of the Consideration Shares of HK$0.30 each (the "Issue Price") was arrived at after arm's length negotiation between the Company and the Vendor after taking into account the recent Share prices, in particular, the average closing prices of the Shares for the five trading days prior to the signing of the Agreement. The Issue Price represents:

– a premium of approximately 3.45% over the closing price of HK$0.29 per Share as quoted on the Stock Exchange on 20 August 2008, being the last trading day prior to the signing of the Agreement (the "Last Trading Day");

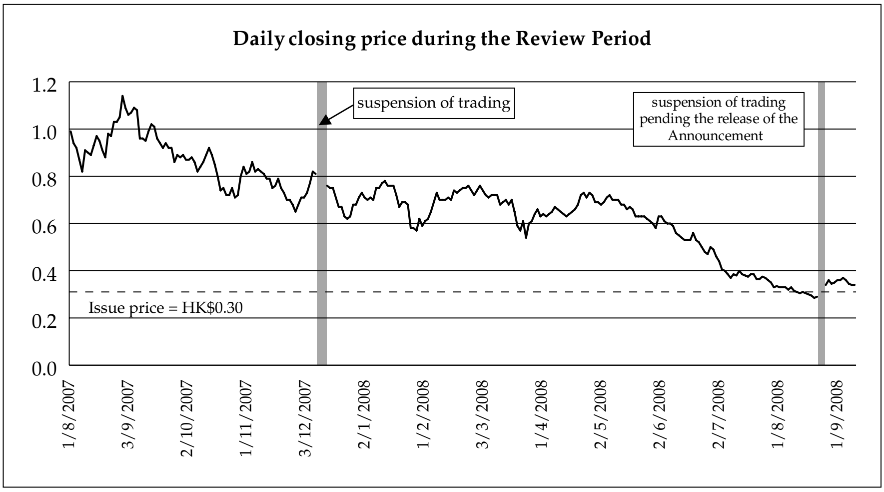
– a premium of approximately 1.69% over the average closing price of approximately HK$0.295 per Share for the five trading days up to and including the Last Trading Day;

– a discount of approximately 1.64% to the average closing price of approximately HK$0.305 per Share for the ten trading days up to and including the Last Trading Day;

– a discount of approximately 11.76% to the closing price of HK$0.34 per Share on the Latest Practicable Date; and

– a discount of approximately 55.88% to the audited consolidated net asset value per Share attributable to the equity holders of the Company of approximately HK$0.68 as at 31 December 2007.

The chart below shows the daily closing prices of the Shares as quoted on the Stock Exchange during the period from 1 August 2007, being the trading day falling twelve months prior to the Last Trading Day, up to and including the Latest Practicable Date (the "Review Period"):



The trading of Shares was suspended (i) from 4 December 2007 to 6 December 2007, pending the release of an announcement in relation to, among others, the termination of timber business of the Company and the resumption of the land by People's Government of the Nanshan District of the Shenzhen Municipal; and (ii) from 21 August 2008 to 26 August 2008, pending the release of the Announcement. Prior to the release of the Announcement, the Shares have been traded generally in a downward trend throughout the Review Period. During the Review Period, the Shares were traded with the highest closing price of HK$1.14 recorded on 27 August 2007 and the lowest closing price of HK$0.285 recorded on 19 August 2008. The closing price of the Shares surged approximately 17.2% to HK$0.34 on the trading day after the release of the Announcement, which may imply that the investors generally welcome the entering of the Agreement by the Group. The price of the Shares closed at HK$0.34 on the Latest Practicable Date, which represents a premium of 13.3% to the Issue Price.

The table below illustrates the liquidity of the Shares during the Review Period:

	Average daily trading volume for the month/period (Shares)	**Percentage of the average daily trading volume to the number of the issued Shares as at the Latest Practicable Date** *(%)*
2007		
August	19,929,478	1.11
September	12,879,831	0.72
October	11,385,623	0.64
November	7,319,176	0.41
December	3,484,000	0.19
2008		
January	3,598,864	0.20
February	2,289,737	0.13
March	957,368	0.05
April	2,435,333	0.14
May	1,366,700	0.08
June	650,800	0.04
July	994,545	0.06
August	878,353	0.05
September (up to the Latest Practicable Date)	636,743	0.04

From the above table, we note that the liquidity of the Shares was generally in a declining trend during the Review Period with the average daily trading volume declined from 19,929,478 Shares in August 2007, represented approximately 1.11% of the issued Shares of the Company as at the Latest Practicable Date, to 636,743 Shares in September 2008, represented approximately 0.04% of the issued Shares of the Company as at the Latest Practicable Date.

In view that the general download trend of the closing price of the Shares during the Review Period and the thin liquidity of the Shares as referred to above, we are of the view that in order for the Issue Price to be generally attractive, it is reasonable and acceptable for the adoption of recently traded share prices as a basis for arriving at the Issue Price, notwithstanding that the Issue Price represents a discount to the audited consolidated net asset value per Share attributable to the equity holders of the Company as to 31 December 2007 and lower than the closing price of the Shares in most trading days during the Review Period.

3. *Financial effect on the Group*

(i) Earnings

As referred to in the Letter from the Board, the Rossini Group recorded net profit after taxation of RMB26.1 million (equivalent to approximately HK$29.8 million) for the year ended 31 December 2007 and RMB25.7 million (equivalent to approximately HK$29.3 million) for the six months ended 30 June 2008. Jia Cheng and Actor Investments recorded consolidated net loss after taxation of HK$32,120 for the six months ended 30 June 2008.

Upon Completion, the results of the Jia Cheng Group will be accordingly reflected in the accounts of the Group.

In view of the profitable track record of the Rossini Group, being the operating subsidiaries of the Jia Cheng Group, for the two years ended 31 December 2007 and the substantial improvement in profit for the six months ended 30 June 2008 after the takeover of Rossini by Mr. Hon's family, we are of the view that the Acquisition is expected to have positive contribution to the earnings of the Group.

(ii) Net asset value

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group set out in Appendix IV to the Circular, the net asset value after minority interests of the Group would be enhanced from approximately HK$1,213.37 million to approximately HK$1,738.37 million assuming that Completion had taken place on 31 December 2007. Based on the number of issued Shares of 1,792,030,669 Shares as at the Latest Practicable Date and the number of issued Shares immediately after Completion of 3,542,030,669 Shares, the net asset value per Share would be decreased from approximately HK$0.68 to approximately HK$0.49. We consider that the decrease in the net asset value per Share immediately after Completion, mainly attributable to the issue of the Consideration Shares at the Issue Price to settle the Consideration, is acceptable as it allows the Group to pursue the Acquisition without involving any cash outlay.

(iii) Gearing and working capital

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group set out in Appendix IV to the Circular, the gearing ratio of the Group (defined as the total borrowings divided by the total assets) would be reduced slightly from approximately 6.7% to approximately 5.0% assuming that Completion had taken place on 31 December 2007, mainly attributable to the increase in total assets as a result of the Acquisition.

Based on the consolidated cash flow statements of the Rossini Group as set out in Appendix III to the Circular, the Rossini Group generated approximately RMB21.8 million and RMB14.3 million in net cash inflow from operating activities for the six months ended 30 June 2008 and the year ended 31 December 2007 respectively. The Rossini Group also maintained net cash inflow from operating activities for each of the two years ended 31 December 2006. It is expected that the Rossini Group will be able to finance its operation independently from the Group.

As the Consideration will be satisfied solely by the issue of the Consideration Shares, there will be no bearing on the gearing and the working capital position of the Group as a result of the payment of the Consideration under the Agreement.

4. *Potential dilution effect on the existing shareholdings*

The following table illustrates the shareholding structure of the Company prior to and immediately after the Completion:

	As at the Latest Practicable Date		**Immediately after Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Sincere View	683,441,515	38.14%	683,441,515	19.29%
Vendor	–	–	1,750,000,000	49.41%
Sincere View and parties acting in concert with it	683,441,515	38.14%	2,433,441,515	68.70%
Public Shareholders	1,108,589,154	61.86%	1,108,589,154	31.30%
Total	1,792,030,669	100.00%	3,542,030,669	100.00%

Immediately after the Completion, the shareholding of public Shareholders will be diluted from approximately 61.86% to approximately 31.30%.

Taking into account the reasons for and benefits of the Acquisition as discussed above and in view that the issue of the Consideration Shares allows the Group to pursue the Acquisition without involving any cash outlay, we consider the potential dilution on the shareholding of the public Shareholders upon Completion to be acceptable.

Recommendation in relation to the Agreement

Having taken into account the above principal factors and reasons, in particular that,

(i) the Acquisition enables the Group to expand its watch and timepiece business by, among others, increasing its market share in the watch market in the PRC, which is in line with the business objective of the Group;

(ii) the possible synergetic benefits as a result of the Acquisition such as placing the Group in a more advantageous position to negotiate better leasing terms with department store operators;

(iii) the Consideration is reasonable taken into account the implied PER of the Consideration is within the range of that of the Comparable Companies, the substantial improvement in the financial results brought about by the new management team after the takeover of Rossini by Mr. Hon's family and the leading market position of the brand "Rossini";

(iv) the Issue Price determined based on recently traded share prices to be reasonable and acceptable; and

(v) the Acquisition is expected to have a positive contribution to the earnings of the Group,

we are of the view that the terms of the Agreement and the transactions and matters contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned; and the entering into the Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Agreement and the transactions and matters contemplated thereunder.

II. The Whitewash Waiver

As at the Latest Practicable Date, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) were interested in 683,441,515 Shares, representing approximately 38.14% of the issued share capital of the Company. None of the Vendor, its ultimate beneficial owner or any party acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) holds any options, warrants, derivatives or securities which are convertible into Shares.

Upon Completion and assuming no Shares will be issued or repurchased by the Company before Completion, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) would be interested in 2,433,441,515 Shares, representing approximately 68.70% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

As the interest of the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) would increase by more than 2% as a result of the issue of the Consideration Shares, the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will be obliged to make an unconditional mandatory offer for all the issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26.1 of the Takeovers Code.

An application has been made to the Executive by the Vendor for the Whitewash Waiver to waive the obligation to make a general offer under Rule 26 of the Takeovers Code.

The Whitewash Waiver, if granted by the Executive, would be subject to, among others, the approval of the Independent Shareholders at the EGM by way of poll. The Executive has indicated the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders taken by poll at the EGM in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code.

Completion of the transactions contemplated under the Agreement is subject to, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders at the EGM by poll in accordance with the Takeovers Code.

Shareholders should note that the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) will hold approximately 68.70% of the enlarged issued share capital of the Company after Completion. As such, any further acquisition of voting rights in the Company by the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) would not trigger an obligation to make a general offer under the Takeovers Code.

Given the benefits which may be accrued to the Company for the entering of the Agreement as discussed in section I above and that the granting of the Whitewash Waiver is among the conditions precedent to the Completion, we consider that it would be in the interest of the Independent Shareholders to vote in favour of the grant of the Whitewash Wavier.

Yours faithfully,
For and on behalf of
Optima Capital Limited
Gary Mui
Executive Director
Head of Corporate Finance

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three years ended 31 December 2007 extracted from the relevant annual reports of the Company. No qualified opinion or modified audit opinion had been issued by the Company's auditors for each of the three years ended 31 December 2007.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Continuing operations			
Revenue	576,058	330,774	144,847
Cost of sales	(468,903)	(251,462)	(78,713)
Gross profit	107,155	79,312	66,134
Other revenue and financial revenue	16,560	11,449	3,755
Selling and distribution costs	(54,708)	(45,602)	(36,259)
Administrative expenses	(65,910)	(51,906)	(47,308)
Gain on fair value changes in financial assets at fair value through profit or loss, net	24,629	38,589	(329)
Net surplus on revaluation of investment properties	10,178	22,031	996
Dividend income from available-for-sale financial assets	48,383	–	–
Gain on disposal of an investment property	22,853	–	–
Other operating income, net	4,614	3,473	16,238
Finance costs	(7,157)	(2,880)	–
Share of results of associates	2,212	5,028	–
Profit before income tax	108,809	59,494	3,227
Income tax expense	(7,168)	(7,815)	(3,362)
Profit/(loss) after income tax from continuing operations	101,641	51,679	(135)

	Year ended 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Discontinued operations			
Profit/(loss) from discontinued operations	325,566	(29,612)	(43,576)
Profit/(loss) for the year	427,207	22,067	(43,711)
Attributable to:			
Equity holders of the Company	427,467	22,347	(43,275)
Minority interest	(260)	(280)	(436)
Profit/(loss) for the year	427,207	22,067	(43,711)
Earnings per share from continuing operations attributable to equity holders of the Company			
Basic	HK cents 5.67	HK cents 3.34	HK cents (0.01)
Diluted	–	–	–
Earnings/(loss) per share from discontinued operations attributable to equity holders of the Company			
Basic	HK cents 18.18	HK cents (1.89)	HK cents (2.79)
Diluted	–	–	–
Dividend	–	–	–

Note: No extraordinary items or exceptional items were recorded for each of the three years ended 31 December 2007. Comparative figures for the two years ended 31 December 2006 have been restated due to reclassification of discontinued operations.

CONSOLIDATED BALANCE SHEETS

	At 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	125,394	200,684	213,587
Investment properties	60,258	159,748	66,689
Prepaid land lease payments	10,227	46,545	48,029
Interest in an associate	31,484	29,272	–
Available-for-sale financial assets	853,380	–	–
Properties under development	–	–	291,046
Prepayments and deposits	2,394	41,982	48,128
Deferred tax assets	1,130	1,062	1,021
	1,084,267	479,293	668,500
Current assets			
Properties held for sale	–	–	70,330
Properties under development	–	–	194,133
Inventories	142,026	114,424	105,922
Trade and bills receivables	44,052	90,937	25,288
Prepaid land lease payments	210	3,764	3,619
Prepayments, deposits and other receivables	87,277	33,391	37,212
Financial assets at fair value through profit or loss	44,178	48,765	44,210
Due from minority equity holders	–	–	7,480
Pledged deposits	–	4,892	18,653
Cash and cash equivalents	82,362	39,836	370,909
	400,105	336,009	877,756
Non-current assets held for sale	200,989	–	–
Assets in disposal group classified as held for sale	–	1,262,408	–
	601,094	1,598,417	877,756

	At 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade payables	33,497	46,683	108,760
Deposits received from customers	–	1,613	255,163
Other payables and accruals	95,767	58,623	98,135
Tax payables	13,188	9,597	12,007
Derivative financial instruments	5,017	–	–
Borrowings	112,815	116,353	96,154
Due to related companies	209,311	180,000	134
	469,595	412,869	570,353
Liabilities in disposal group classified as held for sale	–	1,038,855	–
	469,595	1,451,724	570,353
Net current assets	131,499	146,693	307,403
Total assets less current liabilities	1,215,766	625,986	975,903
Non-current liabilities			
Borrowings	–	55,348	317,308
Deferred tax liabilities	–	–	794
Deferred income	–	–	177,906
	–	55,348	496,008
Net assets	1,215,766	570,638	479,895
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	179,203	179,203	154,483
Reserves	1,034,171	348,715	304,535
Income and expense recognised directly in equity relating to disposal group	–	10,017	–
	1,213,374	537,935	459,018
Minority interest	2,392	32,703	20,877
Total equity	1,215,766	570,638	479,895

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007, which are unqualified.

Consolidated Income Statement
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Continuing operations:			
Revenue	6	576,058	330,774
Cost of sales		(468,903)	(251,462)
Gross profit		107,155	79,312
Other income	7	14,637	9,759
Selling and distribution expenses		(54,708)	(45,602)
Administrative expenses		(65,910)	(51,906)
Gain on fair value changes in financial assets at fair value through profit or loss, net		24,629	38,589
Net surplus on revaluation of investment properties	18	10,178	22,031
Dividend income from available-for-sale financial assets	25	48,383	–
Gain on disposal of an investment property	18	22,853	–
Other operating income, net		4,614	3,473
Operating profit		111,831	55,656
Financial income	7	1,923	1,690
Finance costs	8	(7,157)	(2,880)
Share of results of an associate	24	2,212	5,028
Profit before income tax	9	108,809	59,494
Income tax expense	10	(7,168)	(7,815)
Profit after income tax from continuing operations		101,641	51,679
Discontinued operations:			
Profit/(Loss) for the year from discontinued operations	11	325,566	(29,612)
Profit for the year		427,207	22,067
Attributable to:			
Equity holders of the Company	12	427,467	22,347
Minority interest		(260)	(280)
Profit for the year		427,207	22,067

	Notes	2007 *HK$'000*	2006 *HK$'000* (Restated)
Earnings per share from continuing operations attributable to equity holders of the Company	*14*		
Basic		HK cents 5.67	HK cents 3.34
Diluted		N/A	N/A
Earnings/(Loss) per share from discontinued operations attributable to equity holders of the Company	*14*		
Basic		HK cents 18.18	(HK cents 1.89)
Diluted		N/A	N/A

Consolidated Balance Sheet
As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	125,394	200,684
Investment properties	18	60,258	159,748
Prepaid land lease payments	19	10,227	46,545
Interests in associate	24	31,484	29,272
Available-for-sale financial assets	25	853,380	–
Prepayments and deposits	26	2,394	41,982
Deferred tax assets	36	1,130	1,062
		1,084,267	479,293
Current assets			
Inventories	27	142,026	114,424
Trade and bills receivables	28	44,052	90,937
Prepaid land lease payments	19	210	3,764
Prepayments, deposits and other receivables	26	87,277	33,391
Financial assets at fair value through profit or loss	29	44,178	48,765
Pledged deposits	30	–	4,892
Cash and cash equivalents	30	82,362	39,836
		400,105	336,009
Non-current assets held for sale	11	200,989	–
Assets in disposal group classified as held for sale	11	–	1,262,408
		601,094	1,598,417
Current liabilities			
Trade payables	31	33,497	46,683
Deposits received from customers		–	1,613
Other payables and accruals	32	95,767	58,623
Tax payables		13,188	9,597
Derivative financial instruments	33	5,017	–
Borrowings	34	112,815	116,353
Due to related companies	35	209,311	180,000
		469,595	412,869
Liabilities in disposal group classified as held for sale	11	–	1,038,855
		469,595	1,451,724

	Notes	2007 HK$'000	2006 HK$'000
Net current assets		131,499	146,693
Total assets less current liabilities		1,215,766	625,986
Non-current liabilities			
Borrowings	34	–	55,348
		–	55,348
Net assets		1,215,766	570,638
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	38	179,203	179,203
Reserves	40	1,034,171	348,715
Income and expense recognised directly in equity relating to disposal group		–	10,017
		1,213,374	537,935
Minority interests		2,392	32,703
Total equity		1,215,766	570,638

Balance Sheet
As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	4,881	6,360
Interests in subsidiaries	21	281,025	377,095
Due from disposal group	22	–	1,735
Interests in jointly-controlled entity	23	64,425	46,203
Interests in associate	24	24,244	24,244
Deposits	26	–	27,000
		374,575	482,637
Current assets			
Prepayments, deposits and other receivables	26	37,545	6,987
Financial assets at fair value through profit or loss	29	20,130	37,627
Pledged deposits	30	–	4,892
Cash and cash equivalents	30	29,905	3,812
		87,580	53,318
Current liabilities			
Other payables and accruals	32	14,852	12,847
Borrowings	34	–	3,652
		14,852	16,499
Net current assets		72,728	36,819
Total assets less current liabilities		447,303	519,456
Non-current liabilities			
Borrowings	34	–	55,348
Net assets		447,303	464,108
EQUITY			
Share capital	38	179,203	179,203
Reserves	40	268,100	284,905
Total equity		447,303	464,108

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Cash flows from operating activities of continuing and discontinued operations			
Profit/(Loss) before income tax			
Continuing operations		108,809	59,494
Discontinued operations	11	325,566	(18,781)
Total		434,375	40,713
Adjustments for:			
Interest income		(1,642)	(2,813)
Finance costs		18,761	5,061
Dividend income from available-for-sale financial assets		(48,383)	–
Dividend income from financial assets at fair value through profit or loss	7	(374)	(756)
Loss on disposals/write off of property, plant and equipment, net	9	262	31
Net surplus on revaluation of investment properties	18	(10,178)	(25,214)
Depreciation	17	11,962	21,908
Amortisation of prepaid land lease payments	19	3,952	3,465
Share of results of an associate	24	(2,212)	(5,028)
Gain on disposals of subsidiaries	44	(366,806)	–
Gain on disposals of investment properties		(22,853)	–
Unrealised loss on derivative financial instruments	9	5,017	–
Impairment for doubtful debts		–	1,997
Write-back for inventories	9	–	(6,379)
Provision for inventories	9	–	261
Operating profit before working capital changes		21,881	33,246
Increase in properties under development		(111,339)	(393,585)
Decrease in properties held for sale		70,164	166
Increase in inventories		(27,602)	(2,384)
Decrease/(Increase) in trade and bills receivables		47,221	(73,940)
Increase in prepayments, deposits and other receivables		(28,657)	(39,254)
Decrease/(Increase) in financial assets at fair value through profit or loss		4,587	(4,555)
(Decrease)/Increase in trade payables		(10,514)	27,696
Increase in other payables and accruals		31,774	18,756
Increase in deposits received from customers		65,747	16,938
Decrease in amounts due from minority equity holders		–	7,480
Increase in amounts due to related companies		39,464	163
Cash from/(used in) operations		102,726	(409,273)
Interest received		1,642	2,813
Interest paid		(18,761)	(5,061)
Overseas tax paid		(27,859)	(6,895)
Net cash generated from/(used in) operating activities		57,748	(418,416)

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Cash flows from investing activities of continuing and discontinued operations			
Dividends received from available-for-sale financial assets		750	–
Dividends received from financial assets at fair value through profit or loss	7	374	756
Purchases of property, plant and equipment		(73,526)	(21,986)
Additional prepaid land lease payments		(10,511)	–
Purchases of investment properties	*18*	(10,332)	(88,795)
Proceeds from disposals of investment properties		142,853	–
Acquisition of associate	*24*	–	(24,244)
Net cash outflow from disposals of subsidiaries	*44*	(304,688)	–
Decrease in pledged deposits		4,719	5,670
Net cash used in investing activities		(250,361)	(128,599)
Cash flows from financing activities of continuing and discontinued operations			
New bank loans		220,311	207,800
Proceeds from issue of new shares		–	48,420
Repayments of bank and other loans		(171,701)	(73,000)
Contribution from minority interests		–	12,019
Loans from a related party		–	180,000
Net cash generated from financing activities		48,610	375,239
Net decrease in cash and cash equivalents		(144,003)	(171,776)
Cash and cash equivalents at 1 January		234,616	370,909
Effect of foreign exchange rate changes, net		(8,251)	35,483
Cash and cash equivalents at 31 December		82,362	234,616
Analysis of balances of cash and cash equivalents			
Cash at bank and in hand			
Remaining Group	*30*	82,362	39,836
Disposal Group	*11*	–	194,780
		82,362	234,616

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Equity attributable to equity holders of the Company									
	Share capital	Share premium account*	Goodwill arising on consolidation*	Statutory reserves*	Exchange fluctuation reserve*	Investment revaluation reserve*	Retained profits*	Total	Minority interest	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	154,483	–	(15,300)	14,747	6,803	–	298,285	459,018	20,877	479,895
Exchange realignment	–	–	–	–	8,150	–	–	8,150	87	8,237
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
At 31 December 2006 and 1 January 2007	179,203	23,700	(15,300)	17,819	14,953	–	317,560	537,935	32,703	570,638
Exchange realignment	–	–	–	–	6,175	–	–	6,175	143	6,318
Change in fair value of available-for-sale financial assets	–	–	–	–	–	241,797	–	241,797	–	241,797
Total income and expense for the year recognised directly in equity	–	–	–	–	6,175	241,797	–	247,972	143	248,115
Transfer to statutory reserves	–	–	–	1,974	–	–	(1,974)	–	–	–
Net profit for the year	–	–	–	–	–	–	427,467	427,467	(260)	427,207
Total recognised income and expense for the year	–	–	–	1,974	6,175	241,797	425,493	675,439	(117)	675,322
Disposals of subsidiaries *(Note 44)*	–	–	–	–	–	–	–	–	(30,194)	(30,194)
Balance at 31 December 2007	179,203	23,700	(15,300)	19,793	21,128	241,797	743,053	1,213,374	2,392	1,215,766

* *These reserve accounts comprise the consolidated reserves of HK$1,034,171,000 (2006: HK$348,715,000) in the consolidated balance sheet.*

Notes to the Financial Statements

For the year ended 31 December 2007

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 Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, 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

– Property investment

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

On 3 December 2007, Seti Timber Industry (Shenzhen) Co., Ltd. ("Seti"), a wholly-owned subsidiary of the Company, entered into a land resumption agreement with the Shenzhen Municipal Government (the "Land Resumption Agreement"). Seti was incorporated in the People's Republic of China (the "PRC") and was principally engaged in manufacture and distribution of timber products in Shenzhen in the PRC. Pursuant to the Land Resumption Agreement, in 2008, the Shenzhen Municipal Government shall resume a piece of the land in Shenzhen that is leased to Seti and Seti shall cease its existing production operations. In this regard, Seti has significantly scaled down its operations in manufacture and distribution of timber products (the "2007 Discontinued Timber Business") as at 31 December 2007. Details of this transaction have been set out in the Company's circular dated on 24 December 2007 (the "2007 Circular").

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 PRC and are principally engaged in the property development (the "2006 Discontinued Property Development Business"). Details of this transaction have been set out in the Company's circular dated on 30 August 2006 (the "2006 Circular"). The disposals of the 2006 Discontinued Property Development Business carried out by Jing Guan and Xin Yang were completed on 22 May 2007. Jing Guan and Xin Yang are together referred to as the "2006 Disposal Group" hereafter.

As the 2007 Discontinued Timber Business carried out by Seti and the 2006 Discontinued Property Development Business carried out by the 2006 Disposal Group represent components of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represent separate major lines of businesses, the Group presented, in its financial statements, the operations of the 2007 Discontinued Timber Business and the 2006 Discontinued Property Development Business as discontinued operations in accordance with HKFRS5. Further details regarding the 2007 Discontinued Timber Business and the 2006 Discontinued Property Development Business are set out in note 11.

The Company and other subsidiaries not engaged in the 2007 Discontinued Timber Business and the 2006 Discontinued Property Development Business are referred to as the "Remaining Group".

The consolidated financial statements on pages 34 to 137 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated 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 of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 17 April 2008.

2. ADOPTION OF NEW OR REVISED HKFRS

From 1 January 2007, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2007 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures. The specific transitional provisions contained in some of these new or amended HKFRSs have been considered.

In accordance with the HKAS 1 (Amendment) Presentation of Financial Statements – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report.

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

– a sensitive analysis explained the Group's market risk exposure in regard to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet line items.

The Group has not adopted early 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 consolidated financial statements.

HKAS 1 (Revised)	"Presentation of Financial Statements"[1]
HKAS 23 (Revised)	"Borrowing Costs"[1]
HKAS 27 (Revised)	"Consolidated and Separate Financial Statements"[2]
HKFRS 2 (Amendment)	"Share Based Payments"[1]
HKFRS 3 (Revised)	"Business Combinations"[2]
HKFRS 8	"Operating Segments"[1]
HK(IFRIC) – Int 11	HKFRS 2 "Group and Treasury Share Transactions"[3]
HK(IFRIC) – Int 12	"Service Concession Arrangements"[4]
HK(IFRIC) – Int 13	"Customer Loyalty Programmes"[5]
HK(IFRIC) – Int 14	"HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction"[5]

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

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 March 2007

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1.1 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, available-for-sale financial assets 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 and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.1.2 Going concern

The financial statements have been prepared on a going concern basis though the Remaining Group had net current liabilities (after excluding the non-current assets held for sale/assets and liabilities in disposal group held for sale) of HK$69,490,000 (2006: HK$76,860,000) as at 31 December 2007. 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 agreed not to demand repayment of the amount of HK$191,490,000 due to it from the Group until such time when repayment will not affect the Remaining Group's ability to repay other creditors and the directors do not foresee any circumstances that the banks will not continue the 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 2007 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 Remaining 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 interests are 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 only after 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 carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, 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, when necessary, 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 associate or 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, if any, is included in the carrying amount of the Group's interest in the associate or jointly controlled entity and is assessed for impairment as part of the interests 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, investment properties, prepaid land lease payments 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.

Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 – Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Impairment loss recognised in an interim period in respect of goodwill is not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

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 or its parent;

(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, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and impairment losses.

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

Buildings	Over the terms of the leases or estimated useful lives, ranging between 6 years and 50 years, whichever is shorter
Leasehold improvements	Over the terms of the leases, or estimated useful life of 10 years, whichever is shorter
Plant and machinery	6% to 25%
Furniture and fixtures	10% to $33^1/_3$%
Motor vehicles	10% to 25%

The assets' estimated 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 costs, such as repairs and maintenance, are charged to the income statement during the financial period in which they are incurred.

CIP, which mainly represents leasehold improvements on buildings, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.10 Investment property

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 value or the sale of an investment property are included in the income statement for the period in which they arise.

3.11 Properties under development

Properties under development with undetermined future use are stated at cost, which includes all development expenditure, interest charges and other costs directly attributable to such properties, less any impairment.

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

As properties under development were all carried out within the 2006 Discontinued Property Development Business, these are included in assets in disposal group classified as held for sale.

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. As properties held for sale were all carried out within the 2006 Discontinued Property Development Business, these are included in assets in disposal group classified as held for sale.

3.13 Operating Leases

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) Operating lease charges as the lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line method 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.

(ii) Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire the long term interests in usage of land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line method over the respective lease term.

3.14 Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and 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 and sales of financial assets are recognised on trade date, that is, the date that the Group commits to purchase or sell the asset. 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 rate 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. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in the income statement. Interest calculated using the effective interest rate method is recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

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

A provision for impairment of loans and receivables 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinguency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

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

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals of impairment for investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

3.15 Financial liabilities

The Group's financial liabilities include borrowings, amounts due to related companies, trade and other payables and derivative financial instruments. They are included in balance sheet line items as borrowings under current or non-current liabilities, trade and other payables or derivative financial instruments.

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

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

(i) Borrowings

Borrowings are mainly bank loans and are recognised initially at fair value, net of transaction 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 and amounts due to related companies

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

(iii) Derivative financial instruments

Detail policy is included in note 3.16 below.

3.16 Derivative financial instruments

Contracts to buy and sell a non-financial items is accounted for as derivative when it can be settled net in cash or another financial instrument and is not held for the purpose of receipt or delivery of the non-financial item in accordance with the Group's expected purchase, sale or usage requirement.

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

3.17 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.

3.18 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.

3.19 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 uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.20 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.

3.21 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.

3.22 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, 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 2006 Discontinued Property Development Business 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, is recognised on a time proportion basis over the lease terms.

Interest income is recognised on a time-proportion basis using the effective interest method.

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

3.23 Retirement benefit costs and short term employee benefits

(i) 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.

(ii) 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.

(iii) 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.

3.24 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.

3.25 Foreign currency translation

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.

3.26 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.

Financial guarantees contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transactions costs that are directly attributable to the acquisition or issuance of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at higher of : (i) the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, accumulated amortisation recognised in accordance with HKAS 18 "Revenue".

3.27 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, investment properties, prepaid land lease payments, inventories, receivables and operating cash, and mainly exclude available-for-sale financial assets and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and exclude items such as borrowings and other liabilities that are incurred for financing rather than operating purpose.

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.

3.28 Assets held for sale

Non-current assets held for sale and assets in disposal groups are classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. These assets (and disposal groups), other than financial assets, classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

3.29 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

3.30 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. Goodwill of the Group amounting to HK$4,816,000 has been fully impaired for the years ended 31 December 2007 and 2006, 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.

Depreciation

The Group depreciates the property, plant and equipment on a straight-line method over the estimated useful lives of 4 to 50 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

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.

Income taxes

The Group is subject to income taxes in the PRC, Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

There is no impact of such a change of enterprise income tax on the Group because there are no material temporary differences. Therefore, no deferred taxation has been provided for the year.

Fair value of investment properties

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 3.10. The fair values of the investment properties are determined by Chung, Chan & Associates and Asset Appraisal Limited, independent professionally qualified valuers, and the fair value of investment properties are set out in note 18 to the financial statements. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the balance sheet date. These estimates are regularly compared to actual market data and actual transactions in the market.

Fair value of available-for-sale financial assets

The available-for-sale financial assets of the Group (other than 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) were stated at fair value in accordance with the accounting policy stated in note 3.14. The fair values of the available-for-sale financial assets are determined by Asset Appraisal Limited, an independent professionally qualified valuer, and the fair values of available-for-sale financial assets are set out in note 25 to the financial statements. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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 enamelled copper wires (carried out by the Group's jointly controlled entity);

(c) property investment; and

Manufacture and distribution of timber products carried out by the 2007 Discontinued Timber Business and the 2006 Discontinued Property Development Business 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).

Inter-segment sales are charged at prevailing market prices.

2007

	Continuing operations				Discontinued operations		
	Watches and timepieces	Enamelled copper wires	Property investment	Total	2006 Discontinued Property Development Business	2007 Discontinued Timber Business	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and gains:							
Sales to external customers	165,327	406,482	4,249	576,058	3,350	104,887	108,237
Other income and financial income	1,025	14,599	29	15,653	99	4,802	4,901
Total	166,352	421,081	4,278	591,711	3,449	109,689	113,138
Segment results	37,636	4,295	31,275	73,206	(9,785)	(19,851)	(29,636)
Unallocated corporate income and expenses, net				40,548			366,806
				113,754			337,170
Share of results of an associate				2,212			–
Finance costs				(7,157)			(11,604)
Profit before income tax				108,809			325,566
Income tax				(7,168)			–
Profit for the year				101,641			325,566
Segment assets	137,360	200,971	61,285	399,616	–	276,052	276,052
Unallocated assets				1,009,693			–
				1,409,309			276,052
Segment liabilities	38,713	27,428	11,301	77,442	–	49,712	49,712
Borrowings				86,219			26,596
Due to related companies				13,034			196,277
Unallocated liabilities				20,315			–
				197,010			272,585
Other segment information:							
Depreciation and amortisation of prepaid land lease payments	2,640	2,887	–	5,527	291	10,387	10,678
Net surplus on revaluation of investment properties	–	–	(10,178)	(10,178)	–	–	–
Capital expenditure	5,847	78,003	10,513	94,363	23	–	23

2006 (Restated)

	Continuing operations				Discontinued operations		
	Watches and timepieces *HK$'000*	Enamelled copper wires *HK$'000*	Property investment *HK$'000*	Total *HK$'000*	2006 Discontinued Property Development Business *HK$'000*	2007 Discontinued Timber Business *HK$'000*	Total *HK$'000*
Segment revenue and gains:							
Sales to external customers	130,358	196,414	4,002	330,774	282,953	103,984	386,937
Other income and financial income	331	9,515	2	9,848	5,690	3,470	9,160
Total	130,689	205,929	4,004	340,622	288,643	107,454	396,097
Segment results	20,514	7,168	22,832	50,514	12,912	(29,512)	(16,600)
Unallocated corporate income and expenses				6,832			–
				57,346			(16,600)
Share of results of an associate				5,028			–
Finance costs				(2,880)			(2,181)
Profit/(loss) before income tax				59,494			(18,781)
Income tax				(7,815)			(10,831)
Profit/(loss) for the year				51,679			(29,612)
Segment assets	107,031	165,273	160,735	433,039	1,262,408	246,299	1,508,707
Unallocated assets				135,964			–
				569,003			1,508,707
Segment liabilities	32,458	26,705	8,259	67,422	618,559	30,185	648,744
Borrowings				144,701			447,000
Due to related companies				–			180,296
Unallocated liabilities				18,909			–
				231,032			1,276,040
Other segment information:							
Depreciation and amortisation of prepaid land lease payments	2,735	2,444	–	5,179	1,616	17,774	19,390
Net surplus on revaluation of investment properties	–	–	(22,031)	(22,031)	(3,183)	–	(3,183)
(Write-back)/Provision for inventories	261	–	–	261	–	(6,379)	(6,379)
Capital expenditure	1,065	2,108	88,795	91,968	865	13	878

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:

	2007	**2006**
	HK$'000	*HK$'000*
		(Restated)
Continuing operations:		
Hong Kong	3,817	27,938
PRC	572,241	302,836
	576,058	330,774
Discontinued operations:		
PRC	108,237	386,937
	684,295	717,711

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

	Segment assets		**Capital expenditures**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)
Continuing operations:				
Hong Kong	12,832	120,000	10,513	88,795
PRC	386,784	313,039	83,850	3,173
	399,616	433,039	94,363	91,968
Discontinued operations:				
PRC	276,052	1,508,707	23	878
	675,668	1,941,746	94,386	92,846

6. REVENUE

Revenue on continuing operations, which is also the Group' 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:

	2007	**2006**
	HK$'000	*HK$'000*
		(Restated)
Revenue on continuing operations		
Sales of goods	571,809	326,772
Gross rental income	4,249	4,002
	576,058	330,774

7. OTHER INCOME AND FINANCIAL INCOME

		2007	2006
		HK$'000	*HK$'000*
			(Restated)
(a)	Other income on continuing operations		
	Income from sale of scrapped materials	14,599	9,008
	Others	38	751
		14,637	9,759
(b)	Financial income on continuing operations		
	Bank interest income	1,549	934
	Dividend income from financial assets at fair value through profit or loss	374	756
		1,923	1,690

8. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Interest on bank and other loans wholly repayable within five years	7,157	2,880

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Cost of inventories recognised as expense	468,903	251,462
Depreciation	5,455	5,179
Amortisation of prepaid land lease payments	72	–
Unrealised loss on derivative financial instruments	5,017	–
Minimum lease payments under operating leases in respect of land and buildings	7,236	4,200
Auditors' remuneration	1,200	1,000
Gross rental income	(4,249)	(4,002)
Less: direct operating expenses	787	401
Net rental income	(3,462)	(3,601)
Loss on disposals/write off of property, plant and equipment, net	112	31
Provision for inventories	–	261

10. INCOME TAX EXPENSE

For the year ended 31 December 2007, 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 (2006: 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.

	2007	**2006**
	HK$'000	*HK$'000*
Continuing operations		
Current tax for the year:		
Hong Kong	951	2,294
PRC	6,217	3,304
Under-provision in respect of prior years	–	2,217
Total income tax expense	7,168	7,815

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

	2007	**2006**
	HK$'000	*HK$'000*
		(Restated)
Profit before income tax on continuing operations	108,809	59,494
Tax at the applicable rates to profit in the tax jurisdictions concerned	18,053	5,644
Income not subject to tax	(15,712)	(1,909)
Expenses not deductible for tax	2,857	1,825
Adjustments in respect of income tax of previous periods	–	2,218
Other temporary differences not recognised	(72)	(166)
Tax losses utilised from previous periods	–	203
Tax losses not recognised	2,042	–
Income tax expense	7,168	7,815

11. NON-CURRENT ASSETS HELD FOR SALE/ASSETS IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

11.1 2007 Discontinued Timber Business

As described in note 1, on 3 December 2007, Seti, a PRC wholly-owned subsidiary within the Group and principally engaged in manufacture and distribution of timber products, entered into the Land Resumption Agreement with the Shenzhen Municipal Government. Pursuant to the Land Resumption Agreement, in 2008, the Shenzhen Municipal Government shall resume the land in Shenzhen that is currently leased to Seti (the "PRC Land") and Seti shall cease its existing production. In this regard, Seti has significantly scaled down its operations in manufacture and distribution of timber products as at 31 December 2007. Details of this transaction have been set out in the Company's 2007 Circular.

According to the Land Resumption Agreement, the Shenzhen Municipal Government shall retain 50% of the PRC Land and shall arrange for the remaining 50% of the PRC Land (the "Auction PRC Land") to be auctioned for sale at an open auction (the "Open

Auction") in 2008. The compensation to be paid to Seti by the Shenzhen Municipal Government, as a result of the land resumption, shall be 89.5% of the proceeds of the Auction PRC Land as determined in the Open Auction in 2008 and shall be paid by the Shenzhen Municipal Government to Seti in 60 days after the proceeds from the Open Auction are collected.

As at 31 December 2007, the title of the PRC Land has not yet been passed and Seti is still occupying the PRC Land although the timber operations have been significantly scaled down. Based on the valuation as set out in the 2007 Circular, the value of the PRC Land is significantly higher than the carrying amounts of the property, plant and equipment and prepaid land lease payments as presently recorded in the books of Seti. In the absence of any unforeseen adverse circumstances, no impairment loss is considered necessary by the directors of the Company as a consequence of the land resumption by the Shenzhen Municipal Government.

Currently, there is no plan to deregister Seti when the Open Auction is completed and the proceeds on the Auction PRC Land are collected.

In accordance with the HKFRS 5, the property, plant and equipment and prepaid land lease payments were classified as held for sale in the consolidated balance sheet as their carrying values will be recovered principally through a sale transaction. Other assets and liabilities were retained by Seti and their carrying amounts were not classified as held for sale.

11.2 2006 Discontinued Property Development Business and 2006 Disposal Group

As described in note 1, on 15 September 2006, a shareholders' resolution was passed to dispose of the entire paid-up capital of the 2006 Disposal Group to Citychamp Dartong Company Limited ("Citychamp"). 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 conditionally agreed to allot and issue 72,720,000 shares (the "Consideration Shares") and paid RMB36,000 to the Group as the consideration. Details of this transaction were set out in the Company's 2006 Circular. The disposal of the 2006 Disposal Group was completed on 22 May 2007 (note 44).

During the year, the 2006 Discontinued Property Development Business carried out by the 2006 Disposal Group is consistently presented as discontinued operations in accordance with HKFRS 5.

11.3 Profit/(loss) for the year from the discontinued operations is analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
		(Restated)
Loss of the 2007 Discontinued Timber Business and 2006 Discontinued Property Development Business *(note 11.4)*	(41,240)	(29,612)
Gain on disposals of the 2006 Disposal Group *(note 44)*	366,806	–
Profit/(Loss) for the year from the discontinued operations	325,566	(29,612)

11.4 An analysis of the results of the 2007 Discontinued Timber Business and 2006 Discontinued Property Development Business for the year ended 31 December 2007, with the comparatives for illustrative purpose, is as follows:

	2007			2006 (Restated)		
	2007 Discontinued Timber Business	2006 Discontinued Property Development Business	Total	2007 Discontinued Timber Business	2006 Discontinued Property Development Business	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	104,887	3,350	108,237	103,984	282,953	386,937
Cost of sales	(95,953)	(9,551)	(105,504)	(116,210)	(267,615)	(383,825)
Gross profit/(loss)	8,934	(6,201)	2,733	(12,226)	15,338	3,112
Other income	4,786	22	4,808	3,436	3,844	7,280
Selling and distribution expenses	(2,751)	(508)	(3,259)	(2,737)	(4,330)	(7,067)
Administrative expenses	(10,021)	(2,899)	(12,920)	(30,372)	(7,087)	(37,459)
Redundancy expense	(26,629)	–	(26,629)	–	–	–
Net surplus on revaluation of investment properties	–	–	–	–	3,183	3,183
Other operating income/(expenses) net	5,814	(276)	5,538	12,353	118	12,471
Operating (loss)/profit	(19,867)	(9,862)	(29,729)	(29,546)	11,066	(18,480)
Financial income	16	77	93	34	1,846	1,880
Finance cost-interest on bank and other loans wholly repayable within five years	(11,604)	–	(11,604)	(2,181)	–	(2,181)
(Loss)/Profit before income tax	(31,455)	(9,785)	(41,240)	(31,693)	12,912	(18,781)
Income tax expense						
– current tax	–	–	–	–	(10,213)	(10,213)
– deferred tax	–	–	–	–	(618)	(618)
(Loss)/Profit after income tax	(31,455)	(9,785)	(41,240)	(31,693)	2,081	(29,612)
Operating cash flows	(6,805)	12,340	5,535	(18,464)	(153,956)	(172,420)
Investing cash flows	–	–	–	1,465	732	2,197
Financing cash flows	52,622	117,649	170,271	30,821	32,019	62,840
Total cash inflows/(outflows)	45,817	129,989	175,806	13,822	(121,205)	(107,383)

Depreciation of property, plant and equipment and amortisation of prepaid land lease payments totalling HK$10,678,000 (2006: HK$19,390,000) were charged to the profit and loss of the discontinued operations for the year.

The employee benefit expense of the discontinued operation for the year of HK$33,772,000 (2006: HK$33,138,000) included wages and salaries of HK$6,858,000 (2006: HK$32,274,000), pension cost of HK$285,000 (2006: HK$864,000) and redundancy cost of HK$26,629,000 (2006: Nil).

11.5 An analysis of the non-current assets of the 2007 Discontinued Timber Business classified as held for sale as at 31 December 2007 is as follows:

	HK$
Non-current assets held for sale:	
Property, plant and equipment *(note 17)*	150,759
Prepaid land lease payments *(note 19)*	50,230
	200,989

At 31 December 2007, certain buildings of the 2007 Discontinued Timber Business with carrying value of HK$84,722,000 (2006: HK$83,738,000), situated in the PRC had been pledged to secure certain banking facilities granted to the Group (note 34).

At 31 December 2007, certain prepaid land lease payments of the 2007 Discontinued Timber Business in the PRC with carrying value of HK$43,885,000 (2006: HK$44,495,000), have been pledged to secure certain banking facilities granted to the Group (note 34).

In relation to the abovementioned pledged buildings and prepaid land lease payments, the amount of banking facilities being utilised at 31 December 2007 was HK$26,596,000 (2006: HK$27,000,000).

11.6 An analysis of the assets and liabilities of the 2006 Discontinued Property Development Business as at 31 December 2006 is as follows:

	HK$
Assets included in disposal group classified as held for sale:	
Property, plant and equipment *(note 17)*	8,658
Investment properties *(note 18)*	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 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

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of 427,467,000 (2006: HK$22,347,000), a loss of HK$16,805,000 (2006: HK$6,824,000) 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 (2006: Nil).

14. EARNINGS/(LOSS) PER SHARE

The calculations of basic earnings/(loss) from continuing and discontinued operations per share are based on the profit from continuing operations attributable to equity holders of the Company of HK$101,641,000 (2006: HK$51,679,000) and the profit from discontinued operations attributable to equity holders of the Company of HK$325,826,000 (2006: loss of HK$29,332,000) and on the weighted average of 1,792,031,000 (2006: 1,548,928,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2007 and 2006 have not been disclosed as no dilutive events existed during the years.

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2007	**2006**
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Wages and salaries	28,863	21,413
Pension costs – defined contribution plans	1,465	1,353
	30,328	22,766

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

16.1 Directors' emoluments

	Fees	**Salaries, allowances and benefits in kind**	**Contributions to pension scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2007				
Executive directors				
Mr. Hon Kwok Lung	–	1,690	12	1,702
Mr. Wang Shaolan	–	1,580	–	1,580
Mr. Shang Jianguang	–	1,720	60	1,780
Mr. Shi Tao	–	1,690	–	1,690
Mr. Lam Toi Man	–	1,430	12	1,442
Non executive director				
Ms. Sit Lai Hei	100	–	–	100
Independent non-executive directors				
Mr. Fung Tze Wa	150	–	–	150
Dr. Kwong Chun Wai, Michael	100	–	–	100
Mr. Li Qiang	100	–	–	100
	450	8,110	84	8,644

	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				
Ms. 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

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 above analysis. 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	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006							
Cost	102,438	5,578	118,264	29,643	12,870	–	268,793
Accumulated depreciation	(14,206)	(2,412)	(23,659)	(12,164)	(2,765)	–	(55,206)
Net carrying amount	88,232	3,166	94,605	17,479	10,105	–	213,587
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 11.6)*	(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
Year ended 31 December 2007							
Opening net book amount	88,170	1,952	86,367	11,860	12,335	–	200,684
Additions	42,191	–	4,334	579	1,555	24,867	73,526
Transfer	–	–	15,069	–	–	(15,069)	–
Disposals/write-off	–	–	–	(245)	(17)	–	(262)
Depreciation	(4,884)	(1,073)	(2,399)	(1,600)	(2,006)	–	(11,962)
Exchange realignment	6,761	(109)	4,301	685	478	2,051	14,167
Reclassified to non-current assets held for sale *(note 11.5)*	(84,722)	–	(52,182)	(8,625)	(5,230)	–	(150,759)
Closing net book amount	47,516	770	55,490	2,654	7,115	11,849	125,394
At 31 December 2007							
Cost	52,177	5,502	65,199	12,951	10,806	11,849	158,484
Accumulated depreciation	(4,661)	(4,732)	(9,709)	(10,297)	(3,691)	–	(33,090)
Net carrying amount	47,516	770	55,490	2,654	7,115	11,849	125,394

Company

	Leasehold improvements *HK$'000*	**Furniture, fixtures and office equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
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 1 January 2007				
Cost	1,767	956	5,831	8,554
Accumulated depreciation	(877)	(452)	(865)	(2,194)
Net book amount	890	504	4,966	6,360
Year ended 31 December 2007				
Opening net book amount	890	504	4,966	6,360
Additions	–	127	–	127
Depreciation	(351)	(172)	(1,083)	(1,606)
Closing net book amount	539	459	3,883	4,881
At 31 December 2007				
Cost	1,767	1,083	5,831	8,681
Accumulated depreciation	(1,228)	(624)	(1,948)	(3,800)
Net book amount	539	459	3,883	4,881

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:

	2007 *HK$'000*	**2006** *HK$'000*
At cost:		
Short-term leases	2,640	2,612
Medium-term lease	49,537	104,846
	52,177	107,458

At 31 December 2007, no building of the Remaining Group is pledged to secure certain banking facilities granted to the Group. At 31 December 2006, certain of the Group's buildings with carrying value of HK$84,722,000 situated in the PRC had been pledged to secure certain banking facilities granted to the Group (note 34).

At 31 December 2007, the Group has not yet obtained the title certificates for certain leasehold buildings situated in Shenzhen with an aggregate carrying value of approximately HK$1,135,000 (2006: HK$18,985,000). 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:

	2007	**2006**
	HK$'000	*HK$'000*
Carrying amount at 1 January	159,748	66,689
Transfer from prepayments	–	9,845
Additions	10,332	88,795
Disposals	(120,000)	–
Net surplus on revaluation of investment properties	10,178	25,214
Exchange alignment	–	1,105
Reclassified to assets in disposal group classified as held for sale *(note 11)*	–	(31,900)
Carrying amount at 31 December	60,258	159,748

The carrying amounts of the Group's investment properties situated in Hong Kong and the PRC held under medium-term leases are analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Hong Kong	12,832	120,000
The PRC	47,426	39,748
	60,258	159,748

The Group's investment properties were revalued at 31 December 2007 by Chung, Chan & Associates, and Asset Appraisal Limited, independent professionally qualified valuers, at HK$60,258,000 in aggregate on market by reference to market prices for similar properties.

The net surpluses on revaluation of HK$10,178,000 have been credited to the income statement on the continuing operation. (2006: HK$22,031,000 and HK$3,183,000 have been credited to the income statement on the continuing operation and discontinued operations respectively.)

At 31 December 2007, the Group had certain investment properties located in Dongguan, the PRC with aggregate carrying value of HK$30,240,000 (2006: HK$24,000,000). 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 2007, certain of the Group's investment properties with carrying value of HK$12,832,000 (2006: HK$120,000,000) have been pledged to secure banking facilities granted to the Group (note 34).

During the year, investment properties with carrying amount of HK$120,000,000 were sold to an independent party at a consideration of HK$142,853,000. Accordingly, a gain amounting to HK$22,853,000 was recognised in the income statement during the year. The sale proceeds of HK$142,853,000 have been collected during the year.

19. PREPAID LAND LEASE PAYMENTS – GROUP

These represent interests in leasehold land and land use rights in the PRC. Changes to the carrying amounts presented in the balance sheet can be summarised as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Carrying amount at 1 January	50,309	51,648
Additions	10,511	–
Amortisation during the year	(3,952)	(3,465)
Exchange realignment	3,799	2,126
Reclassification to non-current assets held for sale *(note 11)*	(50,230)	–
Carrying amount at 31 December	10,437	50,309
Less: Current portion	(210)	(3,764)
Non-current portion	10,227	46,545

At 31 December 2007, no prepaid land lease payments of the Remaining Group are pledged to secure banking facilities granted to the Group. At 31 December 2006, certain of the Group's prepaid land lease payments in the PRC with carrying value of HK$44,495,000 have been pledged to secure certain banking facilities granted to the Group (note 34).

Their net book values are analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Short-term leases	–	44,853
Medium-term leases	10,437	5,456
	10,437	50,309

20. GOODWILL – GROUP

There are no changes in the carrying amounts of goodwill during the year. The net carrying amount of goodwill is analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January		
Gross amount	4,816	4,816
Accumulated impairment	(4,816)	(4,816)
Net carrying amount at 31 December	–	–

The carrying amount of goodwill of HK$4,816,000 was attributable to the 2007 Discontinued Timber Business. As this has been fully impaired in previous years, there is no impact on the income statement during the year pursuant to the Land Resumption Agreement.

Goodwill arising from business combinations prior to 2001 had been eliminated against the consolidated reserves. The carrying amount of goodwill in the consolidated reserves, arising from the acquisition of subsidiaries, was HK$15,300,000 (2006: HK$15,300,000) as at 31 December 2007.

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2007	**2006**
	HK$'000	*HK$'000*
Unlisted investments, at cost	128,174	128,174
Due from subsidiaries	456,554	552,624
	584,728	680,798
Less: Provision for impairment	(303,703)	(303,703)
	281,025	377,095

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 2007 are as follows:

Name	**Place/ country of incorporation**	**Particulars of issued ordinary/ paid-up capital**	**Percentage of issued ordinary/ paid-up capital held**		**Principal activities and place of operation**
			Directly	**Indirectly**	
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	PRC	US$45,525,860	–	100	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 issue of these financial statements. The Group will not make any further investment in this subsidiary.

22. DUE FROM DISPOSAL GROUP – COMPANY

The balance was due from the 2006 Disposal Group and was unsecured and interest-free. The balance has been fully recovered by the Group during the year.

23. INTERESTS IN JOINTLY-CONTROLLED ENTITY – COMPANY

	2007	**2006**
	HK$'000	*HK$'000*
Unlisted investments, at cost	64,215	46,030
Due from a jointly-controlled entity	210	173
	64,425	46,203

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 2007 are as follows:

Name	Place/ country of incorporation	Percentage 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:

	2007	**2006**
	HK$'000	*HK$'000*
Non-current assets	116,107	36,789
Current assets	84,864	128,484
Current liabilities	(126,681)	(112,494)
Net assets	74,290	52,779
Revenue	406,482	196,413
Other income and financial income	14,599	9,515
Total costs and expenses	(421,786)	(201,641)
Income tax	–	–
(Loss)/Profit after income tax	(705)	4,287

As at 31 December 2007, Fuzhou Dartong provided a guarantee of HK$26,596,000 (2006: HK$25,000,000) for a bank loan granted to Citychamp, the joint venturer.

24. INTERESTS IN ASSOCIATE

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	29,272	–	24,244	–
Acquisition of associate				
– unlisted investment at cost	–	24,244	–	24,244
Share of associate's results				
– Excess of the Group's share of the net identifiable assets over cost of acquisition *(note)*	–	4,725	–	–
– Profit before income tax	2,212	486	–	–
– Income tax	–	(183)	–	–
At 31 December	31,484	29,272	24,244	24,244

Note: This had been included in the share of results of associate in 2006.

Particulars of the associate at 31 December 2007 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 2007 are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Assets	392,858	352,335
Liabilities	(266,649)	(235,525)
Revenue	1,414,020	935,338
Profit for the year	8,848	13,661

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2007	**2006**
	HK$'000	*HK$'000*
Listed equity investment, at fair value *(note a)*	853,380	–
Unlisted equity investment, at cost *(note b)*	3,477	3,477
Provision for impairment	(3,477)	(3,477)
	–	–
Total	853,380	–

Note:

(a) On 22 May 2007, the Group completed its disposals of the 2006 Disposal Group to Citychamp. In return, Citychamp allotted and issued 72,720,000 shares (the "Consideration Shares") and pay RMB36,000 to the Group as the consideration (note 11.2).

On 29 July 2007, Citychamp declared a bonus issue of 0.836 share together with a cash dividend of RMB0.1 for every 10 Citychamp shares. The Group is eligible for the dividends as it held the consideration shares then. In August 2007, 6,079,392 Citychamp bonus shares and cash dividends of RMB727,200 were received by the Group. A dividend income totalling HK$48,383,000 was recognised in the income statement for the year ended 31 December 2007 (2006: Nil).

All the 78,799,392 Citychamp shares held by the Group are subject to a three-year lock up period commencing from the date of issue of the Consideration Shares to May 2010. The directors are of the opinion that the expected volatility and the effect of the three-year lock up period shall be taken into account in determining the fair value of the Citychamp shares held by the Group. In these regards, the Group engaged Asset Appraisal Limited, an independent professional qualified valuer, to evaluate the fair value of the Citychamp shares held by the Group. The valuation adopted market approach by reference to a list of certain public companies listed in Hong Kong, which are engaged in similar business operation and property development portfolios. The selection of the comparable companies is determined based on their products, markets, earning, growth and nature of competition. Based on the financial data of these selected comparable companies, such as earnings per share, market capitalisation and net profit margin, a weighted average price/earning ratio is computed. Based on this weighted average price/earning ratio, a fair value of RMB10.18 per Citychamp share is recognised in the financial statements of the Group. The above computation is arrived at based on assumptions that there will be no major change in the existing political conditions, legal conditions, economic conditions, tax law, interest rates and exchange rates in the location in which the business is operating.

The market value of the Citychamp shares at 31 December 2007 was amounted to HK$1,711,791,000.

Particulars of the available-for-sale financial assets of which the carrying amount of the Group's interest exceeded 10% of the total assets of the Group are as follows:

Name	Country of incorporation	Particulars of issued shares held	Percentage of ownership interest attributable to the Group 2007	2006
Citychamp Dartong Company Limited	PRC	Ordinary A Share	16.39%	–

(b) The Group held an equity interest of 25.5% 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. Since 2004 the Group's investment in Hefei Everbright was accounted for as a long term investment. In 2006, the investment in Hefei Everbright was designated as available-for-sale investment upon adoption of HKAS 39.

Having regard to the deteriorating financial positions of Hefei Everbright, 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 deteriorating during the year, there was no change in the accumulated impairment as at 31 December 2007.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits for the acquisition of an investment *(note)*	–	27,000	–	27,000
Other receivables	70,678	20,348	29,592	5,183
Prepayments	10,416	26,290	1,081	190
Deposits	8,577	1,735	6,872	1,614
Carrying amount at 31 December	89,671	75,373	37,545	33,987
Less: Current portion	(87,277)	(33,391)	(37,545)	(6,987)
Non-current portion	2,394	41,982	–	27,000

Note: In 2004, the Company entered into certain share purchase agreements with two independent third parties (the "Vendors") for the acquisition of an aggregate of 15% equity interests in Beijing Haidian Science Park Development Co., Ltd. ("Beijing Haidian"). A deposit of HK$27,000,000 (the "Deposit") was paid by the Company to the Vendors in 2006.

In March 2007, the Company and Jing Guan further extended the completion date of the proposed acquisition to 28 July 2007 as the approval from the local authorities was not obtained. Details of the proposed acquisition were set out in the Company's various press announcements during the period from 2 December 2004 to 29 March 2007 and the circular dated 25 April 2005 to the Company's shareholders.

As the proposed acquisition of Beijing Haidian was not completed on 28 July 2007, the Vendors has agreed to refund the Deposit to the Group. Accordingly, the Deposit was reclassified as other receivable in current asset at 31 December 2007 as it is to be recovered within twelve months from the balance sheet date. The Deposit was subsequently fully refunded to the Group in January 2008.

27. INVENTORIES – GROUP

	2007	2006
	HK$'000	*HK$'000*
Raw materials	40,014	32,859
Work in progress	12,891	12,822
Finished goods	89,121	68,743
	142,026	114,424

28. TRADE AND BILLS RECEIVABLES – GROUP

	2007	2006
	HK$'000	*HK$'000*
Trade and bills receivables	114,864	157,417
Less: Impairment losses	(70,812)	(66,480)
Trade and bills receivables – net	44,052	90,937

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 (2006: 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.

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. Movement in the provision for impairment of trade and bills receivables is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	66,480	63,924
Impairment loss charged to the income statement	86	–
Exchange realignment	4,246	2,556
At 31 December	70,812	66,480

At each of the balance sheet date, the Group's trade and bills receivables were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

Ageing analysis of trade and bills receivables (including amounts due from related party of trading in nature as disclosed in note 43.1(v)) as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
1 to 3 months	41,914	90,846
4 to 6 months	2,138	40
7 to 12 months	–	51
	44,052	90,937

Ageing analysis of trade receivables that are not impaired is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Neither past due nor impaired	41,914	90,846
1 – 90 days past due	2,138	40
91 – 180 days past due	–	51
	2,138	91
	44,052	90,937

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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

Included in trade receivables are the following amounts (net of impairment losses) denominated in a currency other than the functional currency of the entity to which it relates:

	2007	**2006**
	RMB'000	*RMB'000*
Renminbi ("RMB")	41,409	90,937

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investment in Hong Kong, at market value	44,178	48,765	20,130	37,627

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

30. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	82,362	39,836	29,905	3,812
Time deposits with original maturity less than three months	–	4,892	–	4,892
	82,362	44,728	29,905	8,704
Less: Deposits pledged for short term banking facilities	–	(4,892)	–	(4,892)
Cash and cash equivalents	82,362	39,836	29,905	3,812

Cash at bank earns interest at the floating rates based on the daily bank deposits rates. 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 pledged deposits and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which it relates:

	2007	**2006**
	RMB'000	*RMB'000*
RMB	46,686	35,612

All the above bank balances denominated in RMB were placed with the banks in the PRC. 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 the banks authorised to conduct foreign exchange business in the PRC.

31. TRADE PAYABLES – GROUP

Ageing analysis of trade payables (including amounts due to related parties with trading in nature) as at the balance sheet dates is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	19,135	45,155
31 – 60 days	14,350	727
61 – 90 days	–	–
Over 90 days	12	801
	33,497	46,683

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

	2007	2006
	RMB'000	*RMB'000*
RMB	31,487	46,683

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

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	56,061	12,322	1,265	1,989
Other payables	39,706	46,301	13,587	10,858
	95,767	58,623	14,852	12,847

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

33. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2007	2006
	HK$'000	*HK$'000*
Current liability		
– Forward contracts for the purchase of copper	5,017	–

The Group entered into forward contracts for the purchase and sell of copper and recorded unrealised loss of HK$5,017,000 (2006: Nil) for the year. The fair values of the derivative financial instruments are determined with reference to the quoted market price of the instruments at balance sheet date.

The following is a summary of forward contracts as at 31 December 2007:

	2007	2006
	HK$'000	*HK$'000*
Copper cathodes		
Purchase		
– tonne	1,800	–
– average price (RMB/tonne)	RMB62,150	–
– maturity	February 2008 to November 2008	–
Sell		
– tonne	600	–
– average price (RMB/tonne)	RMB55,565	–
– maturity	March 2008 to May 2008	–

34. BORROWINGS

		Effective interest rate	Group 2007	Group 2006	Company 2007	Company 2006
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current						
Bank borrowings	Floating	6.3%	–	55,348	–	55,348
Current						
Bank borrowings	Floating	5.9% – 6.3%	26,272	52,652	–	3,652
Bank borrowings	Fixed	5.5% – 7.3%	86,543	63,701	–	–
			112,815	116,353	–	3,652
Total borrowings			112,815	171,701	–	59,000

As at 31 December 2007, the Group's bank loans were secured by:

(i) a legal charge over certain of the Group's prepaid land lease payments and buildings situated in the PRC (notes 11.5, 19 and 17);

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

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

As at 31 December 2007, the Group's bank loans were repayable as follows:

	Group 2007	Group 2006	Company 2007	Company 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	112,815	116,353	–	3,652
In the second year	–	3,652	–	3,652
In the third to fifth year	–	10,955	–	10,955
Repayable within five years	112,815	130,960	–	18,259
After the fifth year	–	40,741	–	40,741
	112,815	171,701	–	59,000

Included in borrowings of the Group are the following amounts denominated in a currency other than the functional currency of the entity to which it relates:

	2007	**2006**
	RMB'000	*RMB'000*
RMB	106,046	85,800

35. DUE TO RELATED COMPANIES

As at 31 December 2007, amounts due to related companies are unsecured, interest-free and repayable on demand. One of the related companies has agreed not to demand repayment of the amount of HK$191,490,000 due to it from the Group until such time when repayment will not affect the Remaining Group's ability to repay other creditors.

As at 31 December 2006, amounts due to related companies of HK$180,000,000 were unsecured, interest bearing at rates ranging between 5.0% and 5.6% per annum and repayable on 18 December 2007. One of the related companies has agreed to extend the repayment date for the due amount of HK$144,000,000 to 18 December 2008 when the Group is not financially viable to make the repayment on or before 18 December 2007.

36. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rate of 17.5% (2006: 17.5%).

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

Deferred tax liabilities

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	–	794
Exchange difference	–	32
Deferred tax charged to the results of the 2006 Disposal Group	–	618
Transferred to liabilities directly associated with disposal group classified as held for sale *(note 11)*	–	(1,444)
At 31 December	–	–

Deferred tax assets

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	1,062	1,021
Exchange difference	68	41
At 31 December	1,130	1,062

As at 31 December 2007, the Group has tax losses arising in Hong Kong of HK$87,891,000 (2006: HK$76,221,000), 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 these losses were incurred by the companies that have been loss-making for some time.

During the year, there was no significant unrecognised deferred tax liability 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 during the year.

37. DEFERRED INCOME

	2007	2006
	HK$'000	*HK$'000*
At 1 January	–	177,906
Exchange difference	–	7,117
Transferred to liabilities directly associated with assets in disposal group classified as held for sale *(note 11)*	–	(185,023)
At 31 December	–	–

Deferred income of HK$177,906,000 are in fact government grant received in 2005 for partial refund of land premium in respect of a piece of land for a property redevelopment project situated in Beijing, the PRC. No other contingencies are attached to such grants.

As at 31 December 2006, this balance had all been classified as liabilities directly associated with assets in disposal group classified as held for sale (note 11).

There were no government grants recognised as income during the year ended 31 December 2007 and 31 December 2006.

38. SHARE CAPITAL

	2007		2006	
	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
Issued and fully paid:				
At 1 January	1,792,031	179,203	1,544,831	154,483
Placement of new share	–	–	247,200	24,720
At 31 December	1,792,031	179,203	1,792,031	179,203

On 8 June 2006, the Company placed 247,200,000 new shares of HK$0.10 each at a price of HK$0.20 per share.

39. 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 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 2007 (2006: Nil).

40. 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.

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**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
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 and at 1 January 2007	23,700	261,205	284,905
Net loss for the year *(note 12)*	–	(16,805)	(16,805)
At 31 December 2007	23,700	244,400	268,100

41. OPERATING LEASE COMMITMENTS

41.1 At 31 December 2007, the total future minimum sublease payments expected to be received by the Group under non-cancellable subleases by the Group is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	4,795	9,068
In the second to fifth years	26,709	30,335
After five years	39,812	49,006
	71,316	88,409

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

41.2 At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Remaining Group:				
Within one year	3,379	4,787	2,506	4,189
In the second to fifth years	24,075	2,192	22,029	–
	27,454	6,979	24,535	4,189
Disposal Group:				
Within one year	–	451	–	–
In the second to fifth years	–	–	–	–
	–	451	–	–
Total	27,454	7,430	24,535	4,189

The Group and the Company lease certain offices 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 an 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$432,000 (2006: HK$420,000) was charged to the consolidated income statement of the Group.

42. CAPITAL COMMITMENTS

Group

	2007	**2006**
	HK$'000	*HK$'000*
Contracted, but not provided for		
Remaining group:		
Acquisition of Beijing Haidian *(note 26)*	–	65,621
Purchases of property, plant and equipment	13,934	–
	13,934	65,621
Disposal group:		
Acquisition of Beijing Haidian *(note 27)*	–	25,934
Construction work for properties under development	–	106,828
	–	132,762
Total commitments, contracted but not provided for	13,934	198,383
Total capital commitments	13,934	198,383

Company

	2007	2006
	HK$'000	*HK$'000*
Contracted, but not provided for		
Acquisition of Beijing Haidian *(note 26)*	–	65,621

43. RELATED PARTY TRANSACTIONS

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

(i) Sales of goods

	2007	2006
	HK$'000	*HK$'000*
Sales of goods to the joint venturer	310,319	195,061

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

	2007	2006
	HK$'000	*HK$'000*
Purchases of goods from the joint venturer	761	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

	2007	2006
	HK$'000	*HK$'000*
Purchases of plant and machinery from joint venturer	–	352

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 income

	2007	2006
	HK$'000	*HK$'000*
Rental income received	771	642

This was received from a company of which a director of the Company is also director and this was charged at HK$64,000 per month on average (2006: HK$52,000).

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

	2007	2006
	HK$'000	*HK$'000*
Receivables from related party – joint venturer	14,080	80,522

(vi) Outstanding balances included in other receivables:

	2007	2006
	HK$'000	*HK$'000*
Receivables from a subsidiary of a joint venturer	5,117	–

(vii) Interest paid by the 2007 Discontinued Timber Business for the loan from related companies

	2007	2006
	HK$'000	*HK$'000*
Loan interest paid to related companies	9,756	337

(viii) Acquisition of an 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 an associate of the Group using the equity method since that date.

(ix) Acquisition of investment properties

During the year, the Group acquired an investment property from a company controlled by a close family member of a director of the Company at a consideration of HK$10,332,000 (note 18).

43.2 Key management personnel compensation:

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

	2007	2006
	HK$'000	*HK$'000*
Short term employee benefits	8,110	8,132
Post-employment benefits	84	96
	8,194	8,228

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

44. DISPOSALS OF THE 2006 DISPOSAL GROUP

As mentioned in note 1, on 22 May 2007, the Group has completed the disposals of its equity interest in the 2006 Disposal Group. Particulars of the disposal transaction are as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	8,348
Investment properties	32,551
Properties under development	1,001,745
Prepayments, deposits and other receivables	66,963
Trade receivables	5,470
Pledged deposits	8,263
Cash and cash equivalents	304,725
Trade payables	(92,445)
Deposits received from customers	(337,848)
Other payables and accruals	(52,901)
Tax payables	(9,783)
Borrowings	(527,496)
Deferred tax liabilities	(1,474)
Deferred income	(188,799)
Amount due to related companies	(10,449)
	206,870
Minority interests	(30,194)
Tax on gain on disposal of the 2006 Disposal Group	20,505
	197,181
Gain on disposals of the 2006 Disposal Group *(note 11)*	366,806
Total consideration	563,987
Satisfied by *(note)*:	
Available-for-sale financial assets	563,950
Cash	37
	563,987
An analysis of net outflow of cash and cash equivalents in respect of the disposals of the 2006 Disposal Group is as follows:	
Cash consideration received	37
Cash and bank balances disposed of	(304,725)
	(304,688)

Note: At 22 May 2007, Citychamp allotted and issued 72,720,000 shares (the "Consideration Shares") and paid RMB36,000 to the Group as the consideration. The Consideration Shares are subject to a three-year lock up period commencing in the date of issue of the Consideration Shares. The directors are of the opinion that the expected volatility and the effect of the three-year lock up period shall be taken into account in determining the fair value of the Consideration Shares at 22 May 2007. In these regards, the fair value of the Citychamp shares held by the Group have been revaluated by Asset Appraisal Limited, an independent professional qualified valuer, on the market approach.

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 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 Interest rate risk

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 30% and 80% of its interest-bearing borrowings at fixed interest rates. The Group's fair value interest rate risk relates primarily to fixed-rate borrowings. The Group currently had not implemented any procedures to hedge its 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.

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$131,000 (2006: HK$540,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

45.2 Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to RMB. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Substantial portion of the Group's revenue and costs are denominated in RMB. Thus, when RMB strengthens in value against the HK$, as has occurred in 2007 and 2006, the Group's operating margins are positively impacted. The Group currently does not have a foreign currency hedging policy.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in RMB exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	2007	**2006**
	HK$'000	*HK$'000*
Trade and bills receivables	41,409	90,937
Cash and cash equivalents	46,686	35,612
Trade payables	(31,487)	(46,683)
Borrowings	(106,046)	(85,800)
Due to related companies	(196,752)	(180,000)
	(246,190)	(185,934)

A 5% strengthening/weakening of HK$ against RMB as at the respective balance sheet dates would increase/(decrease) profit after income tax (due to changes in the fair value of monetary assets and liabilities) by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2007	**2006**
	HK$'000	*HK$'000*
Profit for the year:		
5% strengthening in HK$	13,095	9,297
5% weakening in HK$	(13,095)	(9,297)

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.

The maximum exposure to credit risk in respect of the financial guarantees at the balance sheet date was HK$13,032,000 (2006: HK$12,250,000).

45.4 Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 December 2007 and 31 December 2006, the Group's financial liabilities have contractual maturities which are summarised below:

	Repayable on demand *(note 35)* *HK$'000*	Within 3 months *HK$'000*	4 to 6 months *HK$'000*	7 to 12 months *HK$'000*	Over 1 year *HK$'000*
At 31 December 2007					
Trade payables	–	33,497	–	–	–
Derivative financial instruments (on net settlement basis)	–	1,180	2,116	1,721	–
Borrowings	–	48,166	4,170	60,479	–
Due to related companies	209,311	–	–	–	–
	209,311	82,843	6,286	62,200	–
At 31 December 2006					
Trade payables	–	46,683	–	–	–
Borrowings	–	8,303	9,800	98,250	55,348
Due to related companies	180,000	–	–	–	–
	180,000	54,986	9,800	98,250	55,348

45.5 Fair value risk

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity. The fair values of non-current financial assets and liabilities were not disclosed because the carrying values were not materially different from their fair values.

45.6 Commodity price risk

The Group's exposure to commodity price risk relates principally to the market price fluctuation in copper which can affect the Group's results of operations.

The Group entered into forward contracts for the purchase of copper as set out in note 33. All forward commodity contracts can only be carried out at the approval of the management. In addition, the price range of the forward commodity contracts was closely monitored by the management.

At 31 December 2007, a reasonably possible increase/decrease of 10% in commodity price, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK$3,592,000.

45.7 Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as financial assets at fair value through profit or loss and available-for-sale financial assets. Other than unlisted equity investment held for strategic purposes, all of these investments are listed.

Decisions to buy or sell financial assets at fair value through profit or loss are based on daily monitoring of the performance of individual securities and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale financial assets were based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's profit after tax and consolidated equity in response to reasonably possible changes in the share prices of the listed investments classified as financial assets at fair value through profit or loss and the price/earning ratios of comparable listed companies of the listed investment classified as available-for-sale financial assets to which the Group has significant exposure at the balance sheet date.

	2007		2006	
	Effect on profit after tax and retained profits	**Effect on investment revaluation reserve**	**Effect on profit after tax and retained profits**	**Effect on investment revaluation reserve**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss:				
Increase in the share prices of the listed investments by 5%	2,209	–	2,438	–
Decrease in the share prices of the listed investments by 5%	(2,209)	–	(2,438)	–
Available-for-sale financial assets:				
Increase in price/earning ratios of comparable listed companies by 5%	–	42,669	–	–
Decrease in price/earning ratios of comparable listed companies by 5%	–	(42,669)	–	–

45.8 Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities excluding assets and liabilities in disposal group classified as held for sale at 31 December 2007 and 2006 may also be categorised as follows. See notes 3.14 and 3.15 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) Financial assets

	2007	**2006**
	HK$'000	*HK$'000*
Cash and cash equivalents	82,362	39,836
Pledged deposits	–	4,892
Available-for-sale financial assets	853,380	–
Financial assets at fair value through profit or loss	44,178	48,765
Loans and receivables:		
Trade and bills receivables	44,052	90,937
Other receivables	70,678	20,348
	114,730	111,285
	1,094,650	204,778

(i) Financial liabilities

	2007 *HK$'000*	2006 *HK$'000*
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	5,017	–
Financial liabilities measured at amortised cost		
Trade payables	33,497	46,683
Other payables	39,706	46,301
Borrowings	112,815	171,701
Due to related companies	209,311	180,000
	395,329	444,685
	400,346	444,685

46. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern;

(ii) to provide an adequate return to shareholders;

(iii) to support the Group's sustainable growth; and

(iv) to provide capital for the purpose of potential mergers and acquisitions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

The capital-to-overall financing ratio at balance sheet date was as follows:

	2007 *HK$'000*	2006 *HK$'000*
Capital		
Total equity	1,215,766	570,638
Overall financing		
Borrowings	112,815	171,701
Due to related companies	209,311	180,000
	322,126	351,701
Capital-to-overall financing ratio	3.77	1.63

47. FINANCIAL GUARANTEE CONTRACTS

The Group's jointly controlled entity has executed guarantees amounting to approximately HK$26,596,000 (2006: HK$25,000,000) with respect to bank loans to the joint venturer (note 23). Under the guarantee, the Group's jointly controlled entity shall be liable to the bank if the bank is unable to recover the loan. At 31 December 2007 and 2006, no provision for the obligations of the Group's jointly controlled entity under the guarantee contract has been made as the directors consider that it is not probable that the repayments of the loan will be in default.

In 2006, the 2006 Disposal Group provided guarantees in favour of certain banks for mortgage loans granted by the banks to the buyers of the Group's properties under development to the extent of approximately HK$328 million in aggregate. As at 31 December 2006, mortgage loans in aggregate of approximately HK$265 million were utilised by the buyers of the 2006 Disposal Group's properties under development and properties for sale. No provision for the Group's obligations under the guarantee contract was made as the directors considered that it was not probable that the banks would exercise the guarantee for repayment of the loans when they were in default.

48. COMPARATIVE AMOUNTS

As further explained in notes 1 and 11, the comparative figures related to the discontinued operations for the year ended 31 December 2006 have been re-presented.

3. INDEBTEDNESS

Borrowings

At the close of business on 31 July 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK$341 million of which include the Group's secured bank overdraft of approximately HK$3 million, the Group's secured bank loans of approximately HK$133 million and the Group's unsecured amounts due to related companies of approximately of HK$205 million. The bank loans, which comprised current bank borrowings of approximately HK$103 million and non-current borrowings of HK$30 million, were secured by a legal charge over certain of the Group's prepaid land lease payments and buildings situated in the PRC; and guarantees granted by a Director and certain independent third parties.

Contingent liabilities

At the close of business on 31 July 2008, the Enlarged Group had total contingent liabilities of approximately HK$28,409,000, representing maximum amount of the Group's guarantees given to banks for the bank loans granted to the joint venturer.

Saved as aforesaid or as otherwise stated herein, and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 31 July 2008, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

Subsequent change of indebtedness

The Directors confirmed that there had been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 July 2008.

4. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that following Completion, 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 Enlarged Group has available sufficient working capital for the Enlarged Group's present requirement, that is for at least the next 12 months from the date of publication of this circular.

5. MATERIAL CHANGES

Save as disclosed below, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

(a) the Group had available-for-sale financial assets in the amount of approximately HK$853.4 million as at 31 December 2007, which comprised shares of a company listed on the stock exchange in Shanghai, the PRC. As a result of the substantial decrease in the market price of the shares subsequent to 31 December 2007, the value of the available-for-sale financial assets held by the Group has a material decrease. Such decline in value of the assets will be recognised in equity;

(b) the Group's trade and bills receivables, trade payables and bank borrowings have a material increase whereas its cash and cash equivalent has a material decrease, which are mainly attributable to the material increase in revenue of the Group subsequent to 31 December 2007; and

(c) as disclosed in the announcement and the circular of the Company dated 6 December 2007 and 27 December 2007 respectively, the Group entered into (i) an agreement with 深圳市南山區人民政府 (People's Government of the Nanshan District of the Shenzhen Municipal) on 3 December 2007 in relation to, among other things, the resumption of a piece of land (the "Land") located in Shenzhen, the PRC, leased to Seti Timber Industry (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company; and (ii) an agreement with 冠城大通股份有限公司 (Citychamp Dartong Company Limited) on 3 December 2007 in relation to, among other things, the arrangement to cooperate in the restoration of the Land. Both agreements are yet to be completed.

6. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

During the first half of 2008, the Group extended the marketing efforts of its watch business to Switzerland, the United States and other countries through participation in international watch exhibitions. The Group intends to expand its watch business by mergers and acquisitions of overseas and local watch companies in order to develop a portfolio of watch companies with different product types and target markets. The Acquisition enables the Group to broaden its income steam and to strengthen its leading position in the PRC watches and timepieces industry.

The compensation to be received from the resumption of a piece of land located in Shenzhen, the PRC, leased to Seti Timber Industry (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company, by 深圳市南山區人民政府 (People's Government of Nanshan District of the Shenzhen Municipal) pursuant to an agreement dated 3 December 2007 between the two parties is intended be applied for the expansion and development of the Enlarged Group's watch business and enamelled copper wires business.

福州大通機電股份有限公司 (Fuzhou Dartong Mechanic and Electronic Company Limited) and 江蘇大通清江機電有限公司(Jiangsu Dartong Qingjiang M&E Co., Ltd.) improved the quality of their products and decreased return rates during the first half of 2008. The introduction of new flat enamelled copper wires during 2008 is expected to contribute to higher revenue and margins in the future.

A factory complex in Dongguan; a property in Luohu District, Shenzhen; three shop units in Zhuhai, Guangdong Province, the PRC; and one apartment in Hong Kong owned by the Group have been leased out. These investment properties continue to generate stable rental income to the Group.

The management of the Company are optimistic that the continued economic growth of the PRC will benefit the long term steady growth of the Enlarged Group's watches and timepieces business and enamelled copper wires business, and the property development business of 冠城大通股份有限公司(Citychamp Dartong Company Limited), a company listed on The Shanghai Stock Exchange and in which the Company holds approximately 14.78% interest.

1. ACCOUNTANTS' REPORT ON JIA CHENG AND ACTOR INVESTMENTS FOR THE PERIOD FROM 20 JANUARY 2006 TO 31 DECEMBER 2006, THE YEAR ENDED 31 DECEMBER 2007 AND THE SIX MONTHS ENDED 30 JUNE 2008

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

JYC & CO.
Certified Public Accountants
耀華會計師事務所

Rooms 501, 502 and 508
Mirror Tower, 61 Mody Road
Tsimshatsui East, Kowloon
Hong Kong
Tel: 2314 7999
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12 September 2008

The Directors
China Haidian Holdings Limited
Units 1902–04, Level 19,
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong

Dear Sirs,

We set out below our audit report on the financial information relating to Jia Cheng Investment Limited ("Jia Cheng") and its subsidiary, Actor Investments Limited ("Actor Investments") (hereinafter collectively referred to as the "Jia Cheng Group") for the period from 20 January 2006 (date of incorporation) to 31 December 2006, year ended 31 December 2007 and six months ended 30 June 2008, (the "Relevant Period") (the "Financial Information"), for inclusion in a circular dated 12 September 2008 (the "Circular") issued by China Haidian Holdings Limited (the "Company") in connection with the proposed acquisition of the entire equity interest in the Jia Cheng Group (the "Acquisition").

Jia Cheng was incorporated in the British Virgin Islands ("BVI") on 20 January 2006 as a limited liability company under the BVI Business Companies Act. The principal activity of Jia Cheng is engaged in investment holding. As at the date of this report, Jia Cheng is a wholly-owned subsidiary of Full Day Limited.

As at the date of this report, the particulars of Jia Cheng's subsidiaries are as follows:

Name of company	Place and date of incorporation	Issued and fully paid up/registered capital	Percentage of equity interest held by Jia Cheng Direct	Indirect	Principal activities
Actor Investments Limited ("Actor Investments")	Hong Kong, 19 March 2008	10,000 ordinary shares of HK$1 each	100%	–	Investment holding
Zhuhai Rossini Watch Industry Limited ("Rossini")	The People's Republic of China ("PRC"), 13 June 1985	RMB7,800,000	–	91%	Manufacture and sale of watches mainly in the PRC
Ocean Watches Limited ("Ocean Watches")	Switzerland 17 January 2003	1,000 ordinary shares of Swiss Franc 100 each	–	89.18%	Manufacture, sale and distribution of timepieces and relevant products

Up to the date of this report, no statutory audited financial statements have been prepared for Jia Cheng and Actor Investments since their incorporation as for Jia Cheng, it is a company incorporated in the BVI and not subject to prepare the statutory financial statements, while for Actor Investments, it is newly incorporated and has not involved any significant transactions since its date of incorporation.

The statutory financial statements of Rossini, that were prepared in accordance with the relevant accounting rules and regulations applicable in the PRC, were audited by Guang Dong Hengxin Delu Certified Public Accountants Co. Limited for the years ended 31 December 2005 and 31 December 2006, and by Zhuhai Dehong Certified Public Accountants Co. Limited for the year ended 31 December 2007, firms of certified public accountants registered in the PRC.

The statutory financial statements of Ocean Watches, that were prepared in accordance with the relevant accounting rules and regulations applicable in Switzerland, were audited by Controlgest SA for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007, a firm of certified public accountants registered in Switzerland.

For the purpose of this report, the directors of Jia Cheng have prepared the Financial Information of the Jia Cheng Group and Jia Cheng in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the Relevant Period based on the unaudited financial statements without making any adjustment. We have undertaken an independent audit of the Financial Information in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. We have also carried out additional procedures as considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

The directors of Jia Cheng are responsible for the preparation of the Financial Information which give a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of Jia Cheng are responsible for the contents of the Circular in which this report is included. It is our responsibility to express an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Jia Cheng Group as at 30 June 2008 and the Jia Cheng Group's consolidated results and consolidated cash flows for the six months ended 30 June 2008; and of Jia Cheng as at 31 December 2006, 31 December 2007 and 30 June 2008 and its results and cash flows for the Relevant Period.

The comparative income statement, cash flow statement and statement of changes in equity of Jia Cheng for the six months ended 30 June 2007 together with the notes thereon have been extracted from Jia Cheng's unaudited financial information for the same period (the "30 June 2007 Financial Information") which was prepared by the directors of Jia Cheng solely for the purpose of this report. We have reviewed the 30 June 2007 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review Interim Financial Report" issued by the HKICPA. Our review consisted principally of making enquires of management and applying analytical procedures to the 30 June 2007 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2007 Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2007 Financial Information.

A. FINANCIAL INFORMATION

Income statement

(Expressed in Hong Kong dollars)

		(Consolidated) Jia Cheng Group	Jia Cheng			
		Six months ended 30 June 2008	Six months ended 30 June 2008	Six months ended 30 June 2007	Year ended 31 December 2007	20 January 2006 (date of incorporation) to 31 December 2006
	Note	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Turnover	3	–	–	–	–	–
Administrative expenses		(32,120)	(5,980)	(5,880)	(5,880)	(14,700)
Loss before taxation		(32,120)	(5,980)	(5,880)	(5,880)	(14,700)
Income tax	5	–	–	–	–	–
Loss for the period/year		(32,120)	(5,980)	(5,880)	(5,880)	(14,700)

The accompanying notes form part of the Financial Information.

Balance sheet
(Expressed in Hong Kong dollars)

		(Consolidated) Jia Cheng Group	Jia Cheng		
		As at 30 June 2008	As at 30 June 2008	As at 31 December 2007	2006
	Note	*HK$*	*HK$*	*HK$*	*HK$*
Non-current assets					
Interest in a subsidiary	*8*	–	10,000	–	–
Current assets					
Amount due from a subsidiary	*8*	–	18,050	–	–
Cash and cash equivalents	*9*	8,455,475	76,357	110,176	3,335,607
		8,455,475	94,407	110,176	3,335,607
Current liabilities					
Other payables		(22,550)	(14,700)	(14,700)	(14,700)
Amount due to a director	*10*	(116,259)	(116,259)	(116,048)	(3,335,599)
Amount due to former ultimate holding company	*10*	(8,369,358)	–	–	–
		(8,508,167)	(130,959)	(130,748)	(3,350,299)
Net current liabilities		(52,692)	(36,552)	(20,572)	(14,692)
Net liabilities		(52,692)	(26,552)	(20,572)	(14,692)
Capital and reserves					
Share capital	*11*	8	8	8	8
Accumulated losses		(52,700)	(26,560)	(20,580)	(14,700)
Capital deficiency		(52,692)	(26,552)	(20,572)	(14,692)

The accompanying notes form part of the Financial Information.

Statement of changes in equity
(Expressed in Hong Kong dollars)

(Consolidated)
Jia Cheng Group

	Share capital *HK$*	**Accumulated losses** *HK$*	**Total** *HK$*
At 31 December 2007	8	(20,580)	(20,572)
Loss for the period	–	(32,120)	(32,120)
At 30 June 2008	8	(52,700)	(52,692)

Jia Cheng

	Share capital *HK$*	**Accumulated losses** *HK$*	**Total** *HK$*
Share issued upon incorporation	8	–	8
Loss for the period	–	(14,700)	(14,700)
At 31 December 2006	8	(14,700)	(14,692)
Loss for the year	–	(5,880)	(5,880)
At 31 December 2007	8	(20,580)	(20,572)
Loss for the period	–	(5,980)	(5,980)
At 30 June 2008	8	(26,560)	(26,552)
Unaudited			
At 31 December 2006	8	(14,700)	(14,692)
Loss for the period	–	(5,880)	(5,880)
At 30 June 2007	8	(20,580)	(20,572)

Cash flow statement
(Expressed in Hong Kong dollars)

	(Consolidated) Jia Cheng Group	Jia Cheng			
	Six months ended 30 June 2008	Six months ended 30 June 2008	Six months ended 30 June 2007	Year ended 31 December 2007	20 January 2006 (date of incorporation) to 31 December 2006
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Operating activities					
Loss before taxation	(32,120)	(5,980)	(5,880)	(5,880)	(14,700)
Increase in amount due from a subsidiary	–	(18,050)	–	–	–
Increase in other payables	7,850	211	–	–	14,700
Increase/(decrease) in amount due to a director	211	–	(3,220,465)	(3,219,551)	3,335,599
Increase in amount due to former ultimate holding company	8,369,358	–	–	–	–
	8,345,299	(23,819)	(3,226,345)	(3,225,431)	3,335,599
Investing activities					
Payment for investment in a subsidiary	–	(10,000)	–	–	–
Financing activities					
Proceeds from issue of share upon incorporation	–	–	–	–	8
Net increase/(decrease) in cash and cash equivalents	8,345,299	(33,819)	(3,226,345)	(3,225,431)	3,335,607
Cash and cash equivalents at the beginning of the period/year	110,176	110,176	3,335,607	3,335,607	–
Cash and cash equivalents at the end of the period/year	8,455,475	76,357	109,262	110,176	3,335,607
Analysis of the balances of cash and cash equivalents					
Cash and cash equivalents	8,455,475	76,357	109,262	110,176	3,335,607

Notes to the Financial Information

1. GENERAL

Jia Cheng is a limited company incorporated in the BVI. At the date of this report, the directors of Jia Cheng consider its ultimate holding company to be Full Day Limited, a company incorporated in the BVI. The address of the registered office and principal place of business of Jia Cheng is Akara Bldg., 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

The principal activity of Jia Cheng and its subsidiary is engaged in investment holding.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended 30 June 2008 and which have not been adopted in the Financial Information.

The Jia Cheng Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Jia Cheng Group's results of operations and financial position.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and measurement

(i) Basis of preparation

The Financial Information set out in this report comprises Jia Cheng and its subsidiary.

(ii) Basis of measurement

The Financial Information is presented in Hong Kong dollars ("HK$"), which is the functional currency of the Jia Cheng Group. The measurement basis used in the preparation of the Financial Information is the historical cost basis.

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

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

(c) Subsidiary

Subsidiaries are entities controlled by the Jia Cheng Group. Control exists when the Jia Cheng Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

In Jia Cheng's balance sheet, its interest in a subsidiary is stated at cost less impairment losses.

(d) Impairment of assets

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

– interest in a subsidiary

If any such indication exists, the recoverable amount of assets is estimated.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(e) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Jia Cheng Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control Jia Cheng Group or exercise significant influence over Jia Cheng Group in making financial and operating policy decisions, or has joint control over Jia Cheng Group;

(ii) the Jia Cheng Group and the party are subject to common control;

(iii) the party is an associate of the Jia Cheng Group or a joint venture in which the Jia Cheng Group is a venturer;

(iv) the party is a member of key management personnel of the Jia Cheng Group or the Jia Cheng Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Jia Cheng Group or of any entity that is a related party of the Jia Cheng Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(f) Trade and other receivables

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

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Jia Cheng Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for trade debtors included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Jia Cheng Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(g) Trade and other payables

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

(h) Cash and cash equivalents

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

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

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

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

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

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

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

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

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

  – the same taxable entity; or

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

3. TURNOVER

The Jia Cheng Group and Jia Cheng did not generate any turnover during the Relevant Period.

No business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as the Jia Cheng Group and Jia Cheng have not commenced its business.

4. AUDITORS' REMUNERATION

No auditors' remuneration was paid during the Relevant Period.

5. INCOME TAX IN THE INCOME STATEMENT

No provision for Hong Kong Profits Tax has been made as the Jia Cheng Group and Jia Cheng have no assessable profits for the Relevant Period.

There are no material unprovided deferred tax assets and liabilities for the Relevant Period and as at the balance sheet dates.

Reconciliation between tax expense and accounting losses at applicable tax rates:

	Jia Cheng Group	Jia Cheng			
	Six months ended 30 June 2008	Six months ended 30 June 2008	Six months ended 30 June 2007	Year ended 31 December 2007	20 January 2006 (date of incorporation) to 31 December 2006
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Loss before taxation	(32,120)	(5,980)	(5,880)	(5,880)	(14,700)
Tax at domestic income tax rate of 17.5%	(5,621)	(1,046)	(1,029)	(1,029)	(2,573)
Tax effect of expenses not deductible for tax purposes	5,621	1,046	1,029	1,029	2,573
	–	–	–	–	–

6. DIRECTORS' EMOLUMENTS AND EMPLOYEE BENEFITS EXPENSES

(a) Directors' emoluments

During the Relevant Period, no emoluments and no retirement benefit scheme contributions were paid or payable to the directors of Jia Cheng. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

(b) Employee's emolument

No staff was employed by the Jia Cheng Group and Jia Cheng during the Relevant Period.

(c) During the Relevant Period, no emoluments were paid by the Jia Cheng Group and Jia Cheng to the directors or employees as an inducement to join or upon joining the Jia Cheng Group and Jia Cheng or as compensation for loss of office.

(d) No remuneration was paid to key management personnel during the Relevant Period.

7. EARNINGS PER SHARE

No earnings per share is presented as the calculation of basic earnings per share is not meaningful for the purpose of this report.

8. INTEREST IN A SUBSIDIARY

	Jia Cheng		
	As at 30 June	As at 31 December	
	2008	2007	2006
	HK$	*HK$*	*HK$*
Unlisted shares, at cost	10,000	–	–
Amount due from a subsidiary	18,050	–	–

The amount due from a subsidiary is unsecured, non-interest bearing and repayable on demand.

Details of the subsidiary are as follows:

Name of subsidiary	Place of incorporation and operation	Particulars of share capital	Percentage of equity interest held by Jia Cheng	Principal activity
Actor Investments Limited	Hong Kong	10,000 ordinary shares of HK$ 1 each	100%	Investment holding

9. CASH AND CASH EQUIVALENTS

	Jia Cheng Group	Jia Cheng		
	As at 30 June	As at 30 June	As at 31 December	
	2008	2008	2007	2006
	HK$	*HK$*	*HK$*	*HK$*
Cash and cash equivalents	8,455,475	76,357	110,176	3,335,607

The cash and cash equivalents represented cash at bank and in hand. As at 31 December 2006, 31 December 2007 and 30 June 2008, cash and cash equivalents were denominated in Hong Kong dollars.

10. AMOUNT DUE TO A DIRECTOR/FORMER ULTIMATE HOLDING COMPANY

The amount due to a director/former ultimate holding company is unsecured, non-interest bearing and repayable on demand.

11. SHARE CAPITAL

	As at 30 June	As at 31 December	
	2008	**2007**	**2006**
Authorised:	*HK$*	*HK$*	*HK$*
50,000 ordinary shares of US$1 each	390,000	390,000	390,000
Issued and fully paid:			
1 ordinary share of US$1 each	8	8	8

Jia Cheng was incorporated on 20 January 2006 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. 1 ordinary share was allotted and issued, for cash at par to the subscribers, as initial working capital.

12. SUBSEQUENT EVENT

On 20 August 2008, the Jia Cheng Group acquired 91% of equity interest in Rossini at a consideration of RMB36,760,000.

13. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and fair value risks arise in the normal course of the Jia Cheng Group's and Jia Cheng's business. These risks are limited by the Jia Cheng Group's financial management policies and practices described below.

(a) Credit risk

The credit risk on liquidity funds is limited because the counterparty is bank with high credit ratings assigned by international credit-rating agencies.

(b) Liquidity risk

The Jia Cheng Group and Jia Cheng have net liabilities for the Relevant Period which is exposed to liquidity risk. In order to mitigate the liquidity risk, the management obtained the financial support from its directors and ultimate holding company. In addition, the ultimate holding company and the directors of Jia Cheng will provide financial support to the Jia Cheng Group and Jia Cheng.

(c) Fair value

The directors of the Jia heng Group and Jia Cheng consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

14. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the financial assets and financial liabilities of the Jia Cheng Group and Jia Cheng recognised as at 31 December 2006, 31 December 2007 and 30 June 2008 may be categorised as follows:

	Jia Cheng Group	Jia Cheng		
	As at 30 June 2008	As at 30 June 2008	As at 31 December 2007	2006
	HK$	*HK$*	*HK$*	*HK$*
Financial assets				
Amount due from a subsidiary	–	18,050	–	–
Cash and cash equivalents	8,455,475	76,357	110,176	3,335,607
	8,455,475	94,407	110,176	3,335,607
Financial liabilities				
Other payables	22,550	14,700	14,700	14,700
Amount due to a director	116,259	116,259	116,048	3,335,599
Amount due to former ultimate holding company	8,369,358	–	–	–
	8,508,167	130,959	130,748	3,350,299

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Jia Cheng Group and Jia Cheng have been prepared in respect of any period subsequent to 30 June 2008.

Yours faithfully
JYC & Co.
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON JIA CHENG AND ACTOR INVESTMENTS

For the period from 20 January 2006 to 31 December 2006

I. Review of results

During the period from 20 January 2006, being the date of incorporation of Jia Cheng, to 31 December 2006, Jia Cheng did not carry on any business or operation. Loss before and after taxation for the period amounted to HK$14,700.

II. Financial position

Liquidity, financial resources and capital structure

As at 31 December 2006, Jia Cheng had cash and cash equivalents of approximately HK$3.3 million. Jia Cheng did not have any bank borrowings as at 31 December 2006. During the period ended 31 December 2006, Jia Cheng obtained an advance from a director of approximately HK$3.3 million for possible investment purpose. Owing to capital deficiency, the gearing ratio was not applicable.

Significant investments

Jia Cheng had no significant investment as at 31 December 2006.

Material acquisitions and disposals

Jia Cheng had no material acquisitions and disposals of subsidiaries and associated companies during the period from 20 January 2006 to 31 December 2006.

Employees and remuneration policy

Jia Cheng had no employees as at 31 December 2006.

Future plans for material investments or capital assets

Jia Cheng had no future plans for material investments as at 31 December 2006.

Exposure to fluctuations in exchange rates

Jia Cheng had no exposure to fluctuations in exchange rates and any related hedges as at 31 December 2006.

Charge on assets

There was no charge on the assets of Jia Cheng as at 31 December 2006.

Capital commitments

Jia Cheng had no capital commitment as at 31 December 2006.

Contingent liabilities

Jia Cheng had no contingent liabilities as at 31 December 2006.

For the year ended 31 December 2007

I. Review of results

During the year ended 31 December 2007, Jia Cheng did not carry on any business or operation. Loss before and after taxation amounted to HK$5,880.

II. Financial position

Liquidity, financial resources and capital structure

As at 31 December 2007, Jia Cheng had cash and cash equivalents of HK$110,176. Jia Cheng did not have any bank borrowings as at 31 December 2007. Owing to capital deficiency, the gearing ratio was not applicable.

Significant investments

Jia Cheng had no significant investment as at 31 December 2007.

Material acquisitions and disposals

Jia Cheng had no material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2007.

Employees and remuneration policy

Jia Cheng had no employees as at 31 December 2007.

Future plans for material investments or capital assets

Jia Cheng had no future plans for material investments or capital assets as at 31 December 2007.

Exposure to fluctuations in exchange rates

Jia Cheng had no exposure to fluctuations in exchange rates and any related hedges as at 31 December 2007.

Charge on assets

There was no charge on the assets of Jia Cheng as at 31 December 2007.

Capital commitments

Jia Cheng had no capital commitment as at 31 December 2007.

Contingent liabilities

Jia Cheng had no contingent liabilities as at 31 December 2007.

For the six months ended 30 June 2008

I. Review of results

During the six months ended 30 June 2008, Jia Cheng did not carry on any business or operation save for investment holding in Actor Investments and Actor Investments did not carry on any business or operation save as investment holding in Rossini. Consolidated loss before and after taxation of Jia Cheng and Actor Investments amounted to HK$32,120.

II. Financial position

Liquidity, financial resources and capital structure

As at 30 June 2008, Jia Cheng and Actor Investments had consolidated cash and cash equivalents of approximately HK$8.5 million. Jia Cheng and Actor Investments did not have any bank borrowings as at 30 June 2008. Jia Cheng and Actor Investments had an amount due to a former ultimate holding company of approximately HK$8.4 million which is unsecured, non-interest bearing and repayable on demand as at 30 June 2008. Owing to capital deficiency, the gearing ratio was not applicable.

Employees and remuneration policy

Jia Cheng and Actor Investments had no employees as at 30 June 2008.

Future plans for material investments or capital assets

Jia Cheng and Actor Investments had no future plans for material investments or capital assets as at 30 June 2008.

Exposure to fluctuations in exchange rates

Jia Cheng and Actor Investments are exposed to fluctuations in exchange rates of RMB. There were no related hedges as at 30 June 2008.

Charge on assets

There was no charge on the assets of Jia Cheng and Actor Investments as at 30 June 2008.

Capital commitments

Jia Cheng and Actor Investments had no capital commitment as at 30 June 2008.

Contingent liabilities

Jia Cheng and Actor Investments had no contingent liabilities as at 30 June 2008.

III. Acquisition

On 21 April 2008, Jia Cheng acquired 100% equity interest in Actor Investments. On 20 August 2008, Actor Investments acquired 91% interest in Rossini.

1. ACCOUNTANTS' REPORT ON THE ROSSINI GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2007 AND THE SIX MONTHS ENDED 30 JUNE 2008

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

JYC & CO.
Certified Public Accountants
耀華會計師事務所

Rooms 501, 502 and 508
Mirror Tower, 61 Mody Road
Tsimshatsui East, Kowloon
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12 September 2008

The Directors
China Haidian Holdings Limited
Units 1902-04, Level 19,
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong

Dear Sirs,

We set out below our audit report on the financial information relating to Zhuhai Rossini Watch Industry Limited ("Rossini") and its subsidiary (hereinafter collectively referred to as the "Rossini Group") for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007 and for the six months ended 30 June 2008 (the "Relevant Period") (the "Financial Information"), for inclusion in a circular dated 12 September 2008 (the "Circular") issued by China Haidian Holdings Limited (the "Company") in connection with the proposed acquisition (the "Acquisition") of the entire equity interest in Jia Cheng Investment Limited ("Jia Cheng") and its subsidiary (hereinafter collectively referred to the "Jia Cheng Group").

Rossini was established in the People's Republic of China, (the "PRC"), as a limited liability company under the laws and regulations of the PRC on 13 June 1985. The principal activities of Rossini are manufacturing and sales of watches under brand "Rossini", mainly in the PRC. As at the date of this report, Rossini is a 91% indirect owned subsidiary of Jia Cheng.

As at the date of this report, the particulars of the Rossini's subsidiary are as follows:

Name of company	Place and date of incorporation	Issued and fully paid up/registered capital	Percentage of equity interest held by Rossini	Principal activities
Ocean Watches Limited ("Ocean Watches")	Switzerland 17 January 2003	1,000 ordinary shares of Swiss Franc 100 each	98%	Manufacture, sale and distribution of timepieces and relevant products

The statutory financial statements of Rossini, that were prepared in accordance with the relevant accounting rules and regulations applicable in the PRC, were audited by Guang Dong Hengxin Delu Certified Public Accountants Co. Limited for the years ended 31 December 2005 and 31 December 2006, and by Zhuhai Dehong Certified Public Accountants Co. Limited for the year ended 31 December 2007, firms of certified public accountants registered in the PRC.

The statutory financial statements of Ocean Watches, that were prepared in accordance with the relevant accounting rules and regulations applicable in Switzerland, were audited by Controlgest SA for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007, a firm of certified public accountants registered in Switzerland.

For the purpose of this report, the directors of Rossini have prepared the Financial Information of the Rossini Group in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the Relevant Period based on the unaudited financial statements without making any adjustment. We have undertaken an independent audit of the Financial Information in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. We have also carried out additional procedures as considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

The directors of Rossini are responsible for the preparation of the Financial Information which give a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of Rossini are responsible for the contents of the Circular in which this report is included. It is our responsibility to express an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Rossini Group and Rossini as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008, and of the consolidated results and consolidated cash flows of the Rossini Group for the Relevant Period.

The comparative consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Rossini Group for the six months ended 30 June 2007 together with the notes thereon have been extracted from the Rossini's Group unaudited financial information for the same period (the "30 June 2007 Financial Information") which was prepared by the directors of Rossini solely for the purpose of this report. We have reviewed the 30 June 2007 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review Interim Financial Report" issued by the HKICPA. Our review consisted principally of making enquires of management and applying analytical procedures to the 30 June 2007 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2007 Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2007 Financial Information.

A. FINANCIAL INFORMATION

Consolidated income statement

(Expressed in Renminbi)

		Six months ended 30 June		Year ended 31 December		
		2008	2007	2007	2006	2005
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*3*	86,455	79,617	168,115	143,889	113,031
Cost of sales		(30,071)	(36,710)	(75,565)	(70,406)	(51,085)
Gross profit		56,384	42,907	92,550	73,483	61,946
Other revenue	*4*	607	754	1,312	918	708
Other net (expenses)/income	*4*	(115)	19	1,814	93	514
Selling and distribution costs		(20,479)	(22,532)	(51,337)	(41,152)	(33,386)
Administrative expenses		(4,657)	(3,942)	(12,603)	(9,277)	(7,048)
Profit from operation		31,740	17,206	31,736	24,065	22,734
Finance costs	*5*	–	(531)	(883)	(1,095)	(1,177)
Share of loss of an associate		–	(13)	–	(3)	(3)
Profit before taxation	*6*	31,740	16,662	30,853	22,967	21,554
Income tax	*7*	(6,055)	(2,567)	(4,788)	(3,617)	(3,021)
Profit for the period/year		25,685	14,095	26,065	19,350	18,533
Profit attributable to:						
Equity holders of the Rossini Group		25,685	14,095	26,065	19,350	18,535
Minority interests		–	–	–	–	(2)
		25,685	14,095	26,065	19,350	18,533

The accompanying notes form part of the Financial Information.

Consolidated balance sheet
(Expressed in Renminbi)

		As at 30 June	As at 31 December		
		2008	2007	2006	2005
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*12*	7,391	7,604	8,508	8,965
Interest in an associate	*14*	134	134	134	137
Available-for-sale financial assets	*15*	65	65	21,065	21,065
Prepayment	*16*	–	–	717	1,293
		7,590	7,803	30,424	31,460
Current assets					
Inventories	*17*	64,247	54,540	42,707	57,345
Trade and other receivables	*16*	11,965	12,661	9,214	5,225
Amount due from a related company	*18*	–	–	–	28,659
Pledged bank deposit		183	–	–	–
Cash and cash equivalents	*19*	11,437	25,022	20,690	17,002
		87,832	92,223	72,611	108,231
Current liabilities					
Trade and other payables	*20*	(43,340)	(44,656)	(22,873)	(32,261)
Amount due to a related company	*18*	–	–	(21,507)	(25,000)
Short-term borrowings	*21*	–	–	(10,000)	(35,000)
Income tax payable		(3,045)	(1,592)	(846)	(377)
		(46,385)	(46,248)	(55,226)	(92,638)
Net current assets		41,447	45,975	17,385	15,593
Net assets		49,037	53,778	47,809	47,053
Capital and reserves					
Paid up capital	*22*	7,800	7,800	7,800	7,800
Reserves	*22*	41,237	45,978	40,009	39,253
Equity attributable to equity holders of the Rossini Group		49,037	53,778	47,809	47,053
Minority interests		–	–	–	–
Total equity		49,037	53,778	47,809	47,053

The accompanying notes form part of the Financial Information.

Balance sheet
(Expressed in Renminbi)

	Note	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	2006 RMB'000	2005 RMB'000
Non-current assets					
Property, plant and equipment	12	7,391	7,604	8,508	8,965
Interest in a subsidiary	13	–	–	–	–
Interest in an associate	14	134	134	134	137
Available-for-sale financial assets	15	65	65	21,065	21,065
Prepayment	16	–	–	717	1,293
		7,590	7,803	30,424	31,460
Current assets					
Inventories	17	64,149	54,446	42,707	57,345
Trade and other receivables	16	11,965	12,231	8,997	5,216
Amount due from a related company	18	–	–	–	28,659
Pledged bank deposit		183	–	–	–
Cash and cash equivalents	19	11,248	25,010	20,208	16,991
		87,545	91,687	71,912	108,211
Current liabilities					
Trade and other payables	20	(42,830)	(43,960)	(22,052)	(32,238)
Amount due to a related company	18	–	–	(21,507)	(25,000)
Short-term borrowings	21	–	–	(10,000)	(35,000)
Income tax payable		(3,045)	(1,592)	(846)	(377)
		(45,875)	(45,552)	(54,405)	(92,615)
Net current assets		41,670	46,135	17,507	15,596
Net assets		49,260	53,938	47,931	47,056
Capital and reserves					
Paid up capital	22	7,800	7,800	7,800	7,800
Reserves	22	41,460	46,138	40,131	39,256
Total equity		49,260	53,938	47,931	47,056

The accompanying notes form part of the Financial Information.

Consolidated statement of changes in equity
(Expressed in Renminbi)

	Note	Paid up capital RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Retained profits RMB'000	Sub total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2005		7,800	22,837	66	14,360	45,063	2	45,065
Profit for the year		–	–	–	18,535	18,535	(2)	18,533
Exchange reserves		–	–	(10)	–	(10)	–	(10)
Dividend	23	–	–	–	(16,535)	(16,535)	–	(16,535)
At 31 December 2005		7,800	22,837	56	16,360	47,053	–	47,053
Profit for the year		–	–	–	19,350	19,350	–	19,350
Dividend	23	–	–	–	(18,594)	(18,594)	–	(18,594)
At 31 December 2006		7,800	22,837	56	17,116	47,809	–	47,809
Exchange reserves		–	–	(2)	–	(2)	–	(2)
Profit for the year		–	–	–	26,065	26,065	–	26,065
Dividend	23	–	–	–	(20,094)	(20,094)	–	(20,094)
At 31 December 2007		7,800	22,837	54	23,087	53,778	–	53,778
Exchange reserves		–	–	(9)	–	(9)	–	(9)
Profit for the period		–	–	–	25,685	25,685	–	25,685
Dividend	23	–	–	–	(30,417)	(30,417)	–	(30,417)
At 30 June 2008		7,800	22,837	45	18,355	49,037	–	49,037
Unaudited								
At 31 December 2006		7,800	22,837	56	17,116	47,809	–	47,809
Profit for the period		–	–	–	14,095	14,095	–	14,095
Dividend	23	–	–	–	(20,094)	(20,094)	–	(20,094)
At 30 June 2007		7,800	22,837	56	11,117	41,810	–	41,810

Consolidated cash flow statement
(Expressed in Renminbi)

	Six months ended 30 June		Year ended 31 December		
	2008	2007	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities					
Profit before taxation	31,740	16,662	30,853	22,967	21,554
Adjustments for:					
– Depreciation	562	745	1,423	1,656	1,620
– Finance costs	–	(531)	(883)	(1,095)	(1,177)
– Loss on disposal of property, plant and equipment	12	–	381	33	15
– Gain on disposal of available-for-sale financial assets	–	–	(1,432)	–	–
– Bad debts written-off/(recovery)	255	–	(87)	(482)	828
– Write down of inventories	331	–	772	–	32
– Reversal of write-down of inventories	–	–	–	(104)	–
– Dividend income from investment	–	–	(827)	–	(511)
– Share of loss of an associate	–	13	–	3	3
– Interest income	(166)	(79)	(224)	(198)	(131)
Operating profit before changes in working capital	32,734	16,810	29,976	22,780	22,233
Decrease/(increase) in inventories	(10,038)	3,584	(12,605)	14,742	(7,543)
Decrease/(increase) in trade and other receivables	441	(6,371)	(3,360)	(3,507)	17,470
Decrease/(Increase) in amount due from a related company	–	–	–	28,659	(28,659)
(Decrease)/increase in trade and other payables	(1,316)	4,107	21,783	(9,388)	7,483
(Decrease)/increase in amount due to a related company	–	3	(21,507)	(3,493)	25,000
Net cash generated from operating activities	21,821	18,133	14,287	49,793	35,984
PRC income tax paid	(4,602)	(1,921)	(4,042)	(3,148)	(3,176)
	17,219	16,212	10,245	46,645	32,808

	Six months ended 30 June		Year ended 31 December		
	2008	2007	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Investing activities					
Payment for the purchase of property, plant and equipment	(361)	(187)	(900)	(1,316)	(1,664)
Proceeds from disposal of property, plant and equipment	–	–	–	84	–
Proceeds from disposal of available-for-sale financial assets	–	–	22,432	–	–
Increase in pledged bank deposit	(183)	–	–	–	–
Interest received	166	79	224	198	131
Dividend received from investment	–	–	827	–	511
Net cash generated from/(used in) investing activities	(378)	(108)	22,583	(1,034)	(1,022)
Financing activities					
Decrease/(increase) in prepayment, (non-current)	–	717	717	576	(14)
Proceeds from new bank loan	–	–	–	10,000	35,000
Repayment of bank loan	–	–	(10,000)	(35,000)	(45,000)
Finance costs	–	531	883	1,095	1,177
Dividend paid to equity shareholders of the company	(30,417)	(20,094)	(20,094)	(18,594)	(16,535)
Net cash used in financial activities	(30,417)	(18,846)	(28,494)	(41,923)	(25,372)
Net increase/(decrease) in cash and cash equivalents	(13,576)	(2,742)	4,334	3,688	6,414
Cash and cash equivalents at the beginning of the period/year	25,022	20,208	20,690	17,002	10,598
Effect of foreign exchange rate changes	(9)	–	(2)	–	(10)
Cash and cash equivalents at the end of the period/year	11,437	17,466	25,022	20,690	17,002
Analysis of the balances of cash and cash equivalents					
Cash and cash equivalents	11,437	17,466	25,022	20,690	17,002

Notes to the Financial Information

1. GENERAL

Rossini is a limited company incorporated in the PRC. At the date of this report, the directors of Rossini consider that its immediate and ultimate holding company to be Actor Investments Limited (incorporated in Hong Kong) and Jia Cheng Investment Limited (incorporated in the BVI) respectively. The addresses of the registered office and principal place of business of Rossini is No.12, Jingle Road, Jidai District, Zhuhai, PRC.

The principal activity of Rossini is engaged in manufacture and sale of watches, watchcases and gilt accessories in the PRC. The principal activities of its subsidiary are manufacture, sale and distribution of timepieces and relevant products.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This is the first Rossini Group's HKFRSs Financial Information.

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended 30 June 2008 and which have not been adopted in the Financial Information.

The Rossini Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Rossini Group's results of operations and financial position.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and measurement

(i) Basis of preparation

The Financial Information set out in this report comprises Rossini and it subsidiary (together referred to as the "Rossini Group") and the Rossini Group's interest in an associate.

(ii) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Rossini Group. The measurement basis used in the preparation of the Financial Information is the historical cost basis.

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

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

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

(c) Subsidiaries

Subsidiaries are entities controlled by the Rossini Group. Control exists when the Rossini Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by Rossini, whether directly or indirectly through subsidiaries, and in respect of which the Rossini Group has not agreed any additional terms with the holders of those interests which would result in the Rossini Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of Rossini. Minority interests in the results of the Rossini Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of Rossini.

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

In Rossini's balance sheet, its interest in a subsidiary is stated at cost less impairment losses.

(d) Associates

An associate is an entity in which the Rossini Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An interest in an associate is accounted for in the Financial Information under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Rossini Group's share of the associate's net assets. The Financial Information includes the Rossini Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year.

When the Rossini Group's share of losses exceeds its interest in the associate, the Rossini Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Rossini Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Rossini Group's interest in the associate is the carrying amount of the investment under the equity method.

(e) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Rossini Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Rossini Group or exercise significant influence over the Rossini Group in making financial and operating policy decisions, or has joint control over the Rossini Group;

(ii) the Rossini Group and the party are subject to common control;

(iii) the party is an associate of the Rossini Group or a joint venture in which the Rossini Group is a venturer;

(iv) the party is a member of key management personnel of the Rossini Group or the Rossini Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(f) Property, plant and equipment

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

Depreciation is calculated to write off the cost of the property, plant and equipment on a straight line basis at the following annual rates, after taking into account their estimated residual values.

Buildings	2%
Others	33.33%

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

Major costs incurred in restoring property, plant and equity to their normal working condition are charged to profit or loss. Improvements are capitalised and depreciated over their expected useful lives.

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

(g) Leased assets

(i) Classification of leased assets

Assets that are held by the Rossini Group under leases which transfer to the Rossini 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 Rossini Group are classified as operating leases.

(ii) Operating lease charges

Where the Rossini Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) Impairment of assets

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

– property, plant and equipment;
– interest in a subsidiary;
– available-for-sale financial assets; and
– interest in associates.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(i) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial asses are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(j) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(k) Trade and other receivables

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

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Rossini Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for trade debtors included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Rossini Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(l) Trade and other payables

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

(m) Cash and cash equivalents

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

(n) Employee benefits

(i) Salaries, wages, annual bonuses and staff welfare are accrued in the year in which the associated services are rendered by employees of the Rossini Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local defined contribution retirement scheme pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on interest in a subsidiary and an associate except where the Rossini Group is able to control the reversal of the temporary difference and it is probable that the temporary difference with not reverse in the foreseeable future.

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

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

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

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

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

  – the same taxable entity; or

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

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Rossini Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

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

(iii) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(r) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(s) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as liability.

3. TURNOVER

The principal activities of the Rossini Group are manufacturing and sales of watches.

	Six months ended 30 June		**Year ended 31 December**		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sale of goods	86,455	79,617	168,115	143,889	113,031

4. OTHER REVENUE AND NET (EXPENSES)/INCOME

	Six months ended 30 June		Year ended 31 December		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other revenue					
Sale of raw materials, net	361	610	311	462	267
Bank interest income	166	79	224	198	131
Sale of scraps, net	80	65	777	258	310
	607	754	1,312	918	708
Other net (expenses)/income					
Loss on disposal of property, plant and equipment	(12)	–	(381)	(33)	(15)
Gain on disposal of available-for-sale assets	–	–	1,432	–	–
Dividend income, unlisted	–	–	827	–	511
Net foreign exchange (loss)/gain	(103)	19	(64)	126	18
	(115)	19	1,814	93	514

5. FINANCE COSTS

	Six months ended 30 June		Year ended 31 December		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest on bank advances and other borrowings wholly repayable within five years	–	239	569	582	656
Interest on amount due to a related company	–	232	232	463	463
Others	–	60	82	50	58
	–	531	883	1,095	1,177

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June		Year ended 31 December		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Staff costs:					
Contributions to defined contribution retirement plan *(Note)*	470	498	1,017	1,336	1,418
Salaries, wages and other benefits	5,815	7,773	23,394	14,784	11,957
	6,285	8,271	24,411	16,120	13,375
Depreciation	562	745	1,423	1,656	1,620
Auditors' remuneration	–	–	25	25	25
Operating lease charges: minimum lease payments	153	122	268	281	254
Cost of inventories sold *(note 17(b))*	30,071	36,710	75,565	70,406	51,085
Bad debts written-off/(recovery)	255	–	(87)	(482)	828

Note: The employees of the Rossini Group in the PRC participate in a defined contribution retirement scheme in accordance with relevant laws and regulations. Each employee covered by the scheme is entitled, after his/her retirement from the Rossini Group, to a monthly pension as determined by the scheme. The local government authorities of the PRC are responsible for the pension liabilities to these retired employees. the Rossini Group made monthly contributions to the scheme based on certain percentage of the average employee's salary during the Relevant Period.

The Rossini Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments mentioned above.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June		Year ended 31 December		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
PRC enterprise income tax					
Provision for the period/year	5,640	2,567	4,788	3,387	3,203
Under/(over)-provision for prior years	415	–	–	230	(182)
	6,055	2,567	4,788	3,617	3,021
Deferred tax	–	–	–	–	–
	6,055	2,567	4,788	3,617	3,021

The provision for PRC enterprise income tax is computed according to the relevant rules and regulations in PRC. The applicable income tax rates of the Rossini Group were 18% for six months ended 2008 and 15% for prior years.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new CIT Law") which took effect on 1 January 2008. Under the new CIT Law and in accordance with implementation rules and notices issued by the State council and the State Administration of Taxation, the income tax rate of the Rossini Group will be adjusted to the standard rate of 25%. The enactment of the new CIT Law is not expected to have any material financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

There are no material unprovided deferred tax assets and liabilities for the Relevant Period and as at the balance sheet dates.

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

	Six months ended 30 June		Year ended 31 December		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit before taxation	31,740	16,662	30,853	22,967	21,554
PRC enterprise income tax on profit before taxation, calculated at applicable rate	5,713	2,500	4,628	3,445	3,233
Temporary differences not recognised	105	–	103	(88)	129
Under/(over) – provision in respect of prior years	415	–	–	230	(182)
Others	(178)	67	47	30	(159)
Actual tax expense	6,055	2,567	4,778	3,617	3,021

(c) Deferred tax assets not recognised:

As at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008, the Rossini Group has not recognised deferred tax assets in respect of impairment loss on bad and doubtful debts of RMB1,188,000, RMB706,000, RMB619,000 and RMB874,000 and impairment loss of inventories of RMB1,734,000, RMB1,630,000, RMB2,402,000 and RMB2,733,000.

8. DIRECTORS' EMOLUMENTS

Name of directors	**Salaries and allowances** *RMB'000*	**Discretionary bonus** *RMB'000*	**Contributions to retirement benefit scheme** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2005				
Mr. Lin Jia Hai	299	273	11	583
Ms. Du Jiang *(Note 1)*	–	–	–	–
Mr. Xu Rong *(Note 2)*	–	–	–	–
Mr. Cheng Ji Hong	–	–	–	–
Mr. Lu Bo *(Note 2)*	–	–	–	–
Mr. Chen Yuan He *(Note 3)*	–	–	–	–
Mr. Zhang Fan *(Note 2)*	46	53	6	105
Mr. Li Ji Jun *(Note 2)*	82	142	11	235
	427	468	28	923

Name of directors	Salaries and allowances *RMB'000*	Discretionary bonus *RMB'000*	Contributions to retirement benefit scheme *RMB'000*	Total *RMB'000*
Year ended 31 December 2006				
Mr. Lin Jia Hai	298	309	14	621
Mr. Cheng Ji Hong	–	–	–	–
Mr. Chen Yuan He	–	–	–	–
Mr. Zhang Fan	55	58	6	119
Mr. Li Ji Jun	99	170	14	283
	452	537	34	1,023
Six months ended 30 June 2007				
Mr. Lin Jia Hai	150	101	7	258
Mr. Cheng Ji Hong *(Note 4)*	–	–	–	–
Mr. Chen Yuan He *(Note 3)*	–	–	–	–
Mr. Zhang Fan *(Note 4)*	13	10	3	26
Mr. Li Ji Jun	49	57	7	113
Mr. Dong Tai Jin *(Note 3)*	–	–	–	–
Mr. Wang Gang *(Note 4)*	–	–	–	–
Mr. Liu Xu Lin *(Note 4)*	–	–	–	–
	212	168	17	397
Year ended 31 December 2007				
Mr. Lin Jia Hai	326	304	14	644
Mr. Cheng Ji Hong *(Note 4)*	–	–	–	–
Mr. Chen Yuan He *(Note 3)*	–	–	–	–
Mr. Zhang Fan *(Note 4)*	13	10	6	29
Mr. Li Ji Jun	105	170	14	289
Mr. Dong Tai Jin *(Note 3)*	–	–	–	–
Mr. Wang Gang *(Note 4)*	–	–	–	–
Mr. Liu Xu Lin *(Note 4)*	–	–	–	–
	444	484	34	962
Six months ended 30 June 2008				
Mr. Lin Jia Hai *(Note 5)*	12	–	1	13
Mr. Li Ji Jun *(Note 6)*	3	–	1	4
Mr. Dong Tai Jin *(Note 6)*	–	–	–	–
Mr. Wang Gang *(Note 6)*	–	–	–	–
Mr. Liu Xu Lin *(Note 6)*	–	–	–	–
Mr. Hon Kwok Lung *(Note 5)*	–	–	–	–
Mr. Shang Jian Guang *(Note 6)*	147	1	–	148
Mr. Tao Li *(Note 6)*	–	–	–	–
	162	1	2	165

Notes:

1. Ms. Du Jiang acted as the vice president of Rossini until 31 March 2005 and Mr. Chen Yuan He was appointed to succeed this position.

2. Mr. Xu Rong and Mr. Lu Bo resigned on 31 March 2005 and Mr. Zhang Fan and Mr. Li Ji Jun had been appointed on the same date.

3. Mr. Chen Yuan He resigned on 15 March 2007 and Mr. Dong Tai Jin was appointed to succeed the position of vice president on the same date.

4. Mr. Cheng Ji Hong and Mr. Zhang Fan resigned on 15 March 2007 and Mr. Wang Gang and Mr. Liu Xu Lin had been appointed on the same date.

5. Mr. Lin Jia Hai acted as the president of Rossini until 11 March 2008 and Mr. Hon Kwok Lung was appointed to succeed this position.

6. Mr. Li Ji Jun, Mr. Dong Tai Jin, Mr. Wang Gang and Mr. Liu Xu Lin resigned on 11 March 2008 and Mr. Shang Jian Guang and Mr. Tao Li had been appointed on the same date.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were the highest in the Rossini Group include directors whose emoluments are reflected in the analysis presented above were as follows:

	Six months ended 30 June		**Year ended 31 December**		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Number of Directors	1	3	3	3	2
Number of employees	4	2	2	2	3
	5	5	5	5	5

The emoluments payable to the remaining individuals for the Relevant Period were as follows:

	Six months ended 30 June		**Year ended 31 December**		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, bonus and other benefits	170	107	303	168	342
Contributions to retirement benefit scheme	11	6	13	12	18
	181	113	316	180	360

The emoluments of the above individuals fall within the following bands:

	Six months ended 30 June		**Year ended 31 December**		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nil to RMB1,000,000	5	5	5	5	5
RMB1,000,001 to RMB1,500,000	–	–	–	–	–
	5	5	5	5	5

During the Relevant Period, no directors, or the highest pay non-director individuals of Rossini waived any emoluments and no emoluments were paid by Rossini to any of the directors or the highest paid non-director individuals of Rossini as inducement to join or upon joining Rossini or as compensation for loss of office.

10. SEGMENT REPORTING

During the Relevant Period, the Rossini Group operated in a single business segment, manufacturing and sales of watches and watches accessories, and the principal activities are largely carried out in the PRC. Accordingly, no business and geographical segmental analysis is presented.

11. EARNINGS PER SHARE

No earnings per share is presented as the calculation of basic earnings per share is not meaningful for the purpose of this report.

12. PROPERTY, PLANT AND EQUIPMENT

	The Rossini Group and Rossini					
	Buildings in PRC *RMB'000*	Motor vehicles *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
Cost:						
At 31 December 2004	3,482	2,887	13,289	3,219	703	23,580
Additions	–	145	1,212	307	–	1,664
Disposals	–	(145)	–	–	–	(145)
At 31 December 2005	3,482	2,887	14,501	3,526	703	25,099
Additions	–	891	79	346	–	1,316
Disposals	–	(766)	(88)	(296)	–	(1,150)
At 31 December 2006	3,482	3,012	14,492	3,576	703	25,265
Additions	–	–	769	131	–	900
Disposals	–	(86)	(1,289)	(256)	–	(1,631)
At 31 December 2007	3,482	2,926	13,972	3,451	703	24,534
Additions	–	213	93	55	–	361
Disposals	(131)	–	–	–	–	(131)
At 30 June 2008	3,351	3,139	14,065	3,506	703	24,764
Accumulated depreciation:						
At 31 December 2004	2,319	1,647	8,091	2,525	62	14,644
Charge for the year	103	402	818	170	127	1,620
Written back on disposals	–	(130)	–	–	–	(130)
At 31 December 2005	2,422	1,919	8,909	2,695	189	16,134
Charge for the year	77	408	876	168	127	1,656
Written back on disposals	–	(690)	(79)	(264)	–	(1,033)
At 31 December 2006	2,499	1,637	9,706	2,599	316	16,757
Charge for the year	77	399	626	195	126	1,423
Written back on disposals	–	(77)	(945)	(228)	–	(1,250)
At 31 December 2007	2,576	1,959	9,387	2,566	442	16,930
Charge for the period	38	117	246	98	63	562
Written back on disposals	–	–	(119)	–	–	(119)
At 30 June 2008	2,614	2,076	9,514	2,664	505	17,373
Carrying value:						
At 30 June 2008	737	1,063	4,551	842	198	7,391
At 31 December 2007	906	967	4,585	885	261	7,604
At 31 December 2006	983	1,375	4,786	977	387	8,508
At 31 December 2005	1,060	968	5,592	831	514	8,965

13. INTEREST IN A SUBSIDIARY

	Rossini			
	As at 30 June	As at 31 December		
	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	571	571	571	571
Less: Impairment loss	(571)	(571)	(571)	(571)
	–	–	–	–

Details of the subsidiary are as follows:

Name of subsidiary	Place of incorporation and operation	Particulars of share capital	Percentage of share capital held by the Rossini	Principal activities
Ocean Watches Limited	Switzerland	1,000 ordinary shares of Swiss Franc 100 each	98%	Manufacture, sale and distribution of timepieces and relevant products

14. INTEREST IN AN ASSOCIATE

	The Rossini Group and Rossini			
	As at 30 June	As at 31 December		
	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	200	200	200	200
Share of accumulated losses	(66)	(66)	(66)	(63)
	134	134	134	137

The Rossini Group did not share the results of the associate for the year ended 31 December 2007 and for the six months period ended 30 June 2008 as its share of the results is minimal.

Details of the associate are as follows:

Name of associate	Place of incorporation and operation	Particulars of paid-up capital	Percentage of paid-up capital held by Rossini	Principal activities
Changzhou Zhongxing Department Store Co. Ltd.	PRC	RMB500,000	40%	Department store

	Assets	Liabilities	Equity	Revenue	Profit/ (Loss)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2008					
100 percent	4,575	(4,239)	336	971	–
Rossini's effective interest	1,830	(1,696)	134	388	–
As at 31 December 2007					
100 percent	4,221	(3,885)	336	1,688	1
Rossini's effective interest	1,688	(1,554)	134	675	–
As at 31 December 2006					
100 percent	4,023	(3,687)	336	1,730	(7)
Rossini's effective interest	1,609	(1,475)	134	692	(3)
As at 31 December 2005					
100 percent	3,837	(3,493)	344	1,784	(8)
Rossini's effective interest	1,534	(1,397)	137	713	(3)

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale equity security:

	The Rossini Group and Rossini			
	As at 30 June	As at 31 December		
	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted, at cost	65	65	21,065	21,065

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of Rossini are of the opinion that their fair values cannot be measured reliably.

16. TRADE AND OTHER RECEIVABLES

(i)

	The Rossini Group			
	As at 30 June	As at 31 December		
	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	10,038	10,789	6,031	3,614
Less: Allowance for doubtful debts *(Note (a))*	(874)	(619)	(706)	(1,188)
	9,164	10,170	5,325	2,426
Other receivables	2,227	623	533	1,098
	11,391	10,793	5,858	3,524
Deposits and prepayments				
– Current portion	574	1,868	3,356	1,701
– Non-current portion	–	–	717	1,293
	574	1,868	4,073	2,994
	11,965	12,661	9,931	6,518
Long-term portion	–	–	(717)	(1,293)
	11,965	12,661	9,214	5,225

(a) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Rossini Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(k)).

The movement in the allowance for doubtful debts during the Relevant Period is as follows:

	As at 30 June	As at 31 December		
	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	619	706	1,188	360
Impairment loss recognised/(reversed)	255	(87)	(482)	828
At 30 June/31 December	874	619	706	1,188

(b) Trade receivables that are not impaired

Trade receivables are due within 90 days from the date of billing. Further details on the Rossini Group's credit policy are set out in note 25(a).

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	2006 RMB'000	2005 RMB'000
Up to 90 days	8,370	9,044	4,562	2,258
91 – 360 days	917	1,098	349	597
More than 360 days	751	647	1,120	759
	10,038	10,789	6,031	3,614

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

(ii)

	Rossini			
	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	2006 RMB'000	2005 RMB'000
Trade receivables	10,038	10,789	6,031	3,614
Less: Allowance for doubtful debts *(Note (a))*	(874)	(619)	(706)	(1,188)
	9,164	10,170	5,325	2,426
Other receivables	2,227	193	316	1,089
	11,391	10,363	5,641	3,515
Deposits and prepayments				
– Current portion	574	1,868	3,356	1,701
– Non-current portion	–	–	717	1,293
	574	1,868	4,073	2,994
	11,965	12,231	9,714	6,509
Long-term portion	–	–	(717)	(1,293)
	11,965	12,231	8,997	5,216

(a) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless Rossini is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(k)).

The movement in the allowance for doubtful debts during the Relevant Period is as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	2006 RMB'000	2005 RMB'000
At 1 January	619	706	1,188	360
Impairment loss recognised/ (reversed)	255	(87)	(482)	828
At 30 June/31 December	874	619	706	1,188

(b) Trade receivables that are not impaired

Trade receivables are due within 90 days from the date of billing. Further details on Rossini's credit policy are set out in note 25(a).

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	2006 RMB'000	2005 RMB'000
Up to 90 days	8,370	9,044	4,562	2,258
91 – 360 days	917	1,098	349	597
More than 360 days	751	647	1,120	759
	10,038	10,789	6,031	3,614

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

17. INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Rossini Group			
	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	21,529	16,673	13,112	15,089
Work in progress	5,429	4,094	3,203	3,332
Finished goods	37,289	33,773	26,392	38,924
	64,247	54,540	42,707	57,345

	Rossini			
	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	21,529	16,673	13,112	15,089
Work in progress	5,429	4,094	3,203	3,332
Finished goods	37,191	33,679	26,392	38,924
	64,149	54,446	42,707	57,345

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Rossini Group				
	Six months ended 30 June		**Year ended 31 December**		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	29,740	36,710	74,793	70,510	51,053
Write down of inventories	331	–	772	–	32
Reversal of write-down of inventories	–	–	–	(104)	–
Cost of inventories sold *(note 6)*	30,071	36,710	75,565	70,406	51,085

18. AMOUNT DUE FROM/(TO) A RELATED COMPANY

The amount due from/(to) a related company is unsecured and with no fixed terms of repayment.

	The Rossini Group and Rossini
Name of related company	**Relationship with Rossini**
Zuhai Geli Group Company	Former significant shareholder

	As at 30 June 2008	As at 31 December 2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from a related company	–	–	–	28,659

	As at 30 June 2008	As at 31 December 2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Maximum amount outstanding during the period	–	–	–	28,659

	As at 30 June 2008	As at 31 December 2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to a related company	–	–	(21,507)	(25,000)
Weighted average effective interest rates	–	2.21%	2.21%	2.21%

19. CASH AND CASH EQUIVALENTS

	The Rossini Group			
	As at 30 June 2008	As at 31 December 2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	11,437	25,022	20,690	17,002

The cash and cash equivalents represented cash at bank and in hand. As at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008, cash and cash equivalents were denominated in the following currencies:

	As at 30 June 2008	As at 31 December 2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Renminbi	11,052	23,525	18,773	15,722
United States dollars	195	1,484	1,433	1,245
Swiss Franc	189	12	482	11
Hong Kong dollars	1	1	2	24
	11,437	25,022	20,690	17,002

	Rossini			
	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	11,248	25,010	20,208	16,991

The cash and cash equivalents represented cash at bank and in hand. As at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008, cash and cash equivalents were denominated in the following currencies:

	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Renminbi	11,052	23,525	18,773	15,722
United States dollars	195	1,484	1,433	1,245
Hong Kong dollars	1	1	2	24
	11,248	25,010	20,208	16,991

20. TRADE AND OTHER PAYABLES

	The Rossini Group			
	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	31,417	26,355	10,887	14,481
Other payables	11,923	18,301	11,986	17,780
	43,340	44,656	22,873	32,261

All of the trade and other payables are expected to be settled within one year.

Included in trade payables are within the following ageing analysis:

	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 90 days	30,349	8,642	6,537	9,041
91 – 180 days	1,068	17,713	3,994	5,440
180 – 360 days	–	–	356	–
	31,417	26,355	10,887	14,481

	Rossini			
	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	31,417	26,355	10,887	14,481
Other payables	11,413	17,605	11,165	17,757
	42,830	43,960	22,052	32,238

All of the trade and other payables are expected to be settled within one year.

Included in trade payables are within the following ageing analysis:

	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 90 days	30,349	8,642	6,537	9,041
91 – 180 days	1,068	17,713	3,994	5,440
180 – 360 days	–	–	356	–
	31,417	26,355	10,887	14,481

21. SHORT-TERM BORROWINGS

	The Rossini Group and Rossini			
	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short-term bank borrowings, secured *(Note (b))*	–	–	–	25,000
Short-term bank borrowings, unsecured	–	–	10,000	10,000
Total borrowings	–	–	10,000	35,000

Notes:

(a) The short-term bank borrowings were repayable as follows:

	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	10,000	35,000
In the second year	–	–	–	–
Third to fifth year	–	–	–	–
Wholly repayable within 5 years	–	–	10,000	35,000

(b) Short-term bank borrowings were secured by certain land and buildings of a former significant shareholder, Zhuhai Geli Group Company, denominated in Renminbi and repayable within one year.

(c) The weighted average effective interest rates at the respective balance sheet dates were set out as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	2006 RMB'000	2005 RMB'000
Bank borrowings	–	–	6.14%	5.95%

(d) The carrying amounts of short-term borrowings approximated their fair values as at the balance sheet dates.

22. CAPITAL AND RESERVES

(a) Capital and reserves

The Rossini Group

	Paid-up capital RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	7,800	22,837	66	14,360	45,063
Profit for the year	–	–	–	18,535	18,535
Exchange reserves	–	–	(10)	–	(10)
Dividend	–	–	–	(16,535)	(16,535)
At 31 December 2005	7,800	22,837	56	16,360	47,053
Profit for the year	–	–	–	19,350	19,350
Dividend	–	–	–	(18,594)	(18,594)
At 31 December 2006	7,800	22,837	56	17,116	47,809
Exchange reserves	–	–	(2)	–	(2)
Profit for the year	–	–	–	26,065	26,065
Dividend	–	–	–	(20,094)	(20,094)
At 31 December 2007	7,800	22,837	54	23,087	53,778
Exchange reserves	–	–	(9)	–	(9)
Profit for the period	–	–	–	25,685	25,685
Dividend	–	–	–	(30,417)	(30,417)
At 30 June 2008	7,800	22,837	45	18,355	49,037

Rossini

	Paid-up capital RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	7,800	22,837	14,323	44,960
Profit for the year	–	–	18,631	18,631
Dividend	–	–	(16,535)	(16,535)
At 31 December 2005	7,800	22,837	16,419	47,056
Profit for the year	–	–	19,469	19,469
Dividend	–	–	(18,594)	(18,594)
At 31 December 2006	7,800	22,837	17,294	47,931
Profit for the year	–	–	26,101	26,101
Dividend	–	–	(20,094)	(20,094)
At 31 December 2007	7,800	22,837	23,301	53,938
Profit for the period	–	–	25,739	25,739
Dividend	–	–	(30,417)	(30,417)
At 30 June 2008	7,800	22,837	18,623	49,260

(b) Statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of Rossini which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors.

(c) Capital paid

	As at 30 June 2008	As at 31 December 2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered and paid-up	7,800	7,800	7,800	7,800

(d) Capital management

The Rossini Group's primary objectives when managing capital are to safeguard the Rossini Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders.

The Rossini Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Rossini Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, raise new share capital, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the Relevant Period.

The Rossini Group monitors capital using a gearing ratio, which is the Rossini Group's total liabilities over its total assets. The Rossini Group's policy is to keep the gearing ratio at a reasonable level.

23. DIVIDENDS

	The Rossini Group				
	Six months ended 30 June		Year ended 31 December		
	2008	2007	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Dividends recognised as distribution during the period/year:					
– Interim	30,417	20,094	20,094	–	–
– Final	–	–	–	18,594	16,535
	30,417	20,094	20,094	18,594	16,535

On 5 August 2008, a further interim dividend of RMB6,000,000 for 2008 was declared by the directors of Rossini.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

24. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel are all directors and remuneration details are disclosed in note 8.

(b) Transactions with other related parties

The following is a summary of principal related parties of the Rossini Group during the relevant period.

Name of related party	Relationship
Zhuhai Geli Group Company	Former significant shareholder
Celehuge Limited	Former significant shareholder
Zuhai Basai Investment Company Limited	Former significant shareholder
Fujian Fengrong Investment Company Ltd.	Former immediate holding company
Zhuhai Geli Group Finance Co. Limited	Former fellow subsidiary

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Rossini Group entered into the following material related party transactions:

	Six months ended 30 June		Year ended 31 December		
	2008	**2007**	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest paid to Zuhai Geli Group Company	–	232	232	463	463

25. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Rossini Group's business. These risks are limited by the Rossini Group's financial management policies and practices described below.

(a) Credit risk

The extent of the Rossini Group's credit exposure is represented by the aggregate balance of cash at bank, trade and other receivables.

The Rossini Group has a defined credit policy. The Rossini Group reviews the ageing of trade and other receivables on a regular basis and closely monitor the recoverability of the balances.

(b) Liquidity risk

The Rossini Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

As the nature of the consignment sale, the Rossini Group would generate enough cash to meet its need of operation. The liquidity risk is lower.

The following table details the remaining contractual maturities at the balance sheet date of the Rossini Group's and Rossini's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date the Rossini Group and Rossini can be required to pay.

	The Rossini Group		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	RMB'000	*RMB'000*	*RMB'000*
As at 30 June 2008			
Trade payables and other payables	43,340	43,340	43,340
As at 31 December 2007			
Trade payables and other payables	44,656	44,656	44,656
As at 31 December 2006			
Trade payables and other payables	22,873	22,873	22,873
Amount due to a related company	21,507	21,507	21,507
Short-term borrowings	10,000	10,000	10,000
	54,380	54,380	54,380
As at 31 December 2005			
Trade payables and other payables	32,261	32,261	32,261
Amount due to a related company	25,000	25,000	25,000
Short-term borrowings	35,000	35,000	35,000
	92,261	92,261	92,261

	Rossini		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**
	RMB'000	*RMB'000*	*RMB'000*
As at 30 June 2008			
Trade payables and other payables	42,830	42,830	42,830
As at 31 December 2007			
Trade payables and other payables	43,960	43,960	43,960
As at 31 December 2006			
Trade payables and other payables	22,052	22,052	22,052
Amount due to a related company	21,507	21,507	21,507
Short-term borrowings	10,000	10,000	10,000
	53,559	53,559	53,559
As at 31 December 2005			
Trade payables and other payables	32,238	32,238	32,238
Amount due to a related company	25,000	25,000	25,000
Short-term borrowings	35,000	35,000	35,000
	92,238	92,238	92,238

(c) Currency risk

The Rossini Group is exposed to currency risk through certain purchases that are denominated in Japanese Yen ("JPY"). The management closely monitors the risk level of JPY to ensures that the net exposure is kept to an acceptable level.

(d) Interest rate risk

The interest rates and terms of repayment of loans of the Rossini Group are disclosed in note 21. the Rossini Group's policy is to manage its interest rate risk to ensure there is no undue exposure to significant interest rate movements. The Rossini Group does not use derivative financial instruments to hedge its debt obligations.

(e) Fair values

All significant financial instruments are carried at amounts not materially different from their fair value as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008.

26. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Rossini Group's and Rossini's financial assets and financial liabilities recognised as at 31 December 2005, 31 December 2006 and 31 December 2007 and 30 June 2008 may be categorised as follows:

	The Rossini Group			
	As at 30 June	**As at 31 December**		
	2008	**2007**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available-for-sale financial assets	65	65	21,065	21,065
Prepayment (non-current portion)	–	–	717	1,293
Trade and other receivables	11,965	12,661	9,214	5,225
Amount due from a related company	–	–	–	28,659
Pledged bank deposit	183	–	–	–
Cash and cash equivalents	11,437	25,022	20,690	17,002
	23,650	37,748	51,686	73,244
Financial liabilities				
Trade and other payables	43,340	44,656	22,873	32,261
Amount due to a related company	–	–	21,507	25,000
Short-term borrowings	–	–	10,000	35,000
	43,340	44,656	54,380	92,261

	Rossini			
	As at 30 June	As at 31 December		
	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available-for-sale financial assets	65	65	21,065	21,065
Prepayment (non-current portion)	–	–	717	1,293
Trade and other receivables	11,965	12,231	8,997	5,216
Amount due from a related company	–	–	–	28,659
Pledged bank deposit	183	–	–	–
Cash and cash equivalents	11,248	25,010	20,208	16,991
	23,461	37,306	50,987	73,224
Financial liabilities				
Trade and other payables	42,380	43,960	22,052	32,238
Amount due to a related company	–	–	21,507	25,000
Short-term borrowings	–	–	10,000	35,000
	42,380	43,960	53,559	92,238

27. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Certain critical accounting judgements in applying the Rossini Group's accounting policies are described below.

Estimation uncertainty

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

Impairment losses for bad and doubtful debts

The Rossini Group recognises impairment losses for receivables based on the judgement of recovery of accounts receivable. Impairment is required to recognise when there are indications that the receivable cannot be recovered. Recognition of impairment requires the use of judgement and estimates. If the revised estimates deviate from the current estimates, then any difference arising from change of accounting estimates will affect the carrying value of debtors in relevant accounting periods.

Impairment losses of inventories

The Rossini Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventory analyses, projections of expected future salability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. Due to changes in market conditions, actual salability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Rossini Group reviews annually the useful life of an asset and its residual value, if any.

Taxation

The Rossini Group assesses the tax effect of all transactions and make provision for tax obligations. The Rossini Group reviews the tax treatment of these transactions, considering all amendments of tax laws and regulations.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Rossini Group have been prepared in respect of any period subsequent to 30 June 2008.

Yours faithfully
JYC & Co.
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE ROSSINI GROUP

For the year ended 31 December 2005

I. Review of results

For the year ended 31 December 2005, the Rossini Group's revenue amounted to approximately RMB113.0 million (equivalent to approximately HK$128.8 million). Profit before taxation amounted to approximately RMB21.6 million (equivalent to approximately HK$24.6 million). Profit after taxation and minority interests amounted to approximately RMB18.5 million (equivalent to approximately HK$21.1 million).

During the year, Rossini increased the number of distribution outlets from 636 to 658. More than 100 exhibitions were held throughout the PRC. As a result of the expansion of its distribution network and increase in marketing efforts, brand awareness among suppliers and customers was significantly improved.

II. Financial position

Liquidity, financial resources and capital structure

As at 31 December 2005, the cash and cash equivalents of the Rossini Group amounted to approximately RMB17.0 million (equivalent to approximately HK$19.4 million). As at 31 December 2005, the Rossini Group had short term bank borrowings of RMB35.0 million (equivalent to approximately HK$39.9 million) of which RMB25.0 million (equivalent to approximately HK$28.5 million) were secured by certain land and buildings of a former significant shareholder, 珠海格力集團公司(Zhuhai Geli Group Company), denominated in RMB and repayable within one year; and RMB10 million were unsecured short-term bank borrowings.

Based on total bank borrowings of approximately RMB35.0 million (equivalent to approximately HK$39.9 million) and shareholders' equity of approximately RMB47.1 million (equivalent to HK$53.7 million) as at 31 December 2005, the gearing ratio of the Rossini Group was approximately 74.3%.

Significant investments

The Rossini Group had no significant investment as at 31 December 2005.

Material acquisitions and disposals

The Rossini Group had no material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2005.

Future plans for material investments or capital assets

The Rossini Group had no future plans for material investments or capital assets as at 31 December 2005.

Exposure to fluctuations in exchange rates

The Rossini Group was exposed to fluctuations in exchange rates of Euro and Swiss Franc due to the purchase of watch movements from overseas. There were no related hedges as at 31 December 2005.

Charge on assets

There was no charge on the assets of the Rossini Group as at 31 December 2005.

Capital commitments

The Rossini Group had no capital commitment as at 31 December 2005.

Contingent liabilities

The Rossini Group had no contingent liabilities as at 31 December 2005.

III. Employees and remuneration policy

As at 31 December 2005, Rossini had approximately 327 full time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. Rossini also provided other benefits to its employees, including year-end double pay, medical insurance, training schemes and housing allowance. In addition, an incentive scheme is provided with reference to Rossini's operating results and employee's individual performance. There was no share option scheme for employees.

For the year ended 31 December 2006

I. Review of results

For the year ended 31 December 2006, the Rossini Group's revenue amounted to approximately RMB143.9 million (equivalent to about HK$164.0 million), representing an increase of about 27.3% compared to the year ended 31 December 2005. Profit before taxation and minority interests amounted to approximately RMB23.0 million (equivalent to about HK$26.2 million). Profit after taxation and minority interests amounted to approximately RMB19.4 million (equivalent to approximately HK$22.1 million), representing an increase of about 4.9%.

During the year under review, Rossini launched the 'ultra-slim' series of quartz watch, which received much popularity. Such product line contributed significantly to the revenue growth during the year. Rossini focused on mid- to low-priced products during 2006 in order to increase market share, which in turn resulted in lower profit margin.

II. Financial position

Liquidity, financial resources and capital structure

As at 31 December 2006, the cash and cash equivalents of the Rossini Group amounted to approximately RMB20.7 million (equivalent to approximately HK$23.6 million). As at 31 December 2006, the Rossini Group had short term unsecured bank borrowings of RMB10.0 million (equivalent to approximately HK$11.4 million) and amount due to a related company of approximately RMB21.5 million (equivalent to approximately HK$24.5 million).

Based on total bank borrowings of RMB10.0 million (equivalent to approximately HK$11.4 million) and shareholders' equity of approximately RMB47.8 million (equivalent to about HK$54.5 million) as at 31 December 2006, the gearing ratio of the Rossini Group was approximately 20.9%.

Significant investments

The Rossini Group had no significant investment as at 31 December 2006.

Material acquisitions and disposals

The Rossini Group had no material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2006.

Future plans for material investments or capital assets

The Rossini Group had no future plans for material investments or capital assets as at 31 December 2006.

Exposure to fluctuations in exchange rates

The Rossini Group was exposed to fluctuations in exchange rates of Euro and Swiss Franc due to the purchase of watch movements from overseas. There were no related hedges as at 31 December 2006.

Charge on assets

There was no charge on the assets of the Rossini Group as at 31 December 2006.

Capital commitments

The Rossini Group had no capital commitment as at 31 December 2006.

Contingent liabilities

The Rossini Group had no contingent liabilities as at 31 December 2006.

III. Employees and remuneration policy

As at 31 December 2006, Rossini had approximately 327 full time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. Rossini also provided other benefits to its employees, including year-end double pay, medical insurance, training schemes and housing allowance. In addition, an incentive scheme is provided with reference to Rossini's operating results and employee's individual performance. There was no share option scheme for employees.

For the year ended 31 December 2007

I. Review of results

For the year ended 31 December 2007, the Rossini Group's revenue amounted to approximately RMB168.1 million (equivalent to about HK$191.6 million), representing an increase of approximately 16.8% compared to the year ended 31 December 2006. Profit before taxation and minority interests amounted to approximately RMB30.9 million (equivalent to about HK$35.2 million). Profit after taxation and minority interests amounted to approximately RMB26.1 million (equivalent to approximately HK$29.8 million), representing an increase of approximately 34.5% compared to the year ended 31 December 2006.

During the year under review, Rossini focused on brand development and repositioned into a more luxury market, which resulted in improved profit margin. The tungsten and mechanical sport series were launched to the market and received strong demand from customers. The number of distribution outlets was increased to 679 at the end of the year.

II. Financial position

Liquidity, financial resources and capital structure

As at 31 December 2007, the cash and cash equivalents of the Rossini Group amounted to approximately RMB25.0 million (equivalent to approximately HK$28.5 million). The Rossini Group did not have any borrowings as at 31 December 2007.

Significant investments

The Rossini Group had no significant investments as at 31 December 2007.

Material acquisitions and disposals

The Rossini Group had no material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2007.

Future plans for material investments or capital assets

The Rossini Group had no future plans for material investments or capital assets as at 31 December 2007.

Exposure to fluctuations in exchange rates

The Rossini Group was exposed to fluctuations in exchange rates of Euro and Swiss Franc due to the purchase of watch movements from overseas. There were no related hedges as at 31 December 2007.

Charge on assets

There was no charge on the assets of the Rossini Group as at 31 December 2007.

Capital commitments

The Rossini Group had no capital commitment as at 31 December 2007.

Contingent liabilities

The Rossini Group had no contingent liabilities as at 31 December 2007.

III. Employees and remuneration policy

As at 31 December 2007, Rossini had approximately 326 full time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. Rossini also provided other benefits to its employees, including year-end double pay, medical insurance, training schemes and housing allowance. In addition, an incentive scheme is provided with reference to Rossini's operating results and employee's individual performance. There was no share option scheme for employees.

For the six months ended 30 June 2008

I. Review of results

For the six months ended 30 June 2008, the Rossini Group's revenue amounted to approximately RMB86.5 million (equivalent to about HK$98.6 million), representing an increase of approximately 8.7% compared to the six months ended 30 June 2007. Profit before taxation and minority interests amounted to approximately RMB31.7 million (equivalent to about HK$36.1 million). Profit after taxation and minority interests amounted to approximately RMB25.7 million (equivalent to approximately HK$29.3 million), representing an increase of approximately 82.3% compared to the six months ended 30 June 2007.

During the period under review, Rossini rationalised its development strategy and rolled out more attractive incentive plans for employees. It successfully expanded its source of supply of mechanical movement, which improved its productivity for mechanical watches and in turn increased the sale of mechanical watches by approximately 34% during the first half of 2008 compared with the relevant period of 2007. Rossini managed to gain access to the supply of Japanese and Swiss mechanical movement, which enabled it to manufacture higher-end watches which improved its profit margin. The number of distribution outlets was 704 as at 30 June 2008.

II. Financial position

Liquidity, financial resources and capital structure

As at 30 June 2008, the cash and cash equivalents of the Rossini Group amounted to approximately RMB11.4 million (equivalent to approximately HK$13.0 million). The Rossini Group did not have any borrowings as at 30 June 2008.

Significant investments

The Rossini Group had no significant investment as at 30 June 2008.

Material acquisitions and disposals

The Rossini Group had no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2008.

Future plans for material investments or capital assets

The Rossini Group had no future plans for material investments or capital assets as at 30 June 2008.

Exposure to fluctuations in exchange rates

Rossini Group was exposed to fluctuations in exchange rates of Euro and Swiss Franc due to the purchase of watch movements from overseas. There were no related hedges as at 30 June 2008.

Charge on assets

There was no charge on the assets of the Rossini Group as at 30 June 2008.

Capital commitments

The Rossini Group had no capital commitment as at 30 June 2008.

Contingent liabilities

The Rossini Group had no contingent liabilities as at 30 June 2008.

III. Employees and remuneration policy

As at 30 June 2008, Rossini had approximately 319 full time staff in the PRC.

The remuneration packages for the employees are determined and reviewed on an arm's length basis with reference to the market condition and individual performance. Rossini also provided other benefits to its employees, including year-end double pay, medical insurance, training schemes and housing allowance. In addition, an incentive scheme is provided with reference to Rossini's operating results and employee's individual performance. There was no share option scheme for employees.

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12 September 2008

The Directors
China Haidian Holdings Limited
Units 1902-04, Level 19,
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Haidian Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out on pages 3 to 6 in Appendix IV to the circular dated 12 September 2008 issued by the Company to its shareholders (the "Circular"), which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of 100% of the entire issued share capital of Jia Cheng Investment Limited and its subsidiary (hereafter collectively referred to as the "Jia Cheng Group") and 91% indirect interest in Zhuhai Rossini Watch Industry limited and its subsidiary (hereafter collectively referred to as the "Rossini Group"), might have affected the financial information presented. The basis of preparation for the unaudited pro forma financial information is set out on page 3 in Appendix IV to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2007 or at any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
JYC & Co.
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information of China Haidian Holdings Limited and its subsidiaries (hereafter collectively referred to as the "Group") and Jia Cheng Investment Limited ("Jia Cheng") and its subsidiary (hereafter collectively referred to as the "Jia Cheng Group") and Zhuhai Rossini Watch Industry Limited ("Rossini") and its subsidiary (hereafter collectively referred to as the "Rossini Group") (together with the Group, hereinafter collectively referred to as the "Enlarged Group") has been prepared to illustrate the effect of the Group's proposed acquisition of the 100% interest in the Jia Cheng Group and 91% indirect interest in the Rossini Group at a share consideration of HK$525 million by allotment and issue of 1,750 million shares (the "Acquisition").

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on (i) the audited consolidated balance sheet of the Group as at 31 December 2007, which has been extracted from the Company's published annual report for the year then ended as set out in Appendix I to this circular; and (ii) the audited consolidated balance sheet of the Jia Cheng Group and the Rossini Group as at 30 June 2008 as extracted from the accountants' report thereon set out in Appendix II and Appendix III respectively to this circular, after making pro forma adjustments relating to the acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2008.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition. As it is prepared for illustrative purposes only, it does not purport to represent what the financial position of the Enlarged Group will be on completion of the Acquisition.

For the purpose of the pro forma balance sheet, the balances denominated in Renminbi ("RMB") have been translated into Hong Kong dollars ("HK$") at RMB100=HK$114 which is the prevailing exchange rate as at 30 June 2008.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF ENLARGED GROUP

	The Group as at 31 December 2007 (audited) *HK$'000*	The Jia Cheng Group as at 30 June 2008 (audited) *HK$'000*	The Rossini Group 30 June 2008 (audited) *HK$'000*	Pro forma adjustments (unaudited) *HK$'000* *(Note 1)*	Unaudited pro forma consolidated balance sheet of the Enlarged Group *HK$'000*
Non-current assets					
Property, plant and equipment	125,394	–	8,426		133,820
Goodwill				474,129	474,182
				53	
Investment properties	60,258	–	–		60,258
Prepaid land lease payments	10,227	–	–		10,227
Interest in associate	31,484	–	153		31,637
Available-for-sale financial assets	853,380	–	74		853,454
Prepayments and deposits	2,394	–	–		2,394
Deferred tax assets	1,130	–	–		1,130
	1,084,267	–	8,653		1,567,102
Current assets					
Inventories	142,026	–	73,241		215,267
Trade and bills receivables	44,052	–	10,447		54,499
Prepaid land lease payments	210	–	–		210
Prepayments, deposits and other receivables	87,277	–	3,193		90,470
Financial assets at fair value through profit or loss	44,178	–	–		44,178
Pledged bank deposit	–	–	209		209
Cash and cash equivalents	82,362	8,455	13,038		103,855
	400,105	8,455	100,128		508,688
Non-current assets held for sale	200,989	–	–		200,989
	601,094	8,455	100,128		709,677

	The Group as at 31 December 2007 (audited) *HK$'000*	The Jia Cheng Group as at 30 June 2008 (audited) *HK$'000*	The Rossini Group 30 June 2008 (audited) *HK$'000*	Pro forma adjustments (unaudited) *HK$'000* *(Note 1)*	Unaudited pro forma consolidated balance sheet of the Enlarged Group *HK$'000*
Current liabilities					
Trade payables	(33,497)	–	(35,816)		(69,313)
Other payables and accruals	(95,767)	(8,508)	(13,592)		(117,867)
Tax payables	(13,188)	–	(3,471)		(16,659)
Derivative financial instruments	(5,017)	–	–		(5,017)
Borrowings	(112,815)	–	–		(112,815)
Due to related companies	(209,311)	–	–		(209,311)
	(469,595)	(8,508)	(52,879)		(530,982)
Net current assets	131,499	(53)	47,249		178,695
Net assets	1,215,766	(53)	55,902		1,745,797
Equity					
Equity attributable to equity holders of the Company					
Share capital	179,203	–	8,892	175,000 (8,892)	354,203
Share premium and other reserves	1,034,171	(53)	47,010	350,000 53 (47,010)	1,384,171
Minority interests	2,392	–	–	5,031	7,423
Total equity	1,215,766	(53)	55,902		1,745,797

Notes to the pro forma adjustment

1. The adjustments represent the allotment and issue of 1,750 million consideration shares at HK$0.3 each for the acquisition of the entire equity interest in Jia Cheng which indirectly held 91% of equity interest in the Rossini Group.

   The consideration eliminates the share capital and pre-acquisition reserves of the Jia Cheng Group and the Rossini Group and recognition of goodwill of HK$474,182,000 arising from the acquisition, being excess of the consideration of HK$525,000,000 over the interest in the fair value of the net identifiable liabilities of the Jia Cheng Group of HK$53,000 and net identifiable assets of the Rossini Group of HK$50,871,000 (91% of the net assets HK$55,902,000). Minority Interest of HK$5,031,000 represents the remaining 9% of equity interest in the Rossini Group.

2. Since the fair value of the net identifiable liabilities of the Jia Cheng Group and net identifiable assets of the Rossini Group at the date of completion of the acquisition may be substantially different from the fair value used in the preparation of this unaudited pro forma statement of assets and liabilities of the Enlarged Group, the final amount of the excess over the cost of business combination to be recognised in connection with the acquisition will be different from the estimated excess over the cost of business combination stated herein.

1. RESPONSIBILITY STATEMENTS

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

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion are set out as follows:

Authorised:		*HK$*
4,000,000,000	Shares	400,000,000
Issued and to be issued, fully paid, or credited as fully paid:		*HK$*
1,792,030,669	Shares in issue as at the Latest Practicable Date	179,203,066.90
1,750,000,000	Consideration Shares to be issued	175,000,000.00
3,542,030,669	Shares	354,203,066.90

No Share had been issued since 31 December 2007 (the date to which the latest audited consolidated financial statements of the Company were made up) up to the Latest Practicable Date.

All the existing Shares in issue rank pari passu in all respects with each other including as regards to the rights to dividends, voting and return of capital. Holder of the Consideration Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Consideration Shares. The Consideration Shares to be allotted and issued will, when allotted and issued and fully paid, rank pari passu in all respects with the Shares then in issue.

The Company had no outstanding convertible securities, options or warrants in issue which conferred any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS AND DEALINGS

(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	Corporate *(Note)*	683,441,515	38.14%

Note: These Shares were owned by Sincere View, which is owned as to 80% by Mr. Hon and 20% by Ms. Lam.

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 and other persons

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, or 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 Enlarged Group:

	Number of Shares held	
Name of Shareholder	**Long position**	**Percentage of shareholding**
Sincere View	683,441,515	38.14%
Mr. Hon *(Note)*	683,441,515	38.14%
Ms. Lam *(Note)*	683,441,515	38.14%

Note: As Sincere View is 80% owned by Mr. Hon, Mr. Hon is deemed to be interested in the 683,441,515 Shares held by Sincere View under Part XV of the SFO. Ms. Lam, being Mr. Hon's spouse, is also deemed to be interested in the 683,441,515 Shares held by Sincere View under Part XV of the SFO. Mr. Hon is a director of Sincere View.

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 Enlarged Group as at the Latest Practicable Date.

(c) Interests of the Vendor and parties acting in concert with it in the Company

The Vendor is wholly-owned by Mr. Hon, an executive Director. As at the Latest Practicable Date, Sincere View was interested in 683,441,515 Shares. Sincere View is owned as to 80% by Mr. Hon and 20% by Ms. Lam.

Save as disclosed above, as at the Latest Practicable Date, none of the Vendor, its ultimate beneficial owner and parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) was beneficially interested in, directly or indirectly, any Shares, convertible securities, warrants, options or derivatives in respect of the Shares.

(d) Interests in the Vendor

(a) As at the Latest Practicable Date, the Company did not have any beneficial interest in any shares of the Vendor, convertible securities, warrants, options or derivatives in respect of the shares of the Vendor.

(b) As at the Latest Practicable Date, the Vendor was wholly-owned by Mr. Hon, an executive Director. Save as disclosed above, none of the Directors had any beneficial interest in any shares of the Vendor, convertible securities, warrants, options or derivatives in respect of the shares of the Vendor.

(e) Dealings in securities of the Company and the Vendor

(a) Dealings in securities of the Company by the Vendor and parties acting in concert with it

None of the Vendor, its ultimate beneficial owner or parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) had dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(b) Dealings in securities of the Company by the director of the Vendor

Mr. Hon, the sole director of the Vendor, did not deal in any Shares, options, warrants, derivatives or securities convertible into the Shares during the Relevant Period.

(c) Dealings in securities of the Company by the Directors

None of the Directors had dealt in any Shares, options, warrants, derivatives or securities convertible into the Shares during the Relevant Period.

(d) Dealings in securities of the Company by others

None of the subsidiaries of the Company, any pension fund of the Company and of its subsidiaries, any adviser to the Company as specified in class (2) of the definition of associate in the Takeovers Code, any persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code, any fund manager connected with the Company who managed the shareholdings in the Company on a discretionary basis had dealt in any Shares, options, warrants, derivatives or convertible securities of the Company during the Relevant Period.

(e) Dealings in securities of the Vendor by the Company and the Directors

None of the Company and the Directors had dealt in any shares, options, warrants, convertible securities or derivatives in respect of the shares of the Vendor during the Relevant Period.

(f) Miscellaneous

(a) As at the Latest Practicable Date, none of the professional advisers named under the section headed "Experts and consents" in this appendix and as specified in class (2) of the definition of "associate" under the Takeovers Code had any interest in the securities of any member of the Group.

(b) As at the Latest Practicable Date, no person had any arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code, the Vendor, its ultimate beneficial owner or parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) in relation to the securities of the Vendor or the Company.

(c) As at the Latest Practicable Date, none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company had any interest in the securities of the Company or the Vendor.

(d) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Vendor, its ultimate beneficial owner or parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) and other persons that the Consideration Shares to be acquired by the Vendor under the Agreement would be transferred, charged or pledged to that person.

(e) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Vendor, its ultimate beneficial owner or parties acting in concert with any of them (including Fujian Fengrong, Ms. Sit and Ms. Lu) and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Whitewash Waiver and/or the Acquisition.

(f) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed to vote for or against the Whitewash Waiver and/or the Acquisition.

(g) The Vendor, Sincere View, Mr. Hon, Ms. Lam and parties acting in concert with them (including Fujian Fengrong, Ms. Sit and Ms. Lu) have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

(h) There is no agreement or arrangement to which the Vendor is party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Agreement.

4. COMPETING BUSINESS

Rossini is beneficially owned as to 91% by Mr. Hon, an executive Director and 9% by Ms. Sit, a non-executive Director, through her 68.5% interest in Fujian Fengrong. Rossini is principally engaged in manufacture and sale of watches mainly in the PRC. In view of the nature of business of Rossini, it may potentially compete with the Group's business.

Save as disclosed above, 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 as at the Latest Practicable Date.

5. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Enlarged Group, were entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are, or may be material:

(a) the sale and purchase agreement dated 15 February 2007 entered into between Wisdom Power Property Limited, a wholly-owned subsidiary of the Company, and Citychamp 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;

(b) the conditional agreement dated 3 December 2007 entered into between Seti Timber Industry (Shenzhen) Co., Ltd. a subsidiary of the Company, and 深圳市南山區人民政府 (People's Government of the Nanshan District of the Shenzhen Municipal) in relation to the resumption of a land parcel located in Shenzhen, the PRC;

(c) the conditional agreement dated 3 December 2007 entered into between Seti Timber Industry (Shenzhen) Co., Ltd. and 冠城大通股份有限公司 (Citychamp Dartong Company Limited) in relation to the arrangement to cooperate in the restoration of a land parcel located in Shenzhen, the PRC; and

(d) the Agreement.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Enlarged Group 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 Enlarged Group.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or had proposed to enter into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation). In addition, none of the Directors had any existing nor proposed service contract with the Company or its subsidiaries or associated companies:

(i) which (including both continuous and fixed term contract) had been entered into or amended within the six-month period before the date of the Announcement;

(ii) which are continuous contracts with a notice period of twelve months or more; or

(iii) which are fixed term contracts with more than twelve months to run irrespective of the notice period.

8. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

(a) As at the Latest Practicable Date, save for the Agreement in which Mr. Hon (an executive Director) was interested, none of the Directors was materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Enlarged Group.

(b) Save for the Agreement in which Mr. Hon (an executive Director) has a material interest, no material contracts have been entered into by the Vendor in which any Director has a material personal interest.

(c) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Whitewash Waiver and/or the Acquisition or otherwise connected with the Whitewash Waiver and/or the Acquisition.

(d) As at the Latest Practicable Date, save for Mr. Hon's interest in the Jia Cheung Group and Ms. Sit's interest in the Rossini Group, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2007 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(e) As at the Latest Practicable Date, there was no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Whitewash Waiver and/or the Acquisition.

9. 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**
JYC & Co.	Certified Public Accountants
Optima Capital	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

(b) As at the Latest Practicable Date, JYC & Co. and Optima Capital 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) As at the Latest Practicable Date, none of JYC & Co. and Optima Capital had any interest, direct or indirect, in any assets which have been, since 31 December 2007 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(d) Both JYC & Co. and Optima Capital 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.

10. MARKET PRICES

(a) The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the Relevant Period were HK$0.76 per Share on 27 February 2008 and HK$0.285 per Share on 19 August 2008 respectively.

(b) The table below sets out the closing prices of the Shares quoted on the Stock Exchange as at the last trading day of each of the calendar month during the period commencing six months preceding 25 August 2008, being the date of the Announcement and ending on the Latest Practicable Date:

	Closing price *(HK$)*
29 February 2008	0.72
31 March 2008	0.63
30 April 2008	0.68
30 May 2008	0.63
30 June 2008	0.46
31 July 2008	0.33
29 August 2008	0.35

(c) The closing price of the Shares quoted on the Stock Exchange as at 20 August 2008, being the last trading day prior to the date of the Announcement, was HK$0.29 per Share.

(d) The closing price of the Shares quoted on the Stock Exchange as at the Latest Practicable Date was HK$0.34 per Share.

11. 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 Unit 1902-04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

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

(d) Principal members of parties acting in concert with the Vendor are Sincere View, Fujian Fengrong, Mr. Hon, Ms. Lam, Ms. Sit and Ms. Lu.

(e) The registered address of the Vendor is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(f) The registered address of Fujian Fengrong is 25th Floor, Yuanhong Building, 32 Wuyi Middle Road, Fuzhou, Fujian Province, PRC.

(g) The correspondence address of Mr. Hon, Ms. Lam, Ms. Sit and Ms. Lu is Unit 1902-04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

(h) The registered address of Optima Capital is Unit 3618, 36th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

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

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office of the Company at Unit 1902-04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and on the websites of the Company (www.irasia.com/listco/hk/chinahaidian) and the SFC (www.sfc.hk) during normal office hours on any weekday, except Saturdays, Sundays and public holidays, from the date of this circular up to and including 30 September 2008:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of the Vendor;

(c) the memorandum and articles of association of Jia Cheng;

(d) the audited financial statements of the Group for the two years ended 31 December 2007;

(e) the accountants' report on Jia Cheng and Actor Investments, the text of which is set out in Appendix II to this circular;

(f) the accountants' report on the Rossini Group, the text of which is set out in Appendix III to this circular;

(g) the letter issued by JYC & Co. in relation to the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular;

(h) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;

(i) the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;

(j) the material contracts referred to in the section headed "Material contracts" in this appendix;

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

(l) if any, all the circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company, being 31 December 2007.

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 Tang Room I, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Tuesday, 30 September 2008 at 11:00 a.m. (and at any adjournment thereof) for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **"THAT**

(a) the conditional sale and purchase agreement (the **"Agreement"**) dated 20 August 2008 entered into between the Company, Full Day Limited (the **"Vendor"**) and Mr. Hon Kwok Lung, a copy of which is tabled at the meeting and marked A and initialed by the chairman of the meeting for identification purposes, pursuant to which the Company will acquire from the Vendor the entire issued share capital of Jia Cheng Investment Limited for a total consideration of HK$525,000,000 (the **"Acquisition"**), be and is hereby approved, confirmed and ratified; and

(b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Consideration Shares (as defined in the circular of the Company dated 12 September 2008), the issue of the Consideration Shares to the Vendor or its nominee to satisfy the consideration for the Acquisition be and is hereby confirmed and approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is hereby authorised to execute all documents and to do all such things and take all such other steps which, in his/her opinion, may be necessary or desirable in connection with the matters contemplated in and for completion of the Agreement."

2. **"THAT** subject and pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers, the Whitewash Waiver (as defined and more particularly described in the circular of the Company dated 12 September 2008) be and is hereby approved and confirmed."

By Order of the Board
Hon Kwok Lung
Chairman

Hong Kong, 12 September 2008

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

Principal place of business:
Unit 1902-04
Level 19
International Commerce Centre
1 Austin Road West
Kowloon
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, Tricor 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 of the Company stands shall for this purpose be deemed joint holders thereof.