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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 **Chaoyue Group Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHAOYUE GROUP LIMITED
超越集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00147)

MAJOR TRANSACTIONS IN RELATION TO THE PROVISION OF FINANCIAL ASSISTANCE TO AND THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PARK WEALTH INTERNATIONAL LIMITED AND THE PROPOSED REFRESHMENT OF SCHEME MANDATE LIMIT OF THE SHARE OPTION SCHEME

Financial adviser to Chaoyue Group Limited

OPTIMA CAPITAL

Optima Capital Limited

A notice convening a special general meeting of **Chaoyue Group Limited** to be held at Unit 2302, 23rd Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong on Wednesday, 11 February 2009 at 11:00 a.m. is set out on pages 201 to 203 of this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrars, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not prevent you from attending and voting in person at the meeting if you so wish.

22 January 2009

CONTENTS

DEFINITIONS

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

"Acquisition"	the proposed acquisition of the Sale Shares by Successtime for a total consideration of HK$800,000,000 (subject to adjustment) pursuant to the Agreements
"Agreements"	the sale and purchase agreement dated 11 October 2008 and a supplemental agreement dated 28 November 2008 entered into between Successtime, the Vendors, Mr. Jorge Ernesto De Almeida, Mr. Yang Zhuoya and Mr. Wong Kin San in relation to the Acquisition
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or a Sunday) on which banks are open for general business in Hong Kong
"Bye-laws"	the bye-laws of the Company
"CCASS"	the Central Clearing and Settlement Systems established and operated by Hong Kong Securities Clearing Company Limited
"Company"	Chaoyue Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 147)
"Completion"	completion of the Agreements
"Completion Date"	the date on which Completion takes place
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration of HK$800,000,000 (subject to adjustment) payable by Successtime for the Acquisition and to be satisfied in the manner as described in this circular
"Conversion Price"	the initial conversion price of the Non-voting Convertible Preference Shares, being HK$4.0 per Share (subject to adjustment)
"Conversion Shares"	up to 200,000,000 new Shares which may fall to be issued upon full conversion of the Non-voting Convertible Preference Shares at the Conversion Price of HK$4.0 (subject to adjustment)

"Directors"	directors of the Company
"Enlarged Group"	the Group together with the Park Wealth Group after Completion
"Facility"	the facility in an aggregate principal amount of up to HK$80,000,000 to be made available by Successtime to Park Wealth pursuant to the terms and conditions of the Loan Agreement
"Group"	the Company and its subsidiaries
"Guaranteed Profit"	has the meaning ascribed thereto in the paragraph headed "Profit Guarantee" in the section headed "The Agreements" in this circular
"Guarantors"	Mr. Jorge Ernesto De Almeida, Mr. Yang Zhuoya and Mr. Wong Kin San, being the beneficial owners of Teamwon, Sureguide and Sure Achieve respectively
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	19 January 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreement"	the agreement dated 11 October 2008 entered into between Park Wealth and Successtime relating to the provision of the Facility by Successtime to Park Wealth
"Long Grand"	Long Grand Limited, a company incorporated in the British Virgin Islands and the controlling Shareholder which is owned as to 30% by Mr. Yuen Leong (an executive Director) and 70% by Mr. Yam Yu
"Non-voting Convertible Preference Shares"	the non-voting and non-redeemable convertible preference shares with aggregate face value of up to HK$800,000,000 to be issued by the Company in favour of the Vendors to satisfy the Consideration
"Park Wealth"	Park Wealth International Limited, a company incorporated in the British Virgin Islands with limited liability, whose issued share capital is held as to 56% by Teamwon, as to 24% by Sureguide and as to 20% by Sure Achieve

"Park Wealth Group"	Park Wealth and its subsidiaries
"PRC"	the People's Republic of China
"Proposed Refreshment"	the 10% limit under the Share Option Scheme proposed to be refreshed by the Shareholders at the SGM pursuant to which the Board may grant share options to eligible participants to subscribe up to 10% of the Shares in issue as at the date of the SGM
"Sale Shares"	1,000 shares of US$1.00 each in the capital of Park Wealth beneficially owned by the Vendors, representing the entire issued share capital of Park Wealth
"Scheme Mandate Limit"	the maximum number of Shares that may be issued upon the exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company convened to be held on 11 February 2009 at 11:00 a.m. at Unit 2302, 23rd Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong to approve, among other things, the provision of the Facility, the Agreements and the transactions contemplated thereunder, the creation and designation of new class of preference shares of the Company and the refreshment of the Scheme Mandate Limit
"Shanghai Comfort"	上海康福特環境科技有限公司 (Shanghai Comfort Environment and Science Co., Ltd.*), a wholly-owned subsidiary of Park Wealth established under the laws of the PRC
"Shanghai Comfort Group"	Shanghai Comfort and its subsidiaries
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Option Scheme"	the share option scheme approved and adopted by the Company pursuant to an ordinary resolution passed at a general meeting held on 17 September 2004

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Successtime"	Successtime Limited, a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
"Sure Achieve"	Sure Achieve Limited, a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Wong Kin San
"Sureguide"	Sureguide Limited, a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Yang Zhuoya
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Teamwon"	Teamwon Limited, a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Jorge Ernesto De Almeida
"Vendors"	Teamwon, Sureguide and Sure Achieve
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

* *the translation of the names is for identification only*

Amounts denominated in RMB in this circular have been translated to HK$ at the exchange rate of RMB1=HK$1.13 for reference.

CHAOYUE GROUP LIMITED
超越集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 00147)

Executive Director:
Yuen Leong

Independent Non-Executive Directors:
Chen Ye
Chan Wai Dune
Lam Man Kit, Dominic

Registered Office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 2302, 23rd Floor
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

22 January 2009

To the Shareholders and, for information purpose only, the holders of the convertible bonds

Dear Sir or Madam,

MAJOR TRANSACTIONS IN RELATION TO THE PROVISION OF FINANCIAL ASSISTANCE TO AND THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PARK WEALTH INTERNATIONAL LIMITED AND THE PROPOSED REFRESHMENT OF SCHEME MANDATE LIMIT OF THE SHARE OPTION SCHEME

INTRODUCTION

On 20 October 2008, the Board announced that on 11 October 2008, Successtime, a wholly-owned subsidiary of the Company, entered into the Loan Agreement with Park Wealth and agreed to provide the Facility in an aggregate principal amount of up to HK$80,000,000 to Park Wealth. The Facility bears interest at the prime lending rate for HK$ quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time and is secured by (i) the guarantee executed by the Guarantors in favour of Successtime; and (ii) a share charge executed by each Vendor over the Sale Shares beneficially owned by such Vendor in favour of Successtime.

In addition, Successtime entered into the Agreements with the Vendors and the Guarantors, pursuant to which Successtime has conditionally agreed to acquire from the Vendors the Sale Shares, being 1,000 shares in Park Wealth representing the entire issued share capital of Park Wealth, for an aggregate consideration of HK$800,000,000 (subject to adjustment).

The Consideration shall be satisfied by Successtime procuring the Company to allot and issue the Non-voting Convertible Preference Shares with an aggregate face value of up to HK$800,000,000 to the Vendors (or their nominees). The Consideration and the aggregate face value of the Non-voting Convertible Preference Shares to be issued are subject to downward adjustment as described in this circular. The Non-voting Convertible Preference Shares are convertible into new Shares at the Conversion Price of HK$4.0 per Share (subject to adjustment).

The provision of the Facility and the Acquisition each constitutes a major transaction for the Company under the Listing Rules. The provision of the Facility also constitutes an advance to entity which is required to be disclosed by the Company pursuant to Rule 13.13 of the Listing Rules. The Agreements and the transactions contemplated thereunder, including the issue of the Non-voting Convertible Preference Shares and the Conversion Shares, and the provision of the Facility are subject to the approval of the Shareholders at the SGM. The creation and designation of a new class of preference shares of the Company is also subject to the approval of the Shareholders at the SGM in accordance with the Bye-laws of the Company. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting to approve the Acquisition, the provision of the Facility and the creation and designation of new class of preference shares of the Company as contemplated under the Agreements including the issue of the Non-voting Convertible Preference Shares and the Conversion Shares.

The Board further proposed to refresh the Scheme Mandate Limit in relation to the Share Option Scheme.

The purpose of this circular is to provide you with, among other things, (i) details of the Agreements and the Facility; (ii) financial and other information on the Group; (iii) financial information on the Park Wealth Group including the Shanghai Comfort Group; (iv) unaudited pro forma financial information of the Enlarged Group; (v) details of the Proposed Refreshment; and (vi) the notice convening the SGM.

THE LOAN AGREEMENT

Date

11 October 2008

Parties

(i) Park Wealth, as borrower; and

(ii) Successtime, as lender.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Park Wealth and its associates are third parties independent of the Company and its connected persons. The Group has not entered into any previous transactions with Park Wealth or its associates which would otherwise require aggregation pursuant to Rule 14.22 of the Listing Rules.

Terms of the Facility

Pursuant to the Loan Agreement, Successtime has agreed to extend the Facility to Park Wealth on the following principal terms:

Facility Amount:	Up to HK$80,000,000.
Availability period:	The Facility shall be available for drawdown during the period from and including the date of the Loan Agreement to and including the earlier of: (i) the date falling 3 months from the date of the Loan Agreement; and (ii) the date on which the Facility is fully drawndown, cancelled or terminated under the provisions of the Loan Agreement. There shall not be 5 or more loans outstanding at any time.
Interest:	Prime lending rate for HK$ quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited in Hong Kong.
Interest payment:	In arrear on a monthly basis on the last day of each calendar month until the Completion Date. If the Completion Date does not fall on a date which is the last day of a calendar month, the last interest payment (being interest accrued since the last day of the calendar month preceding the Completion Date until the Completion Date) is payable on the Completion Date.
Repayment:	(i) If Completion does not take place by 31 March 2009, subject and without prejudice to the other terms of the Loan Agreement (other than paragraph (ii) below), the loan drawndown under the Facility, together with interest accrued thereon, shall be repaid on 1 April 2009. (ii) If Completion takes place on or before 31 March 2009, Park Wealth shall, subject and without prejudice to the other terms of the Loan Agreement (other than paragraph (i) above), repay the loans drawndown under the Facility in such manner and on such date as may be determined by Successtime at its sole and absolute discretion and notified by Successtime to Park Wealth in writing.

Security: The Facility is secured by:

(i) the Guarantors executing a guarantee in favour of Successtime; and

(ii) each Vendor executing a share charge in respect of the Sale Shares beneficially owned by it in favour of Successtime.

Usage: All amounts drawn under the Facility shall be applied towards the working capital of the Park Wealth Group.

Reasons for the Loan Agreement

The Company is an investment holding company. The Group is principally engaged in garment manufacturing and trading business.

As disclosed in the section headed "The Agreements" below, Successtime has entered into the Agreements and conditionally agreed to acquire the entire equity interest in Park Wealth. During the course of negotiation of the terms of the Agreements, Park Wealth indicated to Successtime that additional working capital is required to speed up the expansion of the business of the Shanghai Comfort Group. In light of this, Successtime agreed to provide the Facility to Park Wealth Group as an interim financing arrangement pending Completion.

The terms of the Loan Agreement including the interest rate and security have been negotiated by the parties based on arm's length negotiations. The Group will finance the Facility by its internal resources. The Directors (including the independent non-executive Directors) consider the terms of the Loan Agreement to be fair and reasonable and the entering into of the Loan Agreement is in the interest of the Company and the Shareholders as a whole.

THE AGREEMENTS

Date

11 October 2008 and 28 November 2008

Parties

(i) Successtime, a wholly-owned subsidiary of the Company, as purchaser;

(ii) Teamwon, as one of the Vendors;

(iii) Sureguide, as one of the Vendors;

(iv) Sure Achieve, as one of the Vendors;

(v) Mr. Jorge Ernesto De Almeida, as guarantor to Teamwon;

(vi) Mr. Yang Zhuoya, as guarantor to Sureguide; and

(vii) Mr. Wong Kin San, as guarantor to Sure Achieve.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and their respective beneficial owners are third parties independent of the Company and its connected persons. The Group has not entered into any previous transactions with the Vendors or their respective associates which would otherwise require aggregation pursuant to Rule 14.22 of the Listing Rules.

The Vendors are investment holding companies. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for their interests as shareholders of Park Wealth through the Vendors, the beneficial owners of the Vendors are otherwise independent of each other.

The Vendors were introduced to the Company via a company (the "Agent") which is independent of the Company and its connected persons. HK$8,000,000 (1% of the Consideration) was given to the Agent as an introduction fee.

Assets to be acquired

The Sale Shares, being 1,000 shares in Park Wealth, representing the entire issued share capital of Park Wealth.

Teamwon, Sureguide and Sure Achieve each holds 560 shares, 240 shares and 200 shares of Park Wealth, respectively as at the date of the Agreements.

Completion of all the Sale Shares shall take place simultaneously.

Information on the Park Wealth Group

Park Wealth was incorporated in the British Virgin Islands with limited liability on 23 May 2007. Park Wealth is an investment holding company whose principal asset is the holding of a 100% equity interest in Shanghai Comfort since March 2008. Shanghai Comfort is a company established under the laws of the PRC on 23 September 2005.

The business of the Shanghai Comfort Group comprises three divisions: the terminal water treatment department, the air purification department and the water engineering department. The terminal water treatment department produces water drinking machines with purification system for use in households, offices, factories, large food and beverage chain stores, gas station, government bodies, schools and hospitals. The purification system not only purifies tap water and filters all harmful substances but also improves the water quality by using an air-water mixing technology which helps to enrich the oxygen level in the water by releasing ozone, preventing fresh water from secondary pollutions. The drinking and purification machines manufactured by the Shanghai Comfort Group are leased to users who pay lease charges as well as service charges based on actual usage of purified water. The air purification department produces air filters and sterilizing equipments. At present, most of the air purification equipment manufactured by the Shanghai Comfort Group are sold to and installed at food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. The water engineering department specializes in the area of industrial water use, sewage treatment, family use water treatment and reclaimed water reuse.

All the products of the Shanghai Comfort Group use the ozone and filtration technology which is developed by its in-house research and development team. The research and development team maintains close relationship and cooperation with famous universities and institutions in China to continuously research into product development and technology. The products of and technology used by the Shanghai Comfort Group have received wide recognition from various organisations. Based on the information made available to the Directors by the Vendors, the Shanghai Comfort Group has coorperated with certain authorized food suppliers for the 2008 Beijing Olympic Games by providing the ozone sterilization equipments to purify the food processing factories of these food suppliers. The Shanghai Comfort Group has also been contracted to provide air purification facilities to the research bases of an aerospace project in the PRC.

All the products of the Shanghai Comfort Group are manufactured in the production facilities of the Shanghai Comfort Group located in Shanghai and are sold under its own registered brand name of "Ozone Comfort" (浩澤 • 康福特). Sales offices and agency network have also been set up in major cities in the PRC including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Suzhou, Fuzhou, Xiamen, Handan, Xian, Liaoning, Tianjin, Shenyang and Dongguan which provide sales and after-sale services for the products.

According to the accountants' report of the Park Wealth Group as set out in Appendix II to this circular, for the period from 23 May 2007 (date of incorporation) to 31 December 2007, the audited profit (both before and after tax) of Park Wealth was RMB0.15 million (equivalent to approximately HK$0.17 million), which represents principally interest income net of incorporation expenses. According to the audited accounts of the Shanghai Comfort Group prepared in accordance with Hong Kong Financial Reporting Standards as set out in Appendix III to this circular, the Shanghai Comfort Group recorded net loss (both before and after tax) of approximately RMB0.79 million (equivalent to approximately HK$0.89 million) for the period from 23 September 2005 (date of establishment) to 31 December 2005, RMB5.6 million (equivalent to approximately HK$6.3 million) for the year ended 31 December 2006 and RMB11.6 million (equivalent to approximately HK$13.1 million) for the year ended 31 December 2007. The audited consolidated net loss before tax of the Park Wealth Group (including the results of the Shanghai Comfort Group since March 2008 prepared in accordance with Hong Kong Financial Reporting Standards) for the eight months ended 31 August 2008 was approximately RMB8.5 million (equivalent to approximately HK$9.6 million), and the loss after tax for the same period was approximately RMB8.7 million (equivalent to approximately HK$9.8 million). The audited shareholders' deficit of the Park Wealth Group (including the Shanghai Comfort Group) as at 31 August 2008 is approximately RMB2.0 million (equivalent to approximately HK$2.3 million).

There were discrepancies between the aforesaid audited figures and the unaudited figures as set out in the announcement of the Company dated 20 October 2008. As disclosed in the announcement dated 20 October 2008, the unaudited profit (both before and after tax) of Park Wealth was HK$0.16 million for the period from 23 May 2007 (date of incorporation) to 31 December 2007. Based on the unaudited combined accounts of the Shanghai Comfort Group prepared using general accepted accounting principles in the PRC, the Shanghai Comfort Group recorded net loss (both before and after tax) of approximately RMB4.0 million (equivalent to approximately HK$4.5 million) for the year ended 31 December 2006 and RMB2.7 million (equivalent to approximately HK$3.1 million) for the year ended 31 December 2007. For the eight months ended 31 August 2008, the Shanghai Comfort Group recorded unaudited combined profit before tax of approximately RMB17.193 million (equivalent to approximately HK$19.5 million) and profit after tax of approximately RMB17.190 million (equivalent to approximately HK$19.5 million). The unaudited combined profit before tax of the Park Wealth Group (including the results of the Shanghai Comfort Group since March 2008 prepared using generally accepted accounting principles in the PRC) for the eight months ended 31 August 2008 was approximately HK$17.124 million, and the profit after tax for the same period was approximately HK$17.121 million. The unaudited combined shareholders' equity of the Park Wealth Group (including the Shanghai Comfort Group) as at 31 August 2008 is approximately HK$25.0 million.

As there are differences between the accounting practices in the PRC and Hong Kong, the aforesaid discrepancies on the audited and unaudited results of the Shanghai Comfort Group were mainly due to adjustments made in accordance with Hong Kong Financial Reporting Standards.

The business of direct drinking water machines of the Shanghai Comfort Group with its unique business model was successfully launched to the market in 2007. Each customer was required to make a non-refundable payment to Shanghai Comfort for the installation of direct drinking water machine in various terms. In 2007, the strategy of Shanghai Comfort was to launch a trial operation of the "leasing/marketing model" on a small scale in Shanghai. Following the success in the trial operation of the "leasing/marketing model" on a small scale in Shanghai, Shanghai Comfort began to expand its operation on a large scale in four major cities, namely Beijing, Guangzhou, Shenzhen and Shanghai, starting from 2008. Based on the sales record of the Shanghai Comfort Group, installation of direct drinking water machines had increased significantly from over 5,000 units in the year of 2007 to over 30,000 units in the first 8 months of 2008. However, the difference in the accounting treatments between the accounting standards in PRC and Hong Kong resulted in significant variance on the unaudited and audited results of the Park Wealth Group (including the Shanghai Comfort Group) for the eight-month period ended 31 August 2008. The non-refundable payments made by customers for the installation of direct drinking water machines were recognised as revenue immediately upon their payment under the accounting standards in the PRC while such payments were treated as deferred income under the accounting standards in Hong Kong. Accordingly, the RMB11 million upfront payments from customers which was recognised as revenue in the unaudited financial statements of the Shanghai Comfort Group were treated as deferred income under current liabilities of the Park Wealth Group as at 31 August 2008 in the audited financial statements as set out in Appendix II of this circular. Similar to the non-refundable payments for the installation of direct drinking water machines, customers were required to make deposits to Shanghai Comfort for the installation of the air purification equipments. The deposits made by customers for the installation of air purification equipments were recognised as income immediately upon their payment under the accounting standards in the PRC while such payments were treated as amount due to customers for contract work under the accounting standards in Hong Kong. Accordingly, the RMB8 million upfront payments from customers which was recognised as revenue in the unaudited financial statements of the Shanghai Comfort Group were treated as amount due to customers for contract work under current liabilities of the Park Wealth Group as at 31 August 2008 in the audited financial statements as set out in Appendix II of this circular. These accounted for significant portion of the discrepancies between the unaudited and audited results of the Shanghai Comfort Group for the eight months ended 31 August 2008.

The Directors would also like to draw your attention to Appendix III to this circular which sets out the financial information of the Shanghai Comfort Group. As set out in the accountant's report on the Shanghai Comfort Group contained in Appendix III to this circular, the reporting accountants have issued a qualified opinion on the Shanghai Comfort Group. Due to the fact that the Shanghai Comfort Group did not carry out physical count of its inventories as at 31 December 2005 and 2006 and there were no practicable alternative audit procedures that the reporting accountants could apply to verify the existence and condition of the inventories of the Shanghai Comfort Group at the aforesaid dates, the reporting accountants were unable to form an opinion as to whether the financial information gives a true and fair view of the results and cash flows of the Shanghai Comfort Group for the period from 23 September 2005 (date of establishment) to 31 December 2005 and each of the two years ended 31 December 2006 and 2007.

The Directors are of the view that the information contained in the circular provides sufficient information to enable the Shareholders to make an informed assessment of the Acquisition and the aforesaid qualified opinion on the Shanghai Comfort Group would not have any adverse implications on the transactions being contemplated under the Agreements for the following reasons:

1. the qualifications relate to the absence of physical count by the Shanghai Comfort Group of its inventory as at 31 December 2005 and 2006 and the lack of practicable alternative audit procedures to verify the existence and condition of the inventories of the Shanghai Comfort Group as at those dates. These circumstances are historical in nature and no such qualification was issued by the reporting accountants on the state of affairs of the Shanghai Comfort Group as at 31 December 2007 and 17 March 2008 and the consolidated results and cash flows for the period ended 17 March 2008 which reflect the latest financial position, results and cash flow positions of the Shanghai Comfort Group. The reporting accountants also expressed a true and fair view on the state of affairs of the Park Wealth Group and Park Wealth as at 31 December 2007 and 31 August 2008 and on the consolidated results and cash flows of the Park Wealth Group for the period from 23 May 2007 (date of incorporation) to 31 December 2007 and the eight-month period ended 31 August 2008. The state of affairs, results and cashflow of the Park Wealth Group have consolidated those of the Shanghai Comfort Group since 18 March 2008;

2. the value of the Park Wealth Group being acquired is not based on the balance sheet of the Shanghai Comfort Group as at 31 December 2005 or 2006 or any other dates or the results for the years ended 31 December 2005, 2006 or 2007. Instead, the value is assessed based on the Guaranteed Profit which is not affected by the qualifications;

3. the Directors have made enquiries and conducted due diligence in relation to the business, operations and latest financials of the Shanghai Comfort Group. The due diligence review was performed by the Group's management which is assisted by legal adviser and auditors. The Directors are satisfied with the findings of the review; and

4. the Company will have the benefit of certain warranties and indemnities (subject to limitations) that are customary in a transaction of this nature, including a warranty that accounts provided to the Company reflect truly and fairly the financial position, business operations and results of the Shanghai Comfort Group.

The Consideration

The Consideration for the Acquisition is HK$800,000,000 (subject to adjustment as described in the paragraph headed "Profit Guarantee" below) and shall be satisfied by Successtime procuring the Company to allot and issue the Non-voting Convertible Preference Shares with the same aggregate face value (subject to downward adjustment) to the Vendors (or their nominees).

The Consideration was arrived at after arm's length negotiations between the parties and after taking into account factors such as the growth potential of the business of Shanghai Comfort, the possible future earnings and positive cash flow contribution to the Group and the Profit Guarantee set out below.

Profit Guarantee

Pursuant to the Agreements, the Vendors and the Guarantors undertook to procure Park Wealth to make available its management accounts for the year ending 31 December 2009 for audit purposes by a certified public accounting firm to be appointed by Successtime on or before 28 February 2010 and such audit shall be completed within 3 months after the provision of the management accounts of Park Wealth Group. The Vendors and the Guarantors further undertook to Successtime that the consolidated net profit after tax of the Park Wealth Group reported using general accepted accounting standards in Hong Kong and based on the aforesaid audit will not be less than HK$100,000,000 for the year ending 31 December 2009 (the "Guaranteed Profit"). If the actual audited consolidated net profit after tax of the Park Wealth Group for the year ending 31 December 2009 (the "Actual Profit") is less than the Guaranteed Profit, the Consideration and the aggregate face value of the Non-voting Convertible Preference Shares to be issued shall be adjusted downwards in accordance with the formula set out below:

$$\text{Adjustment required} = \frac{\text{Guaranteed Profit} - \text{Actual Profit}}{\text{Guaranteed Profit}} \times \text{HK\$800,000,000}$$

Adjusted Consideration = HK$800,000,000 less the adjustment required

Within 10 Business Days of the finalization of the Audited Profit and determination of the adjusted Consideration, the Company shall issue and deliver the Non-voting Convertible Preference Shares to the Vendors (or their nominees) with aggregate face value equivalent to the Consideration or the adjusted Consideration as calculated above (if applicable). The Non-voting Convertible Preference Shares shall be issued to the Vendors (or their nominees) in proportion to their shareholdings in the Sale Shares as at the date of the Agreements.

The Non-voting Convertible Preference Shares

The principal terms of the Non-voting Convertible Preference Shares to be issued by the Company will be as follows:

Face value:	Up to HK$800,000,000 (subject to adjustment).
Conversion and redemption:	The Non-voting Convertible Preference Shares are not redeemable. Provided that (i) any conversion of the Non-voting Convertible Preference Shares does not result in a change in control of the Company which trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the relevant holder of the Non-voting Convertible Preference Shares who exercises the conversion rights, whether or not such mandatory offer obligation is triggered by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Non-voting Convertible Preference Shares and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of Non-voting Convertible Preference Shares and/or parties acting concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or (ii) the shareholding in the Company held by the public will not be less than 25% or the minimum percentage as set out in Listing Rules from time to time or otherwise pursuant to other provisions of the Takeovers Code, the holder(s) of the Non-voting Convertible Preference Shares shall have the right to convert the whole or any part of the Non-voting Convertible Preference Share (in an amount or integral multiple of HK$400,000) into Shares at the Conversion Price of HK$4.00 per Share, subject to customary anti-dilution adjustments, in the following manner: (i) up to 40% of the Non-voting Convertible Preference Shares at any time during the period commencing from the first Business Day following the 2nd anniversary of the Completion Date until the 3rd anniversary of the Completion Date; (ii) up to 70% of the Non-voting Convertible Preference Shares at any time during the period commencing from the first Business Day following the 3rd anniversary of the Completion Date until the 4th anniversary of the Completion Date; and (iii) all the remaining Non-voting Convertible Preference Shares at any time after the first Business Day following the 4th anniversary of the Completion Date.

The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of shares, capitalization of profits or reserves, capital distributions in cash or specie or subsequent issue of securities, rights, options and warrants in the Company at a price per Share which is less than 90% of the then market price of the Shares. The adjustments shall be calculated in accordance with the terms and conditions of the Non-voting Convertible Preference Shares and determined by an approved merchant bank or the auditors of the Company. The Conversion Price may not be adjusted or reduced so that the Conversion Price is lower than the par value of the Shares or, on conversion of the Non-voting Convertible Preference Shares, Shares would fall to be issued at a discount to their par value. The principal terms of the Non-voting Convertible Preference Shares and details of the adjustments to the Conversion Price are set out in Appendix V to this circular.

Conversion Shares: On the basis of the aggregate face value of HK$800,000,000 and the Conversion Price of HK$4.00, a total of 200,000,000 Conversion Shares will be issued upon full conversion of the Non-voting Convertible Preference Shares.

Assuming there is no change in the issued share capital of the Company after Completion, a holder of the Non-voting Convertible Preference Shares may exercise conversion rights attaching to Non-voting Convertible Preference Shares up to a principal amount of approximately HK$575,022,148, such that a total of 143,755,537 Conversion Shares (as to 80,503,101 Conversion Shares to Teamwon; as to 34,501,329 Conversion Shares to Sureguide and as to 28,751,107 Conversion Shares to Sure Achieve) shall be issued at the initial Conversion Price of HK$4.00 each without triggering any general offer obligation on the part of the relevant Non-voting Convertible Preference Shares holder. In this scenario, there will not be less than 25% of the Shares in public hands.

The Conversion Shares shall upon issue rank pari passu in all respects with the then issued Shares.

Listing: No application will be made for the listing of the Non-voting Convertible Preference Shares on any stock exchange. Application will be made for the listing of and permission to deal in the Conversion Shares on the Stock Exchange and necessary arrangements will be made for the Conversation Shares to be admitted into CCASS.

Voting:	Holder(s) of the Non-voting Convertible Preference Shares shall not be entitled to vote at any general meetings of the Company by reason only of it being a holder of the Non-voting Convertible Preference Shares, but holder(s) of the Non-voting Convertible Preference Shares shall be entitled to receive notices of general meetings of the Company and to attend the same.
Ranking:	The Non-voting Convertible Preference Shares shall rank equally among themselves and pari passu with all other issued Shares in respect of the right to any dividends and distributions declared. In the event of liquidation, dissolution or winding up, or merger, reorganization, disposal of the whole or substantially the whole of the Company's business resulting in any distribution of assets of the Company, the holders of the Non-voting Convertible Preference Shares will receive an amount equal to 100% of the face value of the Non-voting Convertible Preference Shares in issue before a return of capital is made to the holders of the Shares. Thereafter, the remaining assets of the Company will be distributed to the Shareholders and holders of Non-voting Convertible Preference Shares pro-rata on an as-if-converted basis. Save as described herein, holders of the Non-voting Convertible Preference Shares are not entitled to any return of capital.
Transferability:	The Non-voting Convertible Preference Shares shall not be transferred without the prior written consent of the Company, except for a transfer to subsidiaries or holding company or fellow subsidiaries of the holders. The Non-voting Convertible Preference Shares may not be transferred, without the prior written consent of the Company, to any connected person of the Company. The Company undertakes to the Stock Exchange that it will notify the Stock Exchange immediately upon becoming aware of any dealings in the Non-voting Convertible Preference Shares by any connected persons of the Company.

The maximum of 200,000,000 Conversion Shares to be issued upon full conversion of the Non-voting Convertible Preference Shares represent approximately 59.34% of the existing share capital of the Company, and approximately 37.24% of the issued share capital of the company as enlarged by the issue of the Conversion Shares. The Conversion Shares will be issued subject to a specific mandate to be sought from the Shareholders.

The Conversion Price

The Conversion Price of HK$4.0 per Share represents:

(i) a premium of approximately 99.0% over the closing price of HK$2.01 per Share as quoted on the Stock Exchange on 10 October 2008, being the last trading day prior to the suspension of trading in the Shares on 13 October 2008;

(ii) a premium of approximately 39.4% over the average of the closing prices of HK$2.87 per Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including 10 October 2008;

(iii) a premium of approximately 32.0% over the average of the closing prices of HK$3.03 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 10 October 2008;

(iv) a premium of approximately 1,804.8% over the audited consolidated net assets of the Company of HK$0.21 per Share as at 31 March 2008; and

(v) a premium of approximately 267.0% over the closing price of HK$1.09 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Conditions of the Agreements

Completion is subject to and conditional upon the fulfillment or waiver of the following conditions:

(i) Successtime and the Company being satisfied with the results of the due diligence review on the assets, operations, financial positions, prospects and other affairs of the Park Wealth Group, including but not limited to (i) the receipt of a legal opinion (in such form and substance to the satisfaction of Successtime) issued by lawyers on British Virgin Islands laws covering matters on, among other things, the due incorporation and subsistence of Park Wealth, and legal title and transferability of the Sale Shares; (ii) the receipt of a legal opinion (in such form and substance to the satisfaction of Successtime) issued by PRC lawyers covering matters on, among other things, the due establishment and subsistence, the legality of ownership of assets and business operations of members of the Park Wealth Group which are established in the PRC; and (iii) the receipt of the audited accounts of each of the members of the Park Wealth Group for the past three years or such other period of time as approved by Successtime in such form and substance to the satisfaction of Successtime;

(ii) the Agreements and the transactions contemplated hereunder, including but not limited to (i) the allotment and issue of the Non-voting Convertible Preference Shares and the Conversion Shares; and (ii) the reclassification of the capital of the Company to create the Non-voting Convertible Preference Shares as a new class of shares of the Company having been approved by the Shareholders at a general meeting of the Company (if required by the Listing Rules) or by way of Shareholders' written resolutions (if applicable);

(iii) if applicable, the approval of the Bermuda Monetary Authority of the issue of the Non-voting Convertible Preference Shares and the Conversion Shares by the Company;

(iv) Successtime having obtained the duly executed non-competition undertaking set out in the Agreements from certain directors and senior management members of the Park Wealth Group (in the form and substance satisfactory to Successtime);

(v) all the representations and warranties contained in the Agreements remain true, accurate and not misleading in all respects;

(vi) Successtime having obtained the duly executed service contracts from certain directors and senior management members of the Park Wealth Group covering a term of not less than five years in the form and content satisfactory to Successtime; and

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

Successtime shall have the right to waive conditions (i), (iv) and (vi). An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

If any of the above conditions have not been fulfilled (or as the case may be, waived by Successtime) on or before 31 March 2009, the rights and obligations of the parties under the Agreements shall lapse and be of no further effect save for antecedent breaches. Successtime has the right to extend the Completion Date to any day which is no later than 31 March 2009 by giving written notice to other parties of the Agreements. On 22 December 2008, Successtime has, by giving a written notice to other parties of the Agreement, extended the Completion Date to 31 March 2009.

Completion is to take place on the first Business Day following the day on which the conditions referred to above are fulfilled or waived by Successtime (as the case may be) or such later date as shall be agreed among the parties to the Agreements.

As at the Latest Practicable Date, conditions (iv) and (vi) had been fulfilled.

The supplemental agreement dated 28 November 2008 was entered into between Successtime and the Vendors to make slight changes to the wording of condition in (iii) above, as the approval of the Bermuda Monetary Authority may not be required for the issue of the Non-voting Convertible Preference Shares and the Convention Shares by the Company. In addition, the date of Completion was also changed from the third Business Day to the first Business Day following the day on which the conditions are fulfilled. Save as disclosed above, there was no material change to the other terms of the Acquisition in the supplemental agreement.

Other terms

Successtime has the right to require the Vendors to acquire or dispose of any member of the Park Wealth Group which is incorporated in the PRC based upon its due diligence findings prior to Completion. The Guarantors undertake and guarantee that such acquisition or disposal, if required, will be completed on or before the Completion Date. The consideration for and payment terms of the Acquisition are not subject to adjustments if such acquisition or disposal is required by Successtime.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding in the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the Non-voting Convertible Preference Shares; (iii) upon full conversion of the Non-voting Convertible Preference Shares at the Conversion Price of HK$4.0 (subject to adjustments), each prepared on the basis that there would be no changes in the issued share capital of the Company after the Latest Practicable Date other than as stated in each scenario. However, Shareholders should take note that the analysis under scenario (iii) is shown for illustration purpose only and will not materialise, for the reason that the Vendors would otherwise together hold approximately 37.24% of the enlarged issued share capital of the Company in that scenario, thus exceeding the threshold of 30% and triggering a mandatory general offer obligation under the present provisions of the Takeovers Code. However, the terms and conditions of the Non-voting Convertible Preference Shares stipulate that the conversion rights attaching to the Non-voting Convertible Preference Shares may be converted by the holder thereof into Shares **provided that** such conversion does not result in change in a control of the Company which trigger a mandatory offer obligation on the part of the holder of the Non-voting Convertible Preference Shares who exercises the conversion right.

	As at the Latest Practicable Date		Immediately after issue of the Non-voting Convertible Preference Shares		Upon full conversion of the Non-voting Convertible Preference Shares *(Note 1 & 3)*	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Long Grand	251,247,388	74.55	251,247,388	74.55	251,247,388	46.79
Teamwon	–	–	–	–	112,000,000	20.86
Sureguide *(Note 3)*	–	–	–	–	48,000,000	8.94
Sure Achieve *(Note 3)*	–	–	–	–	40,000,000	7.45
Other public Shareholders	85,783,628	25.45	85,783,628	25.45	85,783,628	15.97
	337,031,016	100.00	337,031,016	100.00	537,031,016	100.00

	Non-voting Convertible Preference Shares	*%*	*Non-voting Convertible Preference Shares*	*%*	*Non-voting Convertible Preference Shares*	*%*
Teamwon	–	–	112,000,000	56.00	–	–
Sureguide *(Note 3)*	–	–	48,000,000	24.00	–	–
Sure Achieve *(Note 3)*	–	–	40,000,000	20.00	–	–
	–	–	200,000,000	100.00	–	–

Notes:

(1) Pursuant to the terms and conditions of the Non-voting Convertible Preference Shares, holder(s) of the Non-voting Convertible Preference Shares may convert all or part of the Non-voting Convertible Preference Shares provided that the issue of the relevant Conversion Shares to it/them (i) shall not trigger any general offer obligation on the part of the relevant holders of the Non-voting Convertible Preference Shares who convert the Non-voting Convertible Preference Shares; and (ii) the shareholding in the Company held by the public will not be less than 25% or the minimum percentage as set out in the Listing Rules from time to time. For further details, see the paragraph headed "The Non-voting Convertible Preference Shares" above. Accordingly, this column is shown for illustration only and this scenario will not materialise.

(2) A holder of the Non-voting Convertible Preference Shares may exercise conversion rights attaching to Non-voting Convertible Preference Shares up to a principal amount of approximately HK$575,022,148, such that a total of 143,755,537 Conversion Shares (as to 80,503,101 Conversion Shares to Teamwon; as to 34,501,329 Conversion Shares to Sureguide and as to 28,751,107 Conversion Shares to Sure Achieve) (which shall represent 29.90% of the then enlarged issued share capital of the Company) shall be issued at the Conversion Price of HK$4.0 without triggering any general offer obligation on the part of the relevant Non-voting Convertible Preference Shares holder under the existing provisions of the Takeovers Code.

(3) As the shareholding of each of Sureguide and Sure Achieve is below 10% and Sureguide and Sure Achieve are independent of the connected persons of the Company, Sureguide and Sure Achieve will be regarded as public Shareholders and their shareholdings will be counted towards public float. Under this scenario, there will be not less than 25% of the Shares in the public hands.

REASONS FOR THE ACQUISITION

The Company is an investment holding company. The Group is principally engaged in garment manufacturing and trading business. In September 2007, Long Grand became the controlling Shareholder through the acquisition of 81,246,188 Shares from Rich Wing Investments Limited and the subscription of new Shares and convertible bonds in the Company. In conjunction with this, the Company also issued convertible bonds to independent third parties through a placing agent, raising in total of approximately HK$208 million new capital for the Group. Following this transaction and the disposal of its non-core business of the development, production and distribution of health food and supplement products in the PRC, the Group has maintained significant investment fund and has been seeking investment projects with high growth potential to maximize value of the Company.

The Directors consider that the growth potential of water and air purification business in the PRC is immense. In 2003, the Ministry of Health of the PRC implemented 食品安全行動計劃 (Food Safety Action Plan*) which stipulates, among other things, hygiene standard in food production and processing. Subsequently, 中華人民共和國食品安全法(草案) (Draft Food Safety Law*) was passed in October 2007 and as a result of these policies and rules, it is expected that food manufacturers and processors will be required to install additional purification system to improve the hygiene and sterilization facilities in order to meet the new standard. In addition, the State Council released the 節能減排綜合性工作方案 (Comprehensive Working Scheme for Energy Conservation and Reduction of Pollution*) in June 2007 which is expected to promote investment in water and sewage treatment and infrastructure in the next 2 to 3 years. The Directors consider that the above policies will create demand for the products of the Shanghai Comfort Group from industrial users. On the other hand, the general public in the PRC has become increasingly affluent and more conscious about safety of food and beverages after the incidents like the "Sanlu milk scandal" and the contamination of bottled water in the PRC. It is expected that water purification equipment for domestic use will become more popular in the PRC, catching up with the high penetration rate in other developed countries such as the United States. Based on the sales record of the Shanghai Comfort Group, installation of water purification machines to household units or residential estates has increased significantly from over 5,000 units in the year of 2007 to over 30,000 units in the first 8 months of 2008. The Directors are optimistic about the prospects of the business and consider the Acquisition is in line with the strategy of the Group in investing in business with high growth potential.

Following Completion, members of the Park Wealth Group shall become wholly-owned subsidiaries of the Company subject to the term set out in the sub-paragraph headed "Other terms" under the paragraph headed "The Agreements" and their results will be consolidated into the accounts of the Group.

The Consideration of HK$800,000,000 for the Sale Shares represents price-earnings multiple of 8 times the Guaranteed Profit for the year ending 31 December 2009. Despite there was an audited net loss of the Park Wealth Group (including the results of the Shanghai Comfort Group prepared in accordance with Hong Kong Financial Reporting Standards) for the eight months ended 31 August 2008, the Park Wealth Group recorded a significant amount of deferred income and amount due to customers for contract work as elaborated in the paragraph headed "Information on the Park Wealth Group" above. Such amount of deferred income and amount due to customers for contract work represented cash inflow for the Shanghai Comfort Group. The Park Wealth Group recorded approximately RMB5.2 million (equivalent to approximately HK$5.9 million) net cash from operating activities for the eight months ended 31 August 2008. Taking into account of the market potentials of the Shanghai Comfort Group, the possible earnings contribution to the Group in the future on the basis of the Guaranteed Profit, the positive cashflow contribution from the operation of the Shanghai Comfort Group and the adjustment mechanism to the Consideration under the terms of the Agreements, the Directors (including the independent non-executive Directors) consider the Consideration payable for the Acquisition is fair and reasonable.

It is intended that following Completion, the Group will continue to engage in its existing principal garment manufacturing and trading business and be diversified into the development, manufacturing and sale of purification equipment business of the Park Wealth Group. There is no provision contained in the Agreements which gives the right for the Vendors to nominate Directors as a result of the Acquisition and the Company at present does not intend to change the composition of the Board immediately after Completion. The Company may, depending on the business requirement after Completion, consider appointing suitable candidates to the management team or the Board with appropriate experience and expertise to supervise the diversified business of the Group.

As the Consideration for the Acquisition is subject to adjustment as described in the paragraph headed "Profit Guarantee" above and shall be satisfied by the Company by the allotment and issue of the Non-voting Convertible Preference Shares with the same aggregate face value (subject to downward adjustment) to the Vendors, the Directors (including independent non-executive Directors) consider the terms of the Agreements to be fair and reasonable as far as the Shareholders are concerned and that the Agreements are in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE PROVISION OF THE FACILITY AND THE ACQUISITION

Upon Completion, the Park Wealth Group will become a wholly-owned subsidiary of the Company and the financial results of the Park Wealth Group will be consolidated with those of the Group. The provision of the Facility is not expected to have any effects on the Group's total assets and liabilities as the Facility was financed by the Group's internal resources. Interest income derived from the Facility before Completion would have positive effects on the profit and loss accounts of the Group. Interest income, if any, after Completion would be offset by the interest expenses incurred by the Park Wealth Group and therefore would have neutral effect to the Enlarged group.

Set out in Appendix IV to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial effect of the Acquisition on the assets and liabilities of the Group assuming Completion had taken place on 30 September 2008.

Based on the unaudited pro forma consolidated balance sheet in Appendix IV to this circular, the total assets of the Group would increase by approximately 308% from HK$256.30 million to HK$1,046.12 million; and its total liabilities would increase by approximately 60% from HK$202.42 million to HK$324.23 million, as a result of the Acquisition. The Directors consider that the Acquisition will contribute to the revenue and earning base of the Enlarged Group but the quantification of such contribution will depend on the future performance of the Shanghai Comfort Group.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Looking forward, the Group, after the Acquisition, will have its principal businesses diversified into two business segments, which are: (i) the manufacture and trade of garment; and (ii) the development, manufacturing and sale of purification equipment.

During 2008, the subprime mortgage crisis originating from the United States of America (the "U.S.") has spread to Asia causing a squeeze in liquidity in the banking system and financial markets. Such financial crisis has intensified over the last several months and has caused the collapse of certain major corporations, leading to a turmoil in the financial markets worldwide. As all the Group's turnover and contribution to results were derived from the sales to the U.S., the Directors are concerned about the existing garment business of the Group which may be affected by the overshadowed economy in the U.S..

In anticipation of the growth potential of the water and air purification business in PRC, the Directors consider that the Acquisition could enhance momentum and competitive edges for the Group's future development and will be able to further explore its purification investment business opportunities in PRC. The Group will continue to seek new investment business opportunities within PRC or other countries in the Asia Pacific in order to enhance the Group's overall competitiveness and improve its business and financial performance.

PROPOSED REFRESHMENT

The Share Option Scheme was adopted by the Company on 17 September 2004. At the time of the adoption of the Share Option Scheme, the Company had 167,031,016 Shares in issue. The Company has granted 8,400,000 share options to eligible participants and as at the Latest Practicable Date, no share options have been exercised, lapsed or cancelled. The Company has only 8,303,101 share options available to be granted under the Scheme Mandate Limit to eligible participants, representing approximately 2.46% of the 337,031,016 Shares in issue as at the Latest Practicable Date.

The Share Option Scheme was adopted to recognise and acknowledge the contributions of the Group's employees and other selected grantees made or may have made to the Group. The Share Option Scheme will provide the grantees with an opportunity to have a personal stake in the Company with the view to achieving the objectives of motivating the grantees to optimise their performance efficiency for the benefit of the Company, and to attract and retain or otherwise maintain on-going relationships with the grantees whose contributions are or will be beneficial to the long-term growth of the Group.

As the existing Scheme Mandate Limit available to be granted to eligible participants represents only approximately 2.46% of the total number of Shares in issue, the Directors consider that it is in the interest of the Company and the Shareholders as a whole to refresh the Scheme Mandate Limit to 10% provided under Chapter 17 of the Listing Rules so as to provide the Company with the flexibility of granting further share options under the Share Option Scheme and to provide incentives to, and recognise the contributions of, the Group's employees and other selected grantees.

It is proposed that subject to the approval of the Shareholders at the SGM and such other requirements prescribed under the Listing Rules, the Scheme Mandate Limit will be refreshed so that the total number of Shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and all other schemes of the Company shall not exceed 10% of the Shares in issue as at the date of approval of the Proposed Refreshment by the Shareholders at the SGM and share options previously granted under the Share Option Scheme and/or any other share option scheme(s) of the Company, including without limitation those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme or such other schemes of the Company will not be counted for the purpose of the Proposed Refreshment.

Pursuant to the Listing Rules, the Shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company at any time will not exceed 30% of the Shares in issue from time to time. No share options will be granted under any scheme(s) of the Company if it will result in the 30% limit being exceeded.

As at the Latest Practicable Date, there were 337,031,016 Shares in issue. Assuming that no further Shares will be issued or repurchased prior to the date of approving the Proposed Refreshment by the Shareholders, the maximum number of Shares which fall to be issued upon the exercise of all share options that may be granted by the Company under the Proposed Refreshment would be 33,703,101 Shares, representing 10% of the Shares in issue as at the date of approval of the Proposed Refreshment by the Shareholders at the SGM.

Conditions of the Proposed Refreshment

As required by the Share Option Scheme and the Listing Rules, an ordinary resolution will be proposed at the SGM to approve the Proposed Refreshment. The adoption of the Proposed Refreshment is conditional upon:

(i) the Shareholders passing an ordinary resolution to approve the Proposed Refreshment at the SGM; and

(ii) the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Shares to be issued pursuant to the exercise of any share options that may be granted pursuant to the Share Option Scheme under the Proposed Refreshment not exceeding 10% of the number of Shares in issue as at the date of approval of the Proposed Refreshment by the Shareholders.

Application for Listing

An application will be made to the Stock Exchange for the listing of, and the permission to deal in, the Shares which fall to be issued upon the exercise of any share options that may be granted pursuant to the Share Option Scheme under the Proposed Refreshment.

GENERAL

The provision of the Facility and the Acquisition constitute major transactions for the Company under the Listing Rules. The provision of the Facility also constitutes an advance to entity which is required to be disclosed by the Company pursuant to Rule 13.13 of the Listing Rules. The Agreements and the transactions contemplated thereunder, including the issue of the Non-voting Convertible Preference Shares and the Conversion Shares, and the provision of the Facility, are subject to the approval of the Shareholders at the SGM. The creation and designation of a new class of preference shares of the Company is subject to the approval of the Shareholders at the SGM in accordance with the Bye-laws. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting to approve the Acquisition, the provision of the Facility and the creation and designation of new class of preference shares of the Company as contemplated under the Agreements including the issue of the Non-voting Convertible Preference Shares and the Conversion Shares.

SGM

A SGM will be held to consider and, if thought fit, pass the resolutions to approve the Loan Agreement and the Agreements and the transactions contemplated thereunder including the issue of the Non-voting Convertible Preference Shares and the Conversion Shares, the creation and designation of a new class of preference shares of the Company as contemplated under the Agreements and the Proposed Refreshment.

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

Pursuant to the amended Rule 13.39(4) of the Listing Rules which took effect on 1 January 2009, any vote of shareholders at the SGM must be taken by poll. Accordingly, the Company will procure that the chairman of the SGM shall demand voting on all resolutions set out in the notice of SGM be taken by way of poll.

RECOMMENDATION

The Directors consider that the Loan Agreement and the Agreements and the transactions contemplated thereunder including the proposed issue of the Non-voting Convertible Preference Shares and the Conversion Shares, and the Proposed Refreshment are in the best interests of the Company and the Shareholders as a whole and accordingly recommend that all Shareholders should vote in favour of the ordinary resolutions in the notice of SGM.

As Completion is subject to the fulfillment of a number of conditions precedent, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the further information contained in the appendices to the circular.

By Order of the Board
Chaoyue Group Limited
Yuen Leong
Executive Director

1. FINANCIAL SUMMARY

The following is the consolidated financial information of the Group for the three years ended 31 March 2008 and the six months ended 30 September 2008, as extracted from the relevant annual reports and interim report of the Company.

Results

	For the six months ended 30 September	For the year ended 31 March		
	2008	2008	2007	2006
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	43,196	178,096	161,850	152,761
(Loss)/Profit before taxation	(24,699)	13,669	15,897	12,277
Taxation	–	(1,426)	(1,341)	(1,225)
(Loss)/Profit for the period/year	(24,699)	12,243	14,556	11,052

Assets and Liabilities

	As at 30 September	As at 31 March		
	2008	2008	2007	2006
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	256,303	307,795	104,896	89,202
Total liabilities	(202,416)	(237,872)	(18,457)	(12,794)
Shareholders' funds	53,887	69,923	86,439	76,408

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity of the Group, together with the notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 March 2008. References to page numbers in this section are to the page numbers of such annual report of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
Turnover		178,096	161,850
Cost of sales		(153,671)	(137,213)
Gross profit		24,425	24,637
Other income		2,279	2,167
Distribution and selling expenses		(938)	(1,485)
Administrative expenses		(11,236)	(9,422)
Profit from operating activities		14,530	15,897
Finance costs		(5,021)	–
Changes in fair value of derivative financial instruments	*18*	3,405	–
Gain on disposal of subsidiaries	*21*	755	–
Profit before taxation		13,669	15,897
Taxation	*7*	(1,426)	(1,341)
Profit for the year	*8*	12,243	14,556
Earnings per share – basic	*10*	5.74 HK cents	8.71 HK cents
– diluted		1.95 HK cents	N/A

CONSOLIDATED BALANCE SHEET
As at 31 March 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current asset			
Property, plant and equipment	11	2,374	2,769
Current assets			
Inventories	12	25,118	30,715
Trade and other receivables	13	14,771	18,190
Pledged bank deposit	23	–	9,040
Bank balances and cash	14	265,532	44,182
		305,421	102,127
Current liabilities			
Trade and other payables	15	18,984	18,311
Taxation payable		429	84
Other borrowing – secured	16	36,000	–
Derivative financial instruments	18	22,231	–
		77,644	18,395
Net current assets		227,777	83,732
Total assets less current liabilities		230,151	86,501
Non-current liability			
Deferred taxation	17	19	62
Convertible bonds	18	160,209	–
		160,228	62
Net assets		69,923	86,439
Capital and reserves			
Share capital	19	3,370	1,670
Reserves		66,553	84,769
Total equity		69,923	86,439

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2008

	Share capital	Share premium	Contributed surplus *(note 20)*	Capital redemption reserve	Translation reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	1,670	–	57,396	3,781	208	13,353	76,408
Exchange difference arising on translation of foreign operations, recognised directly in equity	–	–	–	–	486	–	486
Profit for the year	–	–	–	–	–	14,556	14,556
Total recognised income for the year	–	–	–	–	486	14,556	15,042
Dividend paid	–	–	(5,011)	–	–	–	(5,011)
At 31 March 2007 and 1 April 2007	1,670	–	52,385	3,781	694	27,909	86,439
Exchange difference arising on translation of foreign operations, recognised directly in equity	–	–	–	–	101	–	101
Transfer to profit or loss on disposal of foreign operations	–	–	–	–	(795)	–	(795)
Profit for the year	–	–	–	–	–	12,243	12,243
Total recognised income for the year	–	–	–	–	(694)	12,243	11,549
Dividend paid	–	–	(730)	–	–	(52,720)	(53,450)
Issue of shares	1,700	23,800	–	–	–	–	25,500
Issuing cost	–	(115)	–	–	–	–	(115)
At 31 March 2008	3,370	23,685	51,655	3,781	–	(12,568)	69,923

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2008

	Notes	2008 HK$'000	2007 HK$'000
Operating activities			
Profit before taxation		13,669	15,897
Adjustments for:			
Bank interest income		(2,226)	(2,125)
Finance cost		5,021	–
Allowance for inventories		1,763	1,047
Depreciation		1,268	1,550
Impairment loss recognised in respect of property, plant and equipment		–	166
Changes in fair value of derivative financial instruments		(3,405)	–
Gain on disposal of subsidiaries		(755)	–
Loss/(gain) on disposal of property, plant and equipment		2	(5)
Operating cash flows before movements in working capital		15,337	16,530
Decrease/(increase) in inventories		3,834	(9,066)
Decrease/(increase) in trade and other receivables		3,375	(6,571)
Increase in trade and other payables		511	5,985
Cash generated from operations		23,057	6,878
Hong Kong Profits Tax paid		(1,124)	(1,663)
Net cash from operating activities		21,933	5,215
Investing activities			
Interest received		2,226	2,125
Purchase of property, plant and equipment		(1,028)	(1,079)
Proceeds from disposal of property, plant and equipment		2	76
Net cash from disposal of subsidiaries	21	120	–
Decrease/(increase) in pledged bank deposit		9,040	(461)
Net cash from investing activities		10,360	661

	Notes	2008 HK$'000	2007 HK$'000
Financing activities			
Interest paid		(1,440)	–
Dividend paid		(53,450)	(5,011)
Proceeds from issue of new shares		25,500	–
Issue of convertible bonds		184,500	–
New other borrowings raised		36,000	–
Issue cost of new shares and convertible bonds		(2,154)	–
Net cash flow from/(used in) financing activities		188,956	(5,011)
Net increase in cash and cash equivalents		221,249	865
Cash and cash equivalents at 1 April		44,182	42,831
Effect of foreign exchange rate changes		101	486
Cash and cash equivalents at 31 March represented by bank balances and cash		265,532	44,182

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). At the balance sheet date, the parent company and ultimate holding company is Long Grand Limited, a company incorporated in British Virgin Islands. The address of the registered office and principal place of business of the Company is disclosed in the Corporate Information of the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. Its subsidiaries are principally engaged in garment manufacture and trading and details are set out in note 27.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 April 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[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 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (Revised) “Business combinations” and HKAS 27 (Revised) “Consolidation and separate financial statements”. HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment on changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related tax.

Sales of goods are recognised when goods are delivered to customers and title has passed.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Textile quotas

The cost of acquiring temporary textile quotas are dealt with in the consolidated income statement in the year in which they are utilised. Textile quotas allocated by the authorities are not capitalised and are not included as assets in the consolidated balance sheet.

Financial instruments

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

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Impairment of financial assets

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

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Convertible bonds

Convertible bonds issued by the Group that contain liability, conversion option and early redemption option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the liability, conversion option and early redemption option components are recognized at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative and early redemption option derivative components are measured at fair value with changes in fair value recognized in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and embedded derivatives components in proportion to their relative fair values. Transaction costs relating to the embedded derivatives component are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Other financial liabilities

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit scheme

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme which are defined contribution schemes are charged as an expenses when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the other borrowing and convertible bonds in note 16 and 18 respectively, equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new shares issues, and share buy-back as well as the issue of new debt or the redemption of existing debt.

5. FINANCIAL INSTRUMENTS

Category of financial instruments

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalent)	280,118	71,206
Financial liabilities		
Amortised cost	213,180	17,224
Derivative financial instruments	22,231	–
	235,411	17,224

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposit, bank balances and cash, trade and other payables, other borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has trade receivables, pledged bank deposit and bank balances denominated in foreign currencies (see notes 13, 14 and 23), which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis is not presented as the Group's exposure to the foreign currency risk is limited. The trade receivables, pledge bank deposit and bank balances held by the Company and its subsidiaries denominated in United States dollars which have insignificant sensitivity against HKD, the functional currency of the Company and its subsidiaries, under the Linked Exchange Rate System.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate other borrowings, and the convertible bond issued by the Group (see notes 16 and 18 for detail of other borrowings and convertible bonds respectively).

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on trade receivables is concentrated on a few customers. Trade receivables attributable to the Group's largest customer represent approximately 100% (2007: 97%) of the total trade receivables at the balance sheet date. The aggregate balance of the such trade receivables amounted to approximately HK$9,553,000 (2007: HK$17,605,000) at 31 March 2008.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The Group relies on other borrowing and convertible bonds as a significant source of liquidity. As at 31 March 2008, the Group had available unutilised short-term bank loan facilities HK$278,000 (2007: HK$18,528,000).

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	**Less than 1 month**	**1 – 3 months**	**3 months to 1 year**	**1 – 5 years**	**Total undiscounted cash flows**	**Carrying amount at 3.31.2008**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008							
Non-derivative financial liabilities							
Trade payables	–	15,135	–	–	–	15,135	15,135
Other payables	–	1,836	–	–	–	1,836	1,836
Other borrowing – secured	12%	360	1,080	38,880	–	40,320	36,000
Convertible bonds	7.95%	–	–	–	184,500	184,500	160,209
		17,331	1,080	38,880	184,500	241,791	213,180
Derivative financial instruments	–	–	–	–	–	–	22,231

	Weighted average effective interest rate	Less than 1 month	Total undiscounted cash flows	Carrying amount at 3.31.2007
	%	*HK$'000*	*HK$'000*	*HK$'000*
2007				
Trade payables	–	13,919	13,919	13,919
Other payables	–	3,305	3,305	3,305
		17,224	17,224	17,224

Fair value

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices or rates from observable current market transactions as input.

The Directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. SEGMENT INFORMATION

(A) Business segments

The Group's entire turnover and more than ninety percent of the Group's assets are contributed by its garment business and therefore no business segment analysis is presented.

(B) Geographical segments

The Group's operations are located in Hong Kong. All the Group's turnover and contribution to results were derived from the sales to the United States of America ("USA").

Segment assets, segment liabilities and additions to property, plant and equipment by location of customers were not presented as all the customers are located in USA.

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USA	9,553	17,605	–	–
Hong Kong	5,613	574	268	2
Mainland China (the "PRC")	27,097	33,301	760	1,077
	42,263	51,480	1,028	1,079
Unallocated	265,532	53,416	–	–
	307,795	104,896	1,028	1,079

7. TAXATION

The taxation charge comprises:

	2008	2007
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– current year	1,474	1,398
– (over)/under provision in prior years	(5)	8
	1,469	1,406
Deferred taxation		
– deferred taxation credit *(note 17)*	(43)	(65)
	1,426	1,341

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
Profit before taxation	13,669	15,897
Tax at the domestic income tax rate of 17.5% (2007: 17.5%)	2,392	2,782
Tax effect of expenses that are not deductible in determining taxable profit	658	30
Tax effect of income that is not taxable in determining taxable profit	(2,065)	(1,696)
(Over)/underprovision in prior years	(5)	8
Tax effect of unrecognised tax losses	446	272
Others	–	(55)
Tax charge for the year	1,426	1,341

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2008	2007
	HK$'000	*HK$'000*
Directors' emoluments *(note 8(a))*	955	1,080
Other staff costs	3,896	3,265
Other staff's retirement benefit scheme contributions	129	140
Total staff costs	4,980	4,485
Auditors' remuneration:		
– current year	550	460
– underprovision in prior years	–	68
Allowance for inventories	1,763	1,047
Cost of inventories recognised as expense	148,133	133,537
Depreciation	1,268	1,550
Impairment loss recognised in respect of property, plant and equipment	–	166
Net exchange loss	–	281
Operating lease rentals in respect of:		
– rented premises	1,179	1,021
– office equipment	3	–
– motor vehicle	78	155
Textile quota expenses	3,775	2,629
Loss on disposal of property, plant and equipment	2	–
Interest on:		
– other borrowing	1,637	–
– convertible bonds *(note 18)*	3,384	–
and after crediting:		
Bank interest income included in other income	2,226	2,125
Gain on disposal of property, plant and equipment	–	5

Notes:

(a) Information regarding directors' and employees' emoluments

The emoluments paid or payable to each of the sixteen (2007: eight) directors as follows:

	Ling Tai Yuk, John	Kong Ho Pak	Pang Hon Chung	Keir, James	Lee Tsoh Ching, Jonathan	Leung Shu Yin, William	Chau Wai Yin, Jonathan	Ng Tze Kin, David	Fan Man Seung Vanessa	Wong Chi Fai	Law Ka Ming, Michael	Yip Kam Man	Che Ye	Chan Wai Dune	Lam Man Kit, Dominic	Yuen Leong	2008 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	27	27	27	27	27	65	20	27	27	27	27	27	50	50	50	150	655
Other emoluments																	
Salaries and other benefits	300	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	300
	327	27	27	27	27	65	20	27	27	27	27	27	50	50	50	150	955

	Ling Tai Yuk, John	Kong Ho Pak	Pang Hon Chung	Keir, James	Lee Tsoh Ching, Jonathan	Leung Shu Yin, William	Chau Wai Yin, Jonathan	Ng Tze Kin, David	2007 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	50	50	50	50	50	80	50	50	430
Other emoluments									
Salaries and other benefits	650	–	–	–	–	–	–	–	650
	700	50	50	50	50	80	50	50	1,080

No directors waived any emoluments in both years ended 31 March 2008 and 31 March 2007.

(b) Employees

The five highest paid individuals of the Group included one director (2007: one director), whose emoluments are disclosed above. The emoluments of the remaining four (2007: four) highest paid employees are as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries and others	1,814	2,144
Retirement benefit scheme contributions	34	48
	1,848	2,192

The emoluments of each of the four (2007: four) highest paid employees were below HK$1,000,000.

During the year, no emoluments (2007: nil) were paid by the Group to the five highest paid individuals of the Group (including directors) as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during both years.

9. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Ordinary shares:		
Special dividend – HK29 cents per share for the year ended 31 March 2007	48,439	–
Final dividends paid – HK3 cents per share for the year ended 31 March 2007 (2007: HK3 cents per share for the year ended 31 March 2006)	5,011	5,011
	53,450	5,011

The directors do not recommend the payment of final dividend for the year ended 31 March 2008.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share, being profit for the year attributable to equity holders of the Company	12,243	14,556
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	3,384	
Changes in fair value of derivative financial instruments	(3,405)	
Earnings for the purpose of diluted earnings per share	12,222	

	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	213,140,605	167,031,016
Effective of dilutive potential ordinary shares:		
Convertible bonds	333,616,438	
Warrants	80,001,844	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	626,758,887	

No diluted earnings per share has been presented for the year end 31 March 2007 as there were no dilutive potential ordinary shares outstanding.

11. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment *HK$'000*	Furniture and office equipment *HK$'000*	Motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
COST					
At 1 April 2006	16,643	4,358	2,709	1,984	25,694
Additions	894	42	141	2	1,079
Disposals	(712)	(232)	(477)	–	(1,421)
At 31 March 2007	16,825	4,168	2,373	1,986	25,352
Additions	481	278	–	269	1,028
Disposals	(65)	(180)	–	(124)	(369)
Disposal of subsidiaries	–	(364)	(141)	(48)	(553)
At 31 March 2008	17,241	3,902	2,232	2,083	25,458
DEPRECIATION AND IMPAIRMENT					
At 1 April 2006	14,287	3,505	2,441	1,984	22,217
Provided for the year	1,114	295	139	2	1,550
Impairment loss recognised	–	105	61	–	166
Eliminated on disposals	(712)	(231)	(407)	–	(1,350)
At 31 March 2007	14,689	3,674	2,234	1,986	22,583
Provided for the year	993	192	60	23	1,268
Eliminated on disposals	(65)	(176)	–	(124)	(365)
Disposal of subsidiary	–	(273)	(81)	(48)	(402)
At 31 March 2008	15,617	3,417	2,213	1,837	23,084
NET BOOK VALUES					
At 31 March 2008	1,624	485	19	246	2,374
At 31 March 2007	2,136	494	139	–	2,769

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Machinery and equipment	5 – $33^1/_3$%
Furniture and office equipment	10 – $33^1/_3$%
Motor vehicles	10 – 20%
Leasehold improvements	Shorter of the lease periods or 20%

12. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	17,930	18,129
Work in progress	5,076	9,526
Finished goods	2,112	3,060
	25,118	30,715

13. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	9,553	17,605
Other receivables	5,218	585
	14,771	18,190

	2008	2007
	HK$'000	*HK$'000*
0-30 days	9,553	17,605

Credit policy:

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale and there is no collateral held by the Group.

All trade receivables are denominated in United States dollars, other than the functional currency of the respective group entities, and subject to currency risk.

It is the policy of the Group to allow settlement on an open account basis only by customers who have a good payment record and well-established relationships with the Group. The credit period for such customer is reviewed periodically in response to financial conditions, orders on hand and other credit information.

The management considers the balance of trade and other receivables neither pass due nor impaired to be of good credit quality.

14. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits which carry at market interest rate of approximate 2.3% (2007: 4.9%) per annum on average with an original maturity of three months or less.

At the balance sheet date, included in the bank balances and cash are following amount denominated in currency other than the functional currency of the respective group entity:

	2008	**2007**
	HK$'000	*HK$'000*
United States Dollars	21,620	33,675

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$15,135,000 (2007: HK$13,919,000). The following is an ageing analysis of the trade payables:

	2008	**2007**
	HK$'000	*HK$'000*
0-30 days	13,415	12,268
31-60 days	1,663	1,618
61-90 days	4	–
> 90 days	53	33
	15,135	13,919

16. OTHER BORROWING – SECURED

The Group borrowed HK$36,000,000 on 10 October 2007, which carried interest at 1% per month with effective interest rate of 12% per annum. Interest is payable monthly and the principal amount mature and repayable on 9 March 2009.

The borrowing is secured by the shares of a subsidiary of the Group.

17. DEFERRED TAXATION

A summary of the deferred tax liability recognised and movement thereon during the current and prior year is as follows:

	Accelerated tax depreciation
	HK$'000
At 1 April 2006	127
Credit to income for the year	(65)
At 31 March 2007	62
Credit to income for the year	(43)
At 31 March 2008	19

At the balance sheet date, the Group has unused tax losses of HK$16,446,000 (2007: HK$13,897,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

18. CONVERTIBLE BONDS

On 24 December 2007, the Company issued zero coupon convertible bonds denominated in HK$ in an aggregate principal amount of HK$124,500,000 to a substantial shareholder, Long Grand Limited, ("Subscription Bond") and HK$60,000,000 to outsiders ("Placing Bond"), respectively (collectively known as the "Convertible Bonds"). The Convertible Bonds will mature on the second anniversary of the date of issue of the Convertible Bonds, 24 December 2009. The Convertible Bonds entitle the holders to convert them into ordinary shares ("Conversion Shares") of the Company at any time between the date of issue of the Convertible Bonds and their maturity date on 24 December 2009 at a conversion price of HK$0.15 per share, subject to adjustments for subdivision or consolidation of shares, bonus issues, rights issues, distributions and other dilutive events. If the Convertible Bonds have not been converted, they will be redeemed on 24 December 2009 at their principal amount.

Other principal terms of the Convertible Bonds

Upon the Convertible Bonds holders exercising the conversion rights attached to the Convertible Bonds, the Company shall issue the warrants to subscribe for new ordinary shares of the Company at an subscription price of HK$0.15 per share at anytime from the date of issue to the date falling on the first anniversary of the date of issue (in the proportion of one warrant for every four Conversion Shares) (the "Warrants") by way of bonus issue to the holders of the Convertible Bonds. The subscription price of the Warrants is HK$0.15 per share, subject to adjustments for subdivision or consolidation of shares, right issues and other dilutive events which may have adverse effects on the rights of the holder(s) of the placing warrants.

The Company can early redeem the Convertible Bonds at any time before the maturity of the Convertible Bonds at 100% of the principal amount of the Convertible Bonds.

The net proceeds received from the issue of Convertibles Bonds contain the following components that are required to be separately accounted for:

(i) Liability component for the Convertible Bonds represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the Convertible Bonds, but without the conversion option. The effective interest rate of the liability component is 7.95%.

(ii) Embedded derivatives, comprising:

(a) The fair value of redemption discretionary option represents the Company's option to early redeem all or part of the Convertible Bonds; and

(b) The fair value of conversion option represents the option of the bondholders to convert the Convertible Bonds into equity of the Company at conversion price of HK$0.15 and the issuance of Warrants by way of bonus issue for every four Conversion shares with exercise price of HK$0.15.

The binomial model is used in the valuation of the embedded conversion option derivatives. The value of the issuer's redemption option was estimated using the "with and without approach", whereby the value of the redemption option is determined as the difference between the value of optional conversion option without the issuer's redemption option and the value of the optional conversion option with the issuer's redemption option. Inputs into the model at the respective dates are as follows:

	24 December 2007	**31 March 2008**
Risk Free Rate of interest	2.46%	1.20%
Credit Spread	1.52%	2.33%
Risk Premium	3.88%	3.88%
Discount Rate	7.86%	7.41%
Conversion Price	HK$0.15	HK$0.15
Spot Price	HK$4.45	HK$2.80
Volatility	105.76%	106.40%

No conversion right have been exercised during the period from the date of issue to the balance sheet date.

The movements of the liability component and the embedded derivatives in the Convertible Bonds during the year are set out below:

	Liability *HK$'000*	**Embedded derivatives** *HK$'000*	**Total** *HK$'000*
Issued during the year	158,578	25,922	184,500
Issue cost	(1,753)	(286)	(2,039)
Interest charged	3,384	–	3,384
Change in fair value	–	(3,405)	(3,405)
At 31 March 2008	160,209	22,231	182,440

19. SHARE CAPITAL

	Number of ordinary shares	**Amount** *HK$'000*
Authorised:		
At 1 April 2006, 31 March 2007 and 31 March 2008		
Ordinary shares of HK$0.01 each	50,000,000,000	500,000
Issued and fully paid:		
At 1 April 2006 and 1 April 2007		
Ordinary shares of HK$0.01 each	167,031,016	1,670
Issue of shares *(note)*	170,000,000	1,700
At 31 March 2008		
Ordinary shares of HK$0.01 each	337,031,016	3,370

Note: During the year ended 31 March 2008, the Company allotted and issued 170,000,000 shares of HK$0.15 each (net of issuing cost of HK$115,000) as a result of a subscription of shares by Long Grand Limited.

20. CONTRIBUTED SURPLUS

The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium of the then holding company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation on 25 May 1993, together with the amounts transferred from share capital and share premium account as a result of the capital reduction taken place in August 2001, less dividends paid, amounts utilised on redemption of shares and amount eliminated against accumulated losses.

21. DISPOSAL OF SUBSIDIARIES

On 23 May 2007, the Company disposed of its subsidiaries headed by Gentech (Asia) Limited ("Gentech"), to an independent third party, Trump Star Limited. The net assets of Gentech at the date of disposal were as follows:

	23 May 2007
	HK$'000
Net assets disposed of:	
Property, plant and equipment	151
Other receivables	44
Bank balances and cash	8,759
Other payables	(35)
	8,919
Exchange gain realised	(795)
	8,124
Gain on disposal	755
Total consideration	8,879
Satisfied by:	
Cash	8,879
Net cash inflow arising on disposal:	
Cash consideration	8,879
Bank balances and cash disposed of	(8,759)
	120

There is insignificant impact by the disposal to the Group's results and cash flows to current and prior periods.

22. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of a rented premise and office equipment under non-cancellable operating leases for three years and five years respectively which fall due as follows:

	2008		2007	
	Rented premises	**Office equipment**	**Rented premises**	**Office equipment**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	937	16	752	–
In the second to fifth years inclusive	1,743	62	–	–
	2,680	78	–	–

23. PLEDGE OF ASSETS

At 31 March 2007, the Group pledged its bank deposit of HK$9,040,000 to secure the letter of credit banking facilities granted to the Group. The pledged deposit is denominated in United States dollars, other than the functional currency of respective group entities, and subject to currency risk.

The deposit carries fixed interest rate of 4.9% per annum for the year ended 31 March 2007. The pledged bank deposit have been released during the year ended 31 March 2008.

24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 17 September 2004 pursuant to a resolution passed by the Company's shareholders on 17 September 2004 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on 16 September 2014. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK$1 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme at the date of adoption. The number of shares in respect of which options granted and may be granted to any Eligible Employee is not permitted to exceed 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer together with the payment of nominal consideration of HK$1 per option by the grantee.

An option may be exercised at any time during a period not exceeding twelve months commencing after the date the option is accepted. The expiry of the option may be determined by the Board of Directors of the Company which shall not later than the last day of such period.

The exercise price is determined by the Directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the 5 trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.

No options have been granted under the Scheme since its adoption.

25. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or lower of HK$1,000 per person to the Scheme, which is matched by employees.

The employees of the Group in the PRC are members of state-managed retirement benefit scheme operated by the PRC Government. The Company's subsidiary is required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contributions under the scheme.

26. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	2008	**2007**
	HK$'000	*HK$'000*
Rental charges paid to related companies *(note a)*	974	934
Consultancy fees paid to related companies *(note b)*	110	208
Placing commission paid to a related company *(note c)*	1,200	–

Notes:

(a) A director of the Company, Mr. Ling Tai Yuk, John, controls and has beneficial interests in these related companies.

(b) The spouse of a director controls and has beneficial interests in one of the two (2007: three) related companies. Director of the Company controls and has beneficial interests in the other Company (2007: two companies).

(c) A substantial shareholder, Dr. Albert Yeung, has beneficial interest in the related company at the date the placing agreement entered into.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 8.

27. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Nominal value of issued ordinary share capital/ registered capital*	Proportion of nominal value of issued capital/registered capital held by the Company 2008 %	2007 %	Principal activities
Directly held					
High Dragon Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Investment holding
Surplus Rich Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	N/A	Management service to group companies
Indirectly held					
Koniko Company Limited	Hong Kong/ Hong Kong and PRC	HK$20 Deferred ** non-voting shares	100	100	Garment manufacture and trading

* All are ordinary shares unless otherwise stated.

** None of the deferred non-voting shares are held by the Group. The deferred non-voting shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Company with limited liability, except for otherwise denoted, which, in the opinion of the directors, principally affected the results of 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.

28. SUMMARISED BALANCE SHEET OF THE COMPANY

	2008	2007
	HK$'000	*HK$'000*
Assets	244,320	61,663
Liabilities	183,354	493
Net assets	60,966	61,170
Capital and reserves		
Share capital	3,370	1,670
Reserves	57,596	59,500
Total equity	60,966	61,170

Profit of the Company for the year ended 31 March 2008 amounted to approximately HK$27,861,000 (2007: HK$32,627,000).

3. UNAUDITED INTERIM FINANCIAL INFORMATION

Set out below are the unaudited consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity of the Group, together with the notes to the financial statements of the Group as extracted from the interim report of the Company for the six months ended 30 September 2008. References to page numbers in this section are to the page numbers of such interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

		Six months ended	
		30.9.2008	**30.9.2007**
		HK$'000	*HK$'000*
	Notes	(Unaudited)	(Unaudited)
Revenue	*3*	43,196	92,978
Cost of sales		(42,473)	(82,413)
Gross profit		723	10,565
Other income		2,198	1,234
Selling and distribution expenses		(745)	(524)
Administrative expenses		(16,294)	(5,023)
(Loss)/Profit from operating activities		(14,118)	6,252
Gain on disposal of subsidiaries		–	755
Finance costs	*4*	(10,432)	–
Change in fair value of derivative financial instruments		(149)	–
(Loss)/Profit before taxation	*5*	(24,699)	7,007
Taxation	*6*	–	(541)
(Loss)/Profit for the period		(24,699)	6,466
(Loss)/Earnings per share – Basic and diluted	*8*	HK (7.33) cents	HK 3.87 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2008

	Notes	30.9.2008 HK$'000 (Unaudited)	31.3.2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	348	2,374
Current assets			
Inventories		–	25,118
Trade and other receivables	10	701	14,771
Bank balances and cash		255,254	265,532
		255,955	305,421
Current liabilities			
Trade and other payables	11	(1,685)	(18,984)
Taxation payable		(99)	(429)
Other borrowing – secured	12	(9,777)	(36,000)
Derivative financial instruments	15	(22,380)	(22,231)
		(33,941)	(77,644)
Net current assets		222,014	227,777
Total assets less current liabilities		222,362	230,151
Non-current liabilities			
Deferred taxation		–	(19)
Convertible bonds	15	(168,475)	(160,209)
		(168,475)	(160,228)
		53,887	69,923
Capital and reserves			
Share capital	13	3,370	3,370
Reserves		50,517	66,553
Total equity		53,887	69,923

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Share capital	Share premium	Contributed surplus	Capital redemption reserve	Share option reserve	Translation reserve	Accumulated profits (losses)	Total
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2007 (audited)	1,670	–	52,385	3,781	–	694	27,909	86,439
Profit for the period	–	–	–	–	–	–	6,466	6,466
Released upon disposal of subsidiaries	–	–	–	–	–	(694)	–	(694)
Total recognised income for the period	–	–	–	–	–	(694)	6,466	5,772
Dividend paid	–	–	(730)	–	–	–	(52,720)	(53,450)
At 30 September 2007 (unaudited)	1,670	–	51,655	3,781	–	–	(18,345)	38,761
At 1 April 2008 (audited)	3,370	23,685	51,655	3,781	–	–	(12,568)	69,923
Loss for the period and total recognised expense for the period	–	–	–	–	–	–	(24,699)	(24,699)
Recognition of equity-settled share based payments	–	–	–	–	8,663	–	–	8,663
At 30 September 2008 (unaudited)	3,370	23,685	51,655	3,781	8,663	–	(37,267)	53,887

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium of the then holding company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation on 25 May 1993, together with the amounts transferred from share capital and share premium account as a result of the capital reduction which took place in August 2001, less dividends paid, amounts utilised on redemption of shares and amount eliminated against accumulated losses.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Six months ended 30.9.2008 HK$'000 (Unaudited)	Six months ended 30.9.2007 HK$'000 (Unaudited)
Net cash from operating activities	16,188	26,848
Net cash from investing activities	1,923	10,116
Financing activities		
Repayment of other borrowing	(28,389)	–
Dividend paid	–	(53,450)
Cash used in financing activities	(28,389)	(53,450)
Net decrease in cash and cash equivalents	(10,278)	(16,486)
Cash and cash equivalents at the beginning of the period	265,532	44,182
Effect of foreign exchange rate changes	–	97
Cash and cash equivalents at the end of the period, represented by bank balances and cash	255,254	27,793

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008.

In the current period, the Group has applied, for the first time, new amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 April 2008. The adoption of these new HKFRSs had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the new standards or interpretations that have been issued but are not yet effective. The adoption of Hong Kong Financial Reporting Standard 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. REVENUE AND BUSINESS SEGMENTS

Business segments

The Group's entire revenue and more than ninety percent of the Group's assets are contributed by its garment business during the periods ended 30 September 2008 and 2007 and therefore no business segment analysis is presented.

Geographical segments

The Group's operations are located in Hong Kong. All the Group's revenue and contribution to results were derived from the sales to the United States of America.

4. FINANCE COST

	Six months ended 30.9.2008 HK$'000 (Unaudited)	30.9.2007 HK$'000 (Unaudited)
Interest on other borrowing – secured	2,166	–
Effective interest on convertible bonds	8,266	–
	10,432	–

5. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30.9.2008 HK$'000 (Unaudited)	30.9.2007 HK$'000 (Unaudited)
(Loss)/Profit before taxation has been arrived at after charging:		
Directors' emoluments	600	542
Other staff's costs	2,134	1,620
Share based payment	8,663	–
Other staff's retirement benefit scheme contributions	63	63
	11,460	2,225
Allowance for inventories	–	1,967
Depreciation	601	637
Textile quota expenses	530	2,059
and after crediting:		
Bank interest income	1,896	1,179

6. TAXATION

	Six months ended 30.9.2008 HK$'000 (Unaudited)	30.9.2007 HK$'000 (Unaudited)
Current tax – Hong Kong	–	560
Deferred taxation	–	(19)
	–	541

Hong Kong Profits Tax is recognised based on management's best estimate of the average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30 September 2008.

7. DIVIDENDS

No dividends were paid, declared or proposed during the period ended 30 September 2008. The directors do not recommend the payment of an interim dividend.

On 17 September 2007, dividend of HK$0.03 per share and HK$0.29 per share totalling HK$53,450,000 were paid to shareholders as the final dividend and special dividend for 2007, respectively.

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the equity holders of the Company for the period is based on the following data:

	Six months ended	
	30.9.2008	**30.9.2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/Earnings:		
(Loss)/Earnings for the purpose of basic earnings per share	(24,699)	6,466
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	337,031,016	167,031,016

During the period ended 30 September 2008, the computation of diluted loss per share does not assume the conversion of the outstanding convertible bonds since its exercise would result in a decrease in loss per share during the period ended 30 September 2008. Also, the diluted earnings per share for the periods do not adjust for the effects of the share options has been presented because the exercise price of the Company's option was higher than the average market price of shares for the periods.

9. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the period is summarised as follows:

	HK$'000
Carrying values as at 1 April 2008	2,374
Additions	23
Depreciation	(601)
Disposal of property, plant and equipment	(1,448)
Carrying values as at 30 September 2008	348

10. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade receivables at the balance sheet date:

	30.9.2008	31.3.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 30 days	–	9,553

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale.

It is the policy of the Group to allow settlement on an open account basis only by customers who have good repayment records and well-established relationships with the Group. The credit period for such customers is reviewed periodically in response to the financial conditions, orders on hand and other credit information.

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30.9.2008	31.3.2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 – 30 days	–	13,415
31 – 60 days	–	1,663
61 – 90 days	–	4
Over 90 days	163	53
	163	15,135

12. OTHER BORROWING – SECURED

The Group borrowed HK$36,000,000 on 10 October 2007, which carry interest at market rates of 1% per month with effective interest rate of 12% per annum. During the period ended 30 September 2008, the Group early repaid approximately HK$26,223,000 of this borrowing.

Interest is payable monthly and principal amount mature and repayable on 9 March 2009. This borrowing is secured by shares of a subsidiary of the Group.

13. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 April 2007, 30 September 2007, 31 March 2008, 1 April 2008 and 30 September 2008	50,000,000,000	500,000
Issued and fully paid:		
At 1 April 2007	167,031,016	1,670
Issue of shares	170,000,000	1,700
At 31 March 2008, 1 April 2008 and 30 September 2008	337,031,016	3,370

14. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 17 September 2004 pursuant to a resolution passed by the Company's shareholders on 17 September 2004 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on 16 September 2014. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK$1 per option to the Eligible Employees to subscribe for shares in the Company.

The total number of shares issued upon the exercise of all options granted under the Share Option Scheme is 8,400,000 shares as at 30 September 2008. The estimated fair value of the options at 17 July 2008 the date of grant, is approximately HK$20,564,201.

Details of the share options granted under the Scheme during the period ended 30 September 2008 are as follows:

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting date	Options granted during the period and at 30.9.2008
Directors	17 July 2008	HK$5.32	17/7/2008 – 16/9/2014	17/7/2008	1,200,000
			17/7/2009 – 16/9/2014	17/7/2009	1,200,000
			17/7/2010 – 16/9/2014	17/7/2010	1,200,000
					3,600,000
Employees	17 July 2008	HK$5.32	17/7/2008 – 16/9/2014	17/7/2008	1,600,000
			17/7/2009 – 16/9/2014	17/7/2009	1,600,000
			17/7/2010 – 16/9/2014	17/7/2010	1,600,000
					4,800,000
					8,400,000

The share price of the Company immediately before 17 July 2008, the date of grant of the options, was HK$5.2.

Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

	2008
Market price	HK$5.30
Exercise price	HK$5.32
Expected volatility	80.04% – 82.18%
Expected life	3.08 years – 4.08 years
Risk-free rate	2.66% – 2.98%
Expected dividend yield	4.48%

The Group recognised the total expense of approximately HK$8,663,000 for the period in relation to share options granted by the Company.

15. CONVERTIBLE BONDS

On 24 December 2007, the Company issued zero coupon convertible bonds denominated in HK$ in an aggregate principal amount of HK$124,500,000 to a substantial shareholder, Long Grand Limited, ("Subscription Bond") and HK$60,000,000 to outsiders ("Placing Bond"), respectively (collectively known as the "Convertible Bonds"). The Convertible Bonds will mature on the second anniversary of the date of issue of the Convertible Bonds, 24 December 2009. The Convertible Bonds entitle the holders to convert them into ordinary shares ("Conversion Shares") of the Company at any time between the date of issue of the Convertible Bonds and their maturity date on 24 December 2009 at a conversion price of HK$0.15 per share subject to adjustments for, subdivision or consolidation of shares, bonus issues, rights issues, distributions and other dilutive events. If the Convertible Bonds have not been converted, they will be redeemed on 24 December 2009 at their principal amount.

Other principal terms of the Bonds:

Upon the Convertible Bonds holders exercising the conversion rights attached to the Convertible Bonds, the Company shall issue the warrants to subscribe for new ordinary shares of the Company at an subscription price of HK$0.15 at anytime from the date of issue to the date falling on the first anniversary of the date of issue (in the proportion of one warrant for every four Conversion Shares) (the "Warrants") by way of bonus issue to the holders of the Convertible Bonds. The subscription price of the Warrants is HK$0.15 per share, subject to adjustments for subdivision or consolidation of shares, right issues and other dilutive events which may have adverse effects on the rights of the holder(s) of the placing warrants.

The Company can early redeem the Convertible Bonds at any time before the maturity of the Convertible Bonds at 100% of the principal amount of the Convertible Bonds.

The net proceeds received from the issue of Convertibles Bonds contain the following components that are required to be separately accounted for:

(i) Liability component for the Convertible Bonds represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the Convertible Bonds, but without the conversion option. The effective interest rate of the liability component is 7.95%.

(ii) Embedded derivatives, comprising:

(a) The fair value of redemption discretionary option represents the Company's option to early redeem all or part of the Convertible Bonds; and

(b) The fair value of conversion option represents the option of the bondholders to convert the Convertible Bonds into equity of the Company at conversion price of HK$0.15 and the issuance of Warrants by way of bonus issue for every four Conversion shares with exercise price of HK$0.15.

The binomial model is used in the valuation of the embedded conversion option derivatives. The value of the issuer's redemption option was estimated using the "with and without approach", whereby the value of the redemption option is determined as the difference between the value of optional conversion option without the issuer's redemption option and the value of the optional conversion option with the issuer's redemption option. Inputs into the model at the respective dates are as follows:

	30.9.2008	**31.3.2008**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Risk Free Rate of interest	0.71%	1.20%
Credit Spread	5.99%	2.33%
Risk Premium	3.65%	3.88%
Discount Rate	10.35%	7.41%
Conversion Price	HK$0.15	HK$0.15
Spot Price	HK$3.38	HK$2.80
Volatility	127.83%	106.40%

No conversion rights have been exercised during the period from the date of issue to the balance sheet date.

The movements of the liability component and the embedded derivatives in the Convertible Bonds during the period/year are set out below:

	Liability	**Embedded derivatives**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Issued during the year	158,578	25,922	184,500
Issue cost	(1,753)	(286)	(2,039)
Interest charged	3,384	–	3,384
Change in fair value	–	(3,405)	(3,405)
At 31 March 2008 and 1 April 2008	160,209	22,231	182,440
Interest charged	8,266	–	8,266
Change in fair value	–	149	149
At 30 September 2008	168,475	22,380	190,855

16. RELATED PARTY TRANSACTIONS

(i) Other than the convertible bonds as disclosed in note 15, the Group has the following transactions with related parties during the period:

	Six months ended	
	30.9.2008	**30.9.2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Rental charges paid to a related company *(note a)*	507	525
Consultancy fees paid to related companies *(note b)*	–	110

Notes:

(a) Mr. Ling Tai Yuk, John, a director of a subsidiary, controls and has beneficial interests in this related company.

(b) During the period ended 30 September 2007, the spouse of a director controls and has beneficial interests in one of the two related companies. For another related company, a director of the Company controlled and had beneficial interest in the Company during the period ended 30 September 2007. There is no such transaction during the period ended 30 September 2008.

(ii) Compensation of key management personnel

The remuneration of key management during the period was as follows:

	Six months ended	
	30.9.2008	**30.9.2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term benefits (including share option expenses)	4,313	542
Retirement benefits scheme contribution	63	63
	4,376	605

The remuneration of key management is determined having regard to the performance of individuals and market trends.

17. POST BALANCE SHEET EVENTS

(a) On 11 October 2008, the Group entered into a loan agreement and provided a loan facility (the "Loan") in an aggregate principal amount of up to HK$80,000,000 to an independent third party, Park Wealth International Limited ("Park Wealth"). Park Wealth and its subsidiaries are engaged in the water and air purification business. The Loan would be available for drawdown on the date of the loan agreement. The Loan is interest bearing at prime lending rate for Hong Kong dollar quoted from time to time by a bank and is secured by the execution of a guarantee in favour of the Group by certain guarantors and the entire issued shares capital of Park Wealth (the "Sale Shares").

(b) On 11 October 2008, the Group entered into an agreement ("Agreement"), pursuant to which the Group has conditionally agreed to acquire the Sale Shares. The Consideration of the Agreement will be settled by the Company to allot and issue Non-voting Convertible Preference Shares with an aggregate amount of HK$800,000,000.

4. INDEBTEDNESS

At the close of business on 30 November 2008, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Enlarged Group had unsecured borrowings from third parties of approximately RMB11,000,000 (equivalent to approximately HK$12,477,314) and the principal amount and the carrying amounts of the debt component of the convertible bonds of approximately HK$184,500,000 and approximately HK$171,245,000 respectively.

As at 30 November 2008, the Enlarged Group had amounts due to a related party and a shareholder which are unsecured, amounting to approximately RMB23,083,286 (HK$26,183,401) and HK$13,034 respectively.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding, at the close of business on 30 November 2008, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptable or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse change in the Enlarged Group's indebtedness and contingent liabilities since the close of business on 30 November 2008.

5. MATERIAL ADVERSE CHANGE

As at the latest practicable date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 March 2008, being the date to which the latest audited financial statements of the Group were made up.

6. WORKING CAPITAL

As at the latest practicable date, after taking into account of the available credit facilities and the internal resources of the Enlarged Group and barring unforeseen circumstances, the Directors were of the opinion that the Enlarged Group had sufficient working capital for the 12-month period from the date of this circular.

7. WAIVER FROM STRICT COMPLIANCE OF THE LISTING RULES

Pursuant to Rule 4.06(1)(a) and Note to Rule 4.06(1)(a) of the Listing Rules, it is required that the accountants' report of the Park Wealth Group must cover three financial years immediately preceding the issue of this circular. As this circular is required to be despatched by the end of January 2009, it is considered unduly burdensome for the Company to prepare an accountants' report within a short period of time after the end of the financial year end on 31 December 2008. The Company has applied to, and the Stock Exchange has granted, a waiver from strict compliance with Rule 4.06(1) of the Listing Rules with the conditions that (i) this circular is to be despatched on or before 23 January 2009 and the SGM for approving the Acquisition will be held on or before 12 February 2009; and (ii) the Directors confirm that they have performed sufficient due diligence on the Park Wealth Group to ensure that, up to the date of this circular, there has been no material adverse change in the financial position or prospects of the Park Wealth Group since 31 August 2008 and there is no event since 31 August 2008 which would materially affect the information shown in the accountants' report of the Park Wealth Group and Shanghai Comfort Group as set out in Appendices II and III to this circular respectively. Accordingly, the Directors have performed internal review on the Park Wealth Group and hereby confirm that the above condition (ii) has been fulfilled. As a result, all conditions have been fulfilled by the Company.

A. ACCOUNTANTS' REPORT OF THE PARK WEALTH GROUP

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu.

Deloitte.
德勤

22 January 2009

The Directors
Chaoyue Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Park Wealth International Limited ("Park Wealth") and its subsidiaries (hereinafter collectively referred to as the "Park Wealth Group") for the period from 23 May 2007 (date of incorporation) to 31 December 2007 and the eight months ended 31 August 2008 (the "Relevant Periods") for inclusion in the circular issued by Chaoyue Group Limited (the "Company "), a company incorporated in Bermuda with its shares being listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), dated 22 January 2009 in connection with the proposed acquisition of 100% interest in Park Wealth, pursuant to an agreement dated 11 October 2008 ("Agreement") entered into between Successtime Limited, a wholly owned subsidiary of the Company, and the shareholders of Park Wealth comprising Sure Achieve Limited, Sureguide Limited and Teamwon Limited (the "Circular").

Park Wealth was incorporated in the British Virgin Islands ("BVI") on 23 May 2007. Park Wealth is an investment holding company. No audited financial statements have been prepared for Park Wealth since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement.

As at the date of this report, Park Wealth has the following subsidiaries:

Name of subsidiary	Place and date of establishment/ operation	Issued and fully paid registered capital	Equity interest attributable to Park Wealth				Principal activities	Legal form
			At 31 December 2007		At 31 August 2008			
			Direct	Indirect	Direct	Indirect		
上海康福特環境科技有限公司Shanghai Comfort Environment and Science Company Limited* ("Shanghai Comfort")	The People's Republic of China (the "PRC") 23 September 2005	RMB17,030,560	0%	0%	100%	–	Manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system	Limited liability company
上海康福特水業發展有限公司 Shanghai Comfort Water Development Company Limited*	The PRC 31 July 2006	RMB3,000,000	0%	0%	–	100%	Water purification service, sales of air purification and water purification equipments	Limited liability company
成都康福特水業有限責任公司 Chengdu Comfort Water Company Limited*	The PRC 28 March 2007	RMB500,000	0%	0%	–	100%	Water purification service	Limited liability company
深圳康福特環保技術發展有限公司 Shenzhen Comfort Environmental Protection Technology Development Company Limited* ("Shenzhen Comfort")	The PRC 14 May 2007	RMB1,000,000	0%	0%	–	100%	Water purification service	Limited liability company
上海康福特環保工程安裝有限公司 Shanghai Comfort Environmental Engineering Company Limited*	The PRC 7 December 2007	RMB5,100,000	0%	0%	–	100%	Construction and installation of air purification and sewage treatment system	Limited liability company
上海康之耐五金製品有限公司 Shanghai Kang Zhi Nai Manufacturing Company Limited*	The PRC 7 December 2007	RMB100,000	0%	0%	–	100%	Inactive	Limited liability company
上海康誠和空氣淨化設備有限公司 Shanghai Kang Cheng He Air Purification Equipment Company Limited*	The PRC 7 December 2007	RMB500,000	0%	0%	–	100%	Construction and installation of air purification and sewage treatment system	Limited liability company
上海宏佳空氣淨化設備有限公司 Shanghai Hong Jia Air Purification Equipment Company Limited*	The PRC 20 December 2007	RMB500,000	0%	0%	–	100%	Inactive	Limited liability company
北京康福特康潔水業有限公司 Beijing Comfort Kang Jie Water Company Limited*	The PRC 25 February 2008	RMB500,000	N/A	N/A	–	100%	Water purification service	Limited liability company

* *The English name is for identification purpose only.*

The statutory financial statements of Shanghai Comfort for the period from 23 September 2005 (date of establishment) to 31 December 2005 and the year ended 31 December 2006, which were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC, were audited by上海海德會計師事務所有限公司 Shanghai Haide Certified Public Accountants Company Limited*, a firm of certified public accountants registered in the PRC. The statutory financial statements of Shanghai Comfort for the year ended 31 December 2007, which were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC, were audited by 上海滬中會計師事務所有限公司 Shanghai Huzhong Certified Public Accountants Company Limited*, a firm of certified public accountants registered in the PRC. In addition, as explained by the directors of Shanghai Comfort, there was no statutory audit requirement for the subsidiaries of Shanghai Comfort in the PRC since their establishment.

For the purpose of this report, the directors of Park Wealth have prepared the consolidated management accounts of Park Wealth in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the Relevant Periods (the "Underlying Financial Statements"). We have, for the purpose of this report, performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Park Wealth Group for the Relevant Periods set out in this report have been prepared from the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular without making any adjustments. The preparation of the Underlying Financial Statements is the responsibility of the directors of Park Wealth. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of the Park Wealth Group and Park Wealth as at 31 December 2007 and 31 August 2008, and of the consolidated results and cash flows of the Park Wealth Group for the Relevant Periods.

The comparative consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of Park Wealth Group for the period from 23 May 2007 (date of incorporation) to 31 August 2007 together with the notes thereon (the "31 August 2007 Financial Information") have been extracted from Park Wealth Group's unaudited financial information for the same period which was prepared by the directors of Park Wealth solely for the purpose of this report. We have reviewed the 31 August 2007 Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to review interim

* *The English name is for identification purpose only.*

financial reports" issued by the HKICPA. Our review consists principally of making enquiries of the management and applying analytical procedures to the 31 August 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 31 August 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 31 August 2007 Financial Information.

I. Financial Information

CONSOLIDATED INCOME STATEMENTS

	Notes	23 May 2007 (date of incorporation) to 31 December 2007 RMB	1 January 2008 to 31 August 2008 RMB	23 May 2007 (date of incorporation) to 31 August 2007 RMB (unaudited)
Revenue	7	–	23,350,918	–
Cost of sales		–	(16,369,874)	–
Gross profit		–	6,981,044	–
Other income	8	187,630	475,646	–
Selling and distribution expenses		–	(7,236,954)	–
Administrative expenses		(42,231)	(8,145,883)	(39,019)
Finance costs	9	–	(614,979)	–
Profit (loss) before tax	10	145,399	(8,541,126)	(39,019)
Income tax expense	11	–	(138,496)	–
Profit (loss) for the period		145,399	(8,679,622)	(39,019)

CONSOLIDATED BALANCE SHEETS

	Notes	At 31 December 2007 RMB	At 31 August 2008 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	14	–	39,587,318
Goodwill	15	–	18,446,184
		–	58,033,502
CURRENT ASSETS			
Inventories	17	–	8,064,286
Amounts due from customers for contract work	18	–	1,506,971
Trade and other receivables	19	–	25,839,608
Bank balances and cash	20	10,256,074	11,749,612
		10,256,074	47,160,477
CURRENT LIABILITIES			
Amounts due to customers for contract work	18	–	11,096,623
Trade and other payables	21	37,671	28,673,597
Amount due to a shareholder	22	10,065,439	–
Amount due to a related party	23	–	26,896,782
Taxation payable		–	138,496
Borrowings	24	–	28,457,100
Warranty provision	25	–	895,499
Deferred income	26	–	10,028,980
		10,103,110	106,187,077
NET CURRENT ASSETS (LIABILITIES)		152,964	(59,026,600)
TOTAL ASSETS LESS CURRENT LIABILITIES		152,964	(993,098)
NON-CURRENT LIABILITY			
Deferred income	26	–	1,012,247
		152,964	(2,005,345)
CAPITAL AND RESERVES			
Share capital	27	7,565	7,565
Reserves		145,399	(2,012,910)
		152,964	(2,005,345)

BALANCE SHEETS – PARK WEALTH

	Notes	At 31 December 2007 RMB	At 31 August 2008 RMB
NON-CURRENT ASSET			
Interest in a subsidiary	16	–	12,550,300
CURRENT ASSETS			
Bank balances and cash	20	10,256,074	436,746
CURRENT LIABILITIES			
Other payables	21	37,671	35,213
Amount due to a shareholder	22	10,065,439	–
Borrowing	24	–	6,127,100
		10,103,110	6,162,313
NET CURRENT ASSETS (LIABILITIES)		152,964	(5,725,567)
		152,964	6,824,733
CAPITAL AND RESERVES			
Share capital	27	7,565	7,565
Reserves		145,399	6,817,168
		152,964	6,824,733

STATEMENTS OF CHANGES IN EQUITY

PARK WEALTH GROUP

	Share capital *RMB*	Capital contribution reserve *RMB* *(note)*	Accumulated profit (loss) *RMB*	Total *RMB*
At date of incorporation	–	–	–	–
Issue of shares during the period	7,565	–	–	7,565
Profit and total recognised income for the period	–	–	145,399	145,399
At 31 December 2007	7,565	–	145,399	152,964
Capitalisation of shareholder's loan	–	6,521,313	–	6,521,313
Loss and total recognised expense for the period	–	–	(8,679,622)	(8,679,622)
At 31 August 2008	7,565	6,521,313	(8,534,223)	(2,005,345)
At date of incorporation	–	–	–	–
Issue of shares during the period	7,565	–	–	7,565
Loss and total recognised expense for the period *(unaudited)*	–	–	(39,019)	(39,019)
At 31 August 2007 *(unaudited)*	7,565	–	(39,019)	(31,454)

Note: Capital contribution reserve represents the waiver of shareholder's loan.

PARK WEALTH

	Share capital *RMB*	Capital contribution reserve *RMB* *(note)*	Accumulated profit (loss) *RMB*	Total *RMB*
At date of incorporation	–	–	–	–
Issue of shares during the period	7,565	–	–	7,565
Profit and total recognised income for the period	–	–	145,399	145,399
At 31 December 2007	7,565	–	145,399	152,964
Capitalisation of shareholder's loan	–	6,521,313	–	6,521,313
Profit and total recognised income for the period	–	–	150,456	150,456
At 31 August 2008	7,565	6,521,313	295,855	6,824,733
At date of incorporation	–	–	–	–
Issue of shares during the period	7,565	–	–	7,565
Loss and total recognised expense for the period *(unaudited)*	–	–	(39,019)	(39,019)
At 31 August 2007 *(unaudited)*	7,565	–	(39,019)	(31,454)

Note: Capital contribution reserve represents the waiver of shareholder's loan.

CONSOLIDATED CASH FLOW STATEMENTS

	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008	23 May 2007 (date of incorporation) to 31 August 2007
	RMB	*RMB*	*RMB* *(unaudited)*
OPERATING ACTIVITIES			
Profit (loss) before tax	145,399	(8,541,126)	(39,019)
Adjustments for:			
Depreciation of property, plant and equipment	–	1,180,126	–
Gain on disposal of property, plant and equipment	–	(267,936)	–
Allowances for obsolete and slow-moving inventories	–	186,518	–
Allowances for bad and doubtful debts	–	2,155,979	–
Interest income	(187,630)	(5,914)	–
Finance costs	–	614,979	–
Warranty charges	–	595,422	–
Realisation of deferred income	–	(9,290,726)	–
Operating cash flows before movements in working capital	(42,231)	(13,372,678)	(39,019)
Increase in inventories	–	(3,080,715)	–
Increase in amounts due from customers for contract work	–	(237,759)	–
Increase in trade and other receivables	–	(13,525,316)	–
Increase in trade and other payables	37,671	9,443,132	39,019
Increase in amounts due to customers for contract work	–	5,939,959	–
Decrease in warranty provision	–	(136,255)	–
Increase in deferred income	–	20,121,067	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(4,560)	5,151,435	–

	Note	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008	23 May 2007 (date of incorporation) to 31 August 2007
		RMB	*RMB*	*RMB* (unaudited)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		–	(25,801,649)	–
Proceeds from disposal of property, plant and equipment		–	1,382,457	–
Acquisition of business (net of cash and cash equivalents acquired)	28	–	(5,191,122)	–
Interest received		187,630	5,914	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES		187,630	(29,604,400)	–
FINANCING ACTIVITIES				
New borrowings raised		–	20,457,100	–
Advance from (repayment to) a shareholder		10,065,439	(2,874,918)	–
Advance from a related party		–	9,033,529	–
Proceeds on issue of shares		7,565	–	–
NET CASH FROM FINANCING ACTIVITIES		10,073,004	26,615,711	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,256,074	2,162,746	–
Effect of foreign exchange rate changes		–	(669,208)	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		–	10,256,074	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		10,256,074	11,749,612	–

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

Park Wealth was incorporated as a BVI Business Company in the BVI and acts as an investment holding company. The principal activities of its subsidiaries are water purification service, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system. The address of the registered office of Park Wealth is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and the principal place of business is unit 2302, 23/F, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong.

The functional currency of Park Wealth was Hong Kong dollars ("HKD") during the period from 23 May 2007 (date of incorporation) to 31 December 2007 and the Company was inactive during that period. Since the acquisition of Shanghai Comfort in March 2008, the functional currency of Park Wealth is changed to Renminbi ("RMB") as the Park Wealth Group's operation is mainly in the PRC. The Financial Information is presented in RMB for the Relevant Periods, including the period from 23 May 2007 (date of incorporation) to 31 December 2007, as the directors of the Company consider that RMB is preferable in presenting the operating result and financial position of Park Wealth for that period.

The Financial Information has been prepared on a going concern basis notwithstanding the fact that the Park Wealth Group had net current liabilities and net liabilities of RMB59,026,600 and RMB2,005,345, respectively, at 31 August 2008. Subsequent to 31 August 2008, a wholly owned subsidiary of the Company, Successtime Limited, has advanced HK$80 million to Park Wealth. In the event of unsuccessful completion of the acquisition of Park Wealth by Successtime Limited, a wholly owned subsidiary of the Company, the existing shareholders of Park Wealth have agreed to provide adequate funds and Successtime Limited will seek to extend the HK$80 million facility to enable the Park Wealth Group to meet in full its financial obligations as they fall due for the foreseeable future.

In the event of the successful completion of the acquisition of Park Wealth by Successtime Limited, the Company will provide the financial support to the Park Wealth Group to enable it to meet its financial obligation as they fall due for the foreseeable future.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "New HKFRSs") which are effective for the Park Wealth Group's financial year beginning on 1 January 2008. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Park Wealth Group has consistently adopted all these New HKFRSs throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective. The Park Wealth Group has not early applied these standards, amendments or interpretations.

HKFRSs (Amendments)	Improvements to HKFRSs [1]
Hong Kong Accounting Standard ("HKAS") 1 (Revised)	Presentation of Financial Statements [2]
HKAS 23 (Revised)	Borrowing Costs [2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [2]
HKAS 39 (Amendment)	Eligible Hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [2]
HKFRS 3 (Revised)	Business Combinations [3]
HKFRS 8	Operating Segments [2]
HK(IFRIC) – INT 13	Customer Loyalty Programmes [4]
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate [2]
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation [5]
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners [3]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 July 2009.

[4] Effective for annual periods beginning on or after 1 July 2008.

[5] Effective for annual periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of Park Wealth anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and the financial position of the Park Wealth Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporates the financial statements of Park Wealth and entities controlled by Park Wealth (its subsidiaries). Control is achieved where Park Wealth has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Park Wealth Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Park Wealth Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Park Wealth Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Interest in a subsidiary

Interest in a subsidiary is included in the Park Wealth's balance sheet at cost less any identified impairment loss.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Park Wealth Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested from impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business net of discounts.

Revenue from sales of air purification and water purification machines are recognised when goods are delivered and title has passed.

Income from water purification service is recognised when the services are rendered and is based on the expected consumption volume of customer.

Contract revenue is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year/period. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than assets under installation are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than assets under installation over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Assets under installation include property, plant and equipment in the course of construction for production or for its own use purposes. Assets under installation are carried at cost less any recognised impairment loss. Assets under installation are transferred to the appropriate category of property, plant and equipment when completed and ready for their intended use. Depreciation of these assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Park Wealth Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Impairment losses – other than goodwill

At each balance sheet date, the Park Wealth Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised in the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by reference to the value of work carried out during the year/period to the estimated total costs for the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable, contract costs are recognised as expense in the period in which they are incurred.

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Park Wealth Group's and Park Wealth's financial assets are mainly classified as loans and receivables.

Effective interest method

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

Income is recognised on an effective interest basis.

Loans and receivables

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

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Park Wealth Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, it is written off against the allowance account.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Park Wealth Group and Park Wealth are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Park Wealth Group and Park Wealth after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Trade and other payables, amounts due to a shareholder and a related party, and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Park Wealth Group has transferred substantially all the risks and rewards of the ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum received is recognised in profit or loss. If Park Wealth Group retains substantially all the risks and rewards of ownership of a transferred financial asset, Park Wealth Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable including other liabilities assumed is recognised in profit or loss.

Provisions

Provisions are recognised when the Park Wealth Group has a present obligation as a result of a past event, and it is probable that the Park Wealth Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise.

Retirement benefits costs

Payments to state-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Park Wealth Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Park Wealth Group's and Park Wealth's accounting policies, which are described in note 3, the management has made various estimates factors about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. 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.

The following are 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.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Park Wealth Group is based on the evaluation of collectability and aging analysis of trade receivables and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. When there is objective evidence of impairment loss, the Park Wealth Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Revenue recognition of construction contracts

Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total costs. Accordingly, any changes to the estimated total cost may have material impact on the contract revenue recognised in each accounting period over the contract term.

Revenue recognition of direct drinking water purification service

Revenue from direct drinking water purification service is recognised based on the expected level of consumption volume while having taking into account of the purchase frequency of the recharge cards, which customers purchase for operation of the direct water drinking machines, by each individual customer. Accordingly, any changes to the estimated consumption volume may have material impact on the service income recognised in each accounting period.

Provision

Provision has been made for additional costs to repair or replace defective goods, such as labour (whether internal or external) and material costs, and cost that might not be recovered from customers for rework. The provision requires management to estimate the extent of repairment and replacements with reference to historical warranty trends and may vary as a result of new materials and altered manufacturing proceeds. Any of these factors may affect the extent of the repairment or replacement required and therefore the ultimate repair and replacement costs to be incurred in the future period.

5. CAPITAL RISK MANAGEMENT

The Park Wealth Group manages its capital to ensure that entities in the Park Wealth Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Park Wealth Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Park Wealth Group consists of debt, which includes amount due to a shareholder disclosed in note 22, amount due to a relate party disclosed in note 23, borrowings disclosed in note 24, cash and cash equivalents disclosed in note 20, and equity attributable to equity holders of Park Wealth, comprising issued capital and reserves.

The capital structure of Park Wealth consists of debt, which includes amount due to a shareholder disclosed in note 22 and borrowing disclosed in note 24, cash and cash equivalents disclosed in note 20, and equity attributable to equity holders of Park Wealth, comprising issued capital and reserves.

The directors of Park Wealth review the capital structure periodically. As a part of this review, the corporate finance department reviews the planned projects proposed by engineering department and prepares the annual budget taking into account of the provision of funding. The directors of Park Wealth then assess the annual budget and consider the cost of capital and the risks associated with each class of capital. The directors of Park Wealth also balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	PARK WEALTH GROUP AND PARK WEALTH At 31 December 2007 *RMB*	PARK WEALTH GROUP At 31 August 2008 *RMB*	PARK WEALTH At 31 August 2008 *RMB*
Financial assets			
Loans and receivables (including cash and cash equivalents)	10,256,074	31,158,385	436,746
Financial liabilities			
Amortised cost	10,103,110	76,754,708	6,162,313

(b) Financial risk management objectives and policies

The Park Wealth Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amounts due to a shareholder and a related party and borrowings. Park Wealth's major financial instruments include bank balances and cash, other payables, amount due to a shareholder and borrowing. Details of these financial instruments are disclosed in respective notes.

The management monitors and manages the financial risks relating to the operations of the Park Wealth Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including currency risks and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Foreign currency risk management

The Park Wealth Group and Park Wealth have bank balances, amount due to a shareholder and borrowing denominated in foreign currencies, which expose the Park Wealth Group to foreign currency risk.

The carrying amount of the Park Wealth Group and Park Wealth's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follow:

	PARK WEALTH GROUP AND PARK WEALTH At 31 December 2007 *RMB*	PARK WEALTH GROUP At 31 August 2008 *RMB*	PARK WEALTH At 31 August 2008 *RMB*
Assets			
HKD	N/A	2,362,407	436,746
Liabilities			
HKD	N/A	6,162,313	6,162,313

The Park Wealth Group currently does not enter into any derivative contracts to minimise the currency risk exposure. However, the management will consider hedging significant currency risk should the need arise.

Sensitivity analysis

The Park Wealth Group and Park Wealth mainly expose to the effects of fluctuation in HKD.

The following table details the Park Wealth Group and Park Wealth's sensitivity to a 5% increase and decrease in the RMB against HKD. 5% is the sensitivity rate used in management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding HKD denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive (negative) number indicates a decrease (increase) in loss for the period or an increase (decrease) in profit for the period where the RMB strengthens against HKD. For a 5% weakening of the RMB, there would be an equal and opposite impact on the loss for the period.

	PARK WEALTH GROUP AND PARK WEALTH 23 May 2007 (date of incorporation) to 31 December 2007 *RMB*	PARK WEALTH GROUP 1 January 2008 to 31 August 2008 *RMB*	PARK WEALTH 1 January 2008 to 31 August 2008 *RMB*
HKD			
Decrease in loss for the period or increase in profit for the period	–	189,995	286,278

(d) Interest rate risk management

The Park Wealth Group and Park Wealth are exposed to cash flow interest rate risk due to fluctuation of prevailing market interest rate on bank balances (see note 20).

The Park Wealth Group and Park Wealth are also exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 24).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the above-mentioned non-derivative instruments at the balance sheet date. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the respective balance sheet dates, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Park Wealth Group's profit for the period from 23 May 2007 (date of incorporation) to 31 December 2007 would increase/decrease by approximately RMB51,280 while loss for the eight months ended 31 August 2008 would decrease/increase by approximately RMB58,748.

(e) Credit risk management

As at each balance sheet date, the Park Wealth Group's maximum exposure to credit risk which will cause a financial loss to the Park Wealth Group due to failure to discharge an obligation by the counterparties provided by the Park Wealth Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the Park Wealth Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Park Wealth Group reviews the recoverable amount of each individual trade debt at balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Park Wealth consider that the Park Wealth Group's credit risk is significantly reduced.

The Park Wealth Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers.

The Park Wealth Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC and Hong Kong.

Park Wealth's principal financial asset is bank balances, which represent Park Wealth's maximum exposure to credit risk in relation to financial asset. The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit standing.

(f) Liquidity risk management

The Park Wealth Group had net current liabilities and net liabilities of RMB59,026,600 and RMB2,005,345, respectively, at 31 August 2008. The Park Wealth Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

To manage the liquidity risk, the Park Wealth Group has obtained financial supports (as described in note 1 to the Financial Information) to meet its financial obligations as and when they arise and to continue its operations in the foreseeable future.

The following table details the Park Wealth Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Park Wealth Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity table

PARK WEALTH GROUP

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount at balance sheet date
	%	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
As at 31 August 2008						
Non-derivative financial liabilities						
Trade and other payables	–	11,553,066	5,396,637	4,451,123	21,400,826	21,400,826
Amount due to a related party	–	26,896,782	–	–	26,896,782	26,896,782
Borrowings	9.6	–	14,417,134	15,926,250	30,343,384	28,457,100
		38,449,848	19,813,771	20,377,373	78,640,992	76,754,708
As at 31 December 2007						
Non-derivative financial liabilities						
Trade and other payables	–	37,671	–	–	37,671	37,671
Amount due to a shareholder	–	10,065,439	–	–	10,065,439	10,065,439
		10,103,110	–	–	10,103,110	10,103,110

PARK WEALTH

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount at balance sheet date
As at 31 August 2008						
Non-derivative financial liabilities						
Other payables	–	35,213	–	–	35,213	35,213
Borrowing	9.6	–	6,225,134	–	6,225,134	6,127,100
		35,213	6,225,134	–	6,260,347	6,162,313
As at 31 December 2007						
Non-derivative financial liabilities						
Other payables	–	37,671	–	–	37,671	37,671
Amount due to a shareholder	–	10,065,439	–	–	10,065,439	10,065,439
		10,103,110	–	–	10,103,110	10,103,110

(g) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

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

7. REVENUE AND SEGMENT INFORMATION

	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008	23 May 2007 (date of incorporation) to 31 August 2007
	RMB	*RMB*	*RMB* *(unaudited)*
Rendering of services	–	9,290,726	–
Sales of goods	–	4,809,210	–
Contract revenue	–	9,250,982	–
	–	23,350,918	–

Park Wealth was inactive for the period from 23 May 2007 (date of incorporation) to 31 December 2007. For the eight months ended 31 August 2008, the Park Wealth Group is principally engaged in water purification service, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system in the PRC. These divisions are the basis on which the Park Wealth Group reports its primary segment information.

Principal activities are as follows:

Direct drinking water – Water purification service

Purification equipment – Manufacturing and sales of air purification and water purification equipments

Environmental engineering – Construction and installation of air purification and sewage treatment system

The segment information about these business segments is presented below.

Revenue and results

For the eight months ended 31 August 2008

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Elimination *RMB*	Total *RMB*
REVENUE					
External sales	9,290,726	4,809,210	9,250,982	–	23,350,918
Inter-segment sales	–	19,845,620	–	(19,845,620)	–
Total	9,290,726	24,654,830	9,250,982	(19,845,620)	23,350,918
RESULT					
Segment result	1,236,679	(1,178,242)	1,493,279	(1,499,687)	52,029
Unallocated income					160,834
Unallocated corporate expenses					(8,753,989)
Loss before tax					(8,541,126)
Income tax expense					(138,496)
Loss for the period					(8,679,622)

Balance sheet

At 31 August 2008

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Total *RMB*
ASSETS				
Segment assets	52,191,625	26,578,915	14,673,827	93,444,367
Unallocated corporate assets				11,749,612
Total assets				105,193,979
LIABILITIES				
Segment liabilities	10,570,820	23,298,912	17,802,001	51,671,733
Unallocated corporate liabilities				55,527,591
Total liabilities				107,199,324

Other information

For the eight months ended 31 August 2008

	Direct drinking water	Purification equipment	Environmental engineering	Total
	RMB	*RMB*	*RMB*	*RMB*
Capital additions	30,530,645	11,351,320	–	41,881,965
Goodwill	18,446,184	–	–	18,446,184
Depreciation of property, plant and equipment	601,190	578,936	–	1,180,126
Gain on disposal of property, plant and equipment	(267,936)	–	–	(267,936)
Allowance for obsolete and slow-moving inventories	–	186,518	–	186,518
Allowance on bad and doubtful debts	221,117	1,934,862	–	2,155,979

As all the revenue and operating results of the Park Wealth Group for the period ended 31 August 2008 are derived in the PRC, an analysis of revenue and operating results of the Park Wealth Group by geographical location is not presented.

All significant identifiable assets and liabilities of the Park Wealth Group are located in the PRC. Accordingly, no geographical segmental analysis is presented.

For the period from 23 May 2007 (date of incorporation) to 31 December 2007. Park Wealth was inactive with all significant identifiable assets and liabilities located in Hong Kong, no segment analysis is therefore presented.

8. OTHER INCOME

	PARK WEALTH GROUP		
	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008	23 May 2007 (date of incorporation) to 31 August 2007
	RMB	*RMB*	*RMB* *(unaudited)*
Bank interest income	187,630	5,914	–
Gain on disposal of property, plant and equipment	–	267,936	–
Sales of scrap materials	–	46,876	–
Exchange gain	–	154,920	–
	187,630	475,646	–

9. FINANCE COSTS

	PARK WEALTH GROUP		
	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008	23 May 2007 (date of incorporation) to 31 August 2007
	RMB	*RMB*	*RMB* *(unaudited)*
Interests on borrowings	–	614,979	–

10. PROFIT (LOSS) BEFORE TAX

	PARK WEALTH GROUP		
	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008	23 May 2007 (date of incorporation) to 31 August 2007
	RMB	*RMB*	*RMB* *(unaudited)*
Profit (loss) before tax has been arrived at after charging (crediting):			
Staff costs including director's emoluments	–	8,397,747	–
Retirement benefit scheme contributions	–	472,085	–
Total staff costs	–	8,869,832	–
Auditor's remuneration	–	–	–
Depreciation of property, plant and equipment	–	1,180,126	–
Cost of inventories recognised as expenses	–	3,204,312	–
Cost of contract cost recognised as expenses	–	7,111,849	–
Allowance for obsolete and slow-moving inventories	–	186,518	–
Allowance on bad and doubtful debts	–	2,155,979	–
Net exchange loss (gain)	3,108	(154,920)	–

11. INCOME TAX EXPENSE

	PARK WEALTH GROUP		
	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008	23 May 2007 (date of incorporation) to 31 August 2007
	RMB	*RMB*	*RMB* *(unaudited)*
The tax expense comprises:			
PRC current tax	–	138,496	–

No provision for Hong Kong Profits Tax has been made in the Financial Information as the income of the Park Wealth Group neither arise in nor is derived from Hong Kong.

Profit tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

Shanghai Comfort is established in Shanghai Pudong New Area, which is subject to PRC income tax at a concessionary rate of 15% for the period from 23 September 2005 (date of establishment) to 31 December 2007. During 2008, Shanghai Comfort is regarded as advanced technology enterprises by local tax bureau and is entitled to PRC income tax at concessionary rate of 15% from year 2008 to 2010.

Pursuant to the new PRC Enterprise Income Tax Law promulgated on 16 March 2007, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for all subsidiaries except Shanghai Comfort from 1 January 2008 onwards.

At the balance sheet date, the Park Wealth Group has the following unused tax losses that can be carried forward to future year. Their respective expiration years are as follows:

	PARK WEALTH GROUP		
Expiry year	**At 31 December 2007**	**At 31 August 2008**	**At 31 August 2007**
	RMB	*RMB*	*RMB* *(unaudited)*
2010	–	347,084	–
2011	–	3,189,375	–
2012	–	9,993,722	–
2013	–	8,419,749	–
	–	21,949,930	–

No deferred tax asset has been recognised in respect of unused tax losses available for offset against future profits due to unpredictability of future profit streams.

The Park Wealth Group did not have any other significant unprovided deferred taxation arising during the Relevant Periods or at the balance sheet date.

The income tax expense for the Relevant Periods can be reconciled to the profit (loss) before tax per consolidated income statements as follows:

	PARK WEALTH GROUP		
	23 May 2007 (date of incorporation) to 31 December 2007	**1 January 2008 to 31 August 2008**	**23 May 2007 (date of incorporation) to 31 August 2007**
	RMB	*RMB*	*RMB* *(unaudited)*
Profit (loss) before tax	145,399	(8,541,126)	(39,019)
Tax at applicable income tax rate *(Note)*	25,445	(2,135,282)	(6,828)
Tax effect of income not taxable for tax purposes	(32,835)	(37,843)	–
Tax effect of expenses not deductible for tax purposes	7,390	901,842	6,828
Tax effect of tax losses not recognised	–	1,409,779	–
Income tax expense for the period	–	138,496	–

Note: Park Wealth was inactive with most of the assets and liabilities located in Hong Kong before the acquisition of Shanghai Comfort. The applicable tax rate is therefore 17.5%, which is the Hong Kong Profits tax rate. After the acquisition of Shanghai Comfort in March 2008, majority of the Park Wealth Group's business is in the PRC so that the applicable tax rate has changed from 17.5% to 25%.

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Director's emoluments

During the Relevant Periods, no amounts were paid in respect of director's emoluments.

(b) Employee's emoluments

The emoluments of the five highest paid individuals were as follows:

	PARK WEALTH GROUP		
	23 May 2007 (date of incorporation) to 31 December 2007	**1 January 2008 to 31 August 2008**	**23 May 2007 (date of incorporation) to 31 August 2007**
	RMB	*RMB*	*RMB* *(unaudited)*
Salaries and other benefits	–	186,022	–
Contributions to retirement benefits scheme	–	7,704	–
	–	193,726	–

The emoluments of each of five highest paid individuals were below HK$1,000,000 for the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Park Wealth Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Park Wealth Group or as compensation for loss of office. None of the directors waived any remuneration during the Relevant Periods.

13. EARNINGS PER SHARE

Earnings per share of the Park Wealth Group are not presented herein as such information is not considered meaningful in the context of this report.

14. PROPERTY, PLANT AND EQUIPMENT

PARK WEALTH GROUP

	Equipment and machinery	**Furniture and fixtures**	**Motor vehicles**	**Assets under installation**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
COST					
At incorporation, 31 December 2007 and 1 January 2008	–	–	–	–	–
Arising on acquisition of business *(note 28)*	10,288,337	1,593,886	773,330	3,424,763	16,080,316
Additions	8,087,078	239,186	–	17,475,385	25,801,649
Disposals	(1,118,700)	–	–	–	(1,118,700)
Reclassification	19,862,600	–	–	(19,862,600)	–
At 31 August 2008	37,119,315	1,833,072	773,330	1,037,548	40,763,265
DEPRECIATION					
At incorporation, 31 December 2007 and 1 January 2008	–	–	–	–	–
Provided for the period	900,056	188,577	91,493	–	1,180,126
Eliminated on disposals	(4,179)	–	–	–	(4,179)
At 31 August 2008	895,877	188,577	91,493	–	1,175,947
CARRYING VALUES					
At 31 December 2007	–	–	–	–	–
At 31 August 2008	36,223,438	1,644,495	681,837	1,037,548	39,587,318

The above property, plant and equipment, other than assets under installation, are depreciated on a straight-line basis after taking into account their estimated residual values at the following rates per annum:

Equipment and machinery	9.5%
Furniture and fixtures	19%
Motor vehicles	19%

15. GOODWILL

	PARK WEALTH GROUP
	RMB
COST	
Arising on acquisition of business and balance at 31 August 2008 *(note 28)*	18,446,184

On 17 March 2008, the Park Wealth Group acquired 100% equity interest in Shanghai Comfort Group from independent third parties resulting a goodwill amounted to RMB16,721,129.

On 30 April 2008, the Park Wealth Group acquired 100% equity interest in Shenzhen Comfort from independent third parties resulting a goodwill amounted to RMB1,725,055.

The Park Wealth Group uses business segment as its primary segment for reporting segment information. Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill at the balance sheet date is as follow:

	At 31 August 2008
	RMB
Direct drinking water segment	18,446,184

The goodwill is allocated to four subsidiaries which are engaged in the direct drinking water business and the recoverable amount of these CGUs have been determined based on a value in use calculation. For goodwill impairment assessment, calculation uses the estimation of the cash flow projections based on financial budgets approved by management covering a 2-year period and extrapolate the budgets using a zero growth rate for the subsequent 2 years, and a discount rate of approximately 11%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

16. INTEREST IN A SUBSIDIARY

	PARK WEALTH At 31 August 2008 *RMB*
Unlisted equity investment, at cost	12,550,300

17. INVENTORIES

	PARK WEALTH GROUP	
	At 31 December 2007 *RMB*	At 31 August 2008 *RMB*
Raw materials	–	6,290,407
Work-in-progress	–	1,689,064
Finished goods	–	84,815
	–	8,064,286

18. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	PARK WEALTH GROUP	
	At 31 December 2007 *RMB*	At 31 August 2008 *RMB*
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profit less recognised losses	–	13,946,928
Less: Progress billings	–	(23,536,580)
	–	(9,589,652)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	–	1,506,971
Amounts due to customers for contract work	–	(11,096,623)
	–	(9,589,652)

At 31 August 2008, there were no retention monies held by customers for contract work performed. At 31 August 2008, advances received from customers for contract work amounted to RMB2,406,540 which were included in trade and other payables.

19. TRADE AND OTHER RECEIVABLES

	PARK WEALTH GROUP	
	At 31 December 2007 *RMB*	At 31 August 2008 *RMB*
Trade receivables	–	18,694,385
Advances to suppliers	–	5,977,236
Other receivables	–	714,388
Prepayments and deposits	–	453,599
	–	25,839,608

The following is an aged analysis of trade receivables of the Park Wealth Group net of allowance for doubtful debts at the balance sheet date:

	PARK WEALTH GROUP	
	At 31 December 2007 *RMB*	At 31 August 2008 *RMB*
0 to 30 days	–	8,448,462
31 to 90 days	–	3,366,203
91 to 180 days	–	3,933,400
181 to 365 days	–	2,824,816
Over 1 year	–	121,504
	–	18,694,385

Other than cash sales, the Park Wealth Group generally allows an average credit period of 30 days to 180 days to its trade customers.

Before accepting any new customer, the Park Wealth Group has assessed the potential customer's credit quality and defined credit rating limits of each customers. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Park Wealth Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

At 31 August 2008, included in the Park Wealth Group's trade receivables balance are debtors with aggregate carrying amount of RMB2,946,320 which are past due for which the Park Wealth Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Park Wealth Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	PARK WEALTH GROUP	
	At 31 December 2007	At 31 August 2008
	RMB	*RMB*
181 to 365 days	–	2,824,816
Over 1 year	–	121,504
	–	2,946,320

Movement in the allowance for doubtful debts in respect of trade and other receivables

	PARK WEALTH GROUP	
	23 May 2007 (date of incorporation) to 31 December 2007	1 January 2008 to 31 August 2008
	RMB	*RMB*
Balance at beginning of the period	–	–
Impairment losses recognised on trade and other receivables	–	2,155,979
Balance at end of the period	–	2,155,979

At 31 August 2008, included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB2,155,979, the debtors of which have been in severe financial difficulties or the balance is in dispute.

20. BANK BALANCES AND CASH

PARK WEALTH GROUP

The Park Wealth Group's bank balances carry interest rates range from 1% to 1.25% and 0.72% to 1.25% per annum, at 31 December 2007 and 31 August 2008, respectively.

At 31 December 2007 and 31 August 2008, bank balances denominated in HKD amounted to RMB10,256,074 and RMB2,362,407, respectively.

PARK WEALTH

Park Wealth's bank balances carry interest rates range from 1% to 1.25% per annum at 31 December 2007 and 31 August 2008, respectively.

At 31 December 2007 and 31 August 2008, bank balances denominated in HKD amounted to RMB10,256,074 and RMB436,746, respectively.

21. TRADE AND OTHER PAYABLES

	PARK WEALTH GROUP AND PARK WEALTH At 31 December 2007 *RMB*	PARK WEALTH GROUP At 31 August 2008 *RMB*	PARK WEALTH At 31 August 2008 *RMB*
Trade payables	–	16,461,616	–
Bills payable	–	1,455,480	–
Other payables	37,671	386,038	35,213
Other tax payables	–	2,535,340	–
Payroll payable	–	1,634,713	–
Interest payable	–	1,462,979	–
Receipt in advance from customers	–	3,861,836	–
Accruals	–	875,595	–
	37,671	28,673,597	35,213

Trade payables principally comprise amounts outstanding for purchase of raw materials and ongoing expenses. The average credit period for purchase of raw materials ranged from 30 days to 180 days.

The following is an aged analysis of trade payables at the balance sheet date:

	PARK WEALTH GROUP AND PARK WEALTH At 31 December 2007 *RMB*	PARK WEALTH GROUP At 31 August 2008 *RMB*	PARK WEALTH At 31 August 2008 *RMB*
Age:			
0 to 30 days	–	10,700,582	–
31 to 90 days	–	3,179,417	–
91 to 180 days	–	1,878,244	–
181 to 365 days	–	534,263	–
Over 1 year	–	169,110	–
	–	16,461,616	–

22. AMOUNT DUE TO A SHAREHOLDER

	PARK WEALTH GROUP AND PARK WEALTH	
	At 31 December 2007	**At 31 August 2008**
	RMB	*RMB*
Jorge Ernesto De Almeida	10,065,439	–

At 31 December 2007, the amount was denominated in HKD.

The amount was interest free, unsecured and was fully settled during the period ended 31 August 2008.

23. AMOUNT DUE TO A RELATED PARTY

	PARK WEALTH GROUP	
	At 31 December 2007	**At 31 August 2008**
	RMB	*RMB*
Xiao Shu（肖述）	–	26,896,782

Xiao Shu is a director of Shanghai Comfort.

The amount is interest free, unsecured and repayable on demand.

24. BORROWINGS

PARK WEALTH GROUP

The amounts represent unsecured fixed-rate loans from three independent third parties with maturity periods not exceeding one year. RMB6,127,100 of the borrowings was denominated in HKD. The fixed rate loans is unsecured and interest bearing at 9.6% per annum.

PARK WEALTH

The amount represents unsecured fixed-rate loan from an independent third party with maturity periods not exceeding one year and denominated in HKD. The fixed rate loan is unsecured and interest bearing at 9.6% per annum.

25. WARRANTY PROVISION

	PARK WEALTH GROUP
	RMB
At 23 May 2007 (date of incorporation), 31 December 2007 and 1 January 2008	–
Acquisition of business *(note 28)*	436,332
Provided for the period	595,422
Amount utilised	(136,255)
At 31 August 2008	895,499

The provision for warranty claims represents the director's best estimate of the future outflow of economic benefits that will be required under the Park Wealth Group's warranty program for sales of air pacification and water purification equipments, construction and installation of air purification and sewage treatment system for two to three years. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials and altered manufacturing processes.

26. DEFERRED INCOME

Deferred income represented the amount received in respect of water purification service.

The deferred income is released to the consolidated income statement when the services are rendered. Movements of deferred income during the Relevant Periods are as follows:

	PARK WEALTH GROUP
	RMB
At 23 May 2007 (date of incorporation), 31 December 2007 and 1 January 2008	–
Acquisition of business *(note 28)*	210,886
Additions	20,121,067
Realised to consolidated income statement	(9,290,726)
At 31 August 2008	11,041,227
Analysed for reporting purposes as:	
Current portion	10,028,980
Non-current portion	1,012,247
	11,041,227

27. SHARE CAPITAL

	PARK WEALTH		
	Number of shares	**Amount**	**Equivalent to**
		US$	*RMB*
Ordinary shares of US$1 each			
Authorised:			
At 23 May 2007 (date of incorporation), 31 December 2007 and 31 August 2008	1,000	1,000	7,565
Issued and fully paid:			
On incorporation	–	–	–
Issue of shares	1,000	1,000	7,565
At 31 December 2007 and 31 August 2008	1,000	1,000	7,565

Park Wealth was incorporated on 23 May 2007 with an authorised share capital of US$1,000 divided into 1,000 share of US$1 each. On 31 August 2007, Park Wealth issued 1,000 shares of US$1 each for cash at par, to provide the initial working capital for Park Wealth.

28. ACQUISITION OF BUSINESS

(a) On 17 March 2008, Park Wealth acquired 100% equity interests in Shanghai Comfort Group from independent third parties at a consideration of RMB5,526,300. This acquisition has been accounted for using the purchase method. The goodwill arising on acquisition, calculated based on provisional fair value of assets acquired and liabilities assumed, was RMB16,721,129. The initial accounting for the acquisition of the Shanghai Comfort Group has been determined provisionally, subject to further assessment of the fair value of intangible assets. Hence, goodwill, intangible assets and deferred taxation may be subject to further changes upon finalisation of the initial accounting.

The net liabilities of the Shanghai Comfort Group at the date of acquisition are as follows:

	Provisional fair value
	RMB
Net liabilities acquired	
Property, plant and equipment	13,598,703
Prepayment for acquisition of a subsidiary	1,000,000
Inventories	5,157,154
Amounts due from customers for contract work	1,269,212
Trade and other receivables	13,118,021
Amount due from a shareholder	137,471
Bank balances and cash	1,255,346
Amounts due to customers for contract work	(5,156,664)
Trade and other payables	(15,128,047)
Amount due to a director	(17,863,253)
Borrowings	(8,000,000)
Warranty provision	(436,332)
Deferred income	(146,440)
	(11,194,829)
Goodwill	16,721,129
Total consideration satisfied by Cash	5,526,300
Net cash outflow arising on acquisition	
Cash consideration paid	(5,526,300)
Bank balances and cash acquired	1,255,346
	(4,270,954)

The consideration paid for the combination included amounts in relation to benefits of expected synergies, revenue growth and future market development of the Shanghai Comfort Group. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

The financial information of the Shanghai Comfort Group for the period from 23 September 2005 (date of establishment) to 31 December 2005, each of the two years ended 31 December 2006 and 2007 and the period from 1 January 2008 to 17 March 2008 is set out in Appendix III of the Circular.

The Shanghai Comfort Group contributed approximately RMB 9,185,000 to the Park Wealth Group's loss for the period between the date of acquisition and the balance sheet date. Had the acquisition been completed on 1 January 2008, total group revenue for the eight months ended 31 August 2008 would be increased by approximately RMB2,020,000 and loss for the eight months ended 31 August 2008 would be increased by approximately RMB3,380,000.

The above pro forma information on Park Wealth Group's revenue and result is for illustrative purposes only and is not necessarily indication of revenue and results of operations of the Park Wealth Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

(b) On 30 April 2008 Shanghai Comfort acquired 100% equity interests in Shenzhen Comfort from independent third parties at a consideration of RMB1,000,000. This acquisition has been accounted for using the purchase method. The goodwill arising on acquisition was RMB1,725,055.

The net liabilities of Shenzhen Comfort at the date of acquisition date are as follows:

	Fair value
	RMB
Net liabilities acquired	
Property, plant and equipment	2,481,613
Inventories	12,935
Trade and other receivables	214,779
Bank balances and cash	79,832
Trade and other payables	(3,449,768)
Deferred income	(64,446)
	(725,055)
Goodwill	1,725,055
Total consideration satisfied by Cash	1,000,000
Net cash outflow arising on acquisition	
Cash consideration paid	(1,000,000)
Bank balances and cash acquired	79,832
	(920,168)

The consideration paid for the combination included amounts in relation to the benefits of expected synergies, revenue growth and future market development of Shenzhen Comfort. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Shenzhen Comfort contributed approximately RMB355,000 to the Park Wealth Group's loss for the period between the date of acquisition and the balance sheet date. Had the acquisition been completed on 1 January 2008, total group revenue for the eight months ended 31 August 2008 would be increased by approximately RMB100,000 and loss for the eight months ended 31 August 2008 would be increased by approximately RMB1,252,000.

The above pro forma information on Park Wealth Group's revenue and result is for illustrative purposes only and is not necessarily indication of revenue and results of operations of the Park Wealth Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

29. OPERATING LEASE COMMITMENTS

Park Wealth Group as lessee

	23 May 2007 (date of incorporation) to 31 December 2007	**1 January 2008 to 31 August 2008**	**23 May 2007 (date of incorporation) to 31 August 2007**
	RMB	*RMB*	*RMB*
			(unaudited)
Minimum lease payment under operating lease during the period	–	1,556,694	–

At the respective balance sheet dates, the Park Wealth Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	PARK WEALTH GROUP	
	At 31 December 2007	**At 31 August 2008**
	RMB	*RMB*
Within one year	–	2,886,528
In the second to the fifth year inclusive	–	2,110,899
	–	4,997,427

Operating lease payments represent rentals payable by the Park Wealth Group for certain offices premises and factories. Leases are negotiated for a term of 1 to 5 years with fixed rentals.

30. CAPITAL COMMITMENTS

	PARK WEALTH GROUP	
	At 31 December 2007	**At 31 August 2008**
	RMB	*RMB*
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment	–	1,669,805

31. OTHER COMMITMENTS

	PARK WEALTH	
	At 31 December 2007	**At 31 August 2008**
	RMB	*RMB*
Commitment in respect of acquisition of a subsidiary contracted for but not provided in the Financial Information	5,526,300	–
Commitment in respect of injection of additional paid-in capital to Shanghai Comfort contracted for but not provided in the Financial Information	–	28,969,440

32. RETIREMENT BENEFITS PLANS

The employees working in the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Park Wealth Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

33. RELATED PARTY DISCLOSURES

(1) Transactions between Park Wealth and its subsidiaries, which are related parties of Park Wealth have been eliminated on consolidation and are not disclosed in this note. Balances and other arrangements with related parties are set out in balance sheets and in notes 22 and 23.

(2) Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods were as follows:

	PARK WEALTH GROUP		
	23 May 2007 (date of incorporation) to 31 December 2007	**1 January 2008 to 31 August 2008**	**23 May 2007 (date of incorporation) to 31 August 2007**
	RMB	*RMB*	*RMB* *(unaudited)*
Short-term benefit	–	390,477	–
Post-employment benefit	–	26,964	–
	–	417,441	–

II. Subsequent Events

The following significant event took place subsequent to 31 August 2008:

Suceesstime Limited, a wholly owned subsidiary of the Company, entered into a loan agreement dated 11 October 2008 with Park Wealth and agreed to provide the facility in an aggregate principal amount of up to HK$80,000,000 to Park Wealth and which was subsequently drawn down during October 2008. The facility bears interest at the prime rate for HK$ quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time and is secured by (i) the guarantee executed by Mr. Jorge Ernesto De Almeida, Mr. Yang Zhuoyu and Mr. Wong Kin San, being the ultimate beneficial owners of Teamwon Limited, Sureguide Limited, and Sure Achieve Limited, respectively, in favour of Successtime Limited; and (ii) a share charge executed by Teamwon Limited, Sureguide Limited and Sure Achieve Limited over the 1,000 shares of US$1.00 each in the share capital of Park Wealth in favour of Successtime Limited.

III. Subsequent Financial Statements

No audited financial statements of Park Wealth or any of its subsidiaries have been prepared in respect of any financial period subsequent to 31 August 2008.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PARK WEALTH GROUP

Park Wealth is an investment holding company incorporated in the British Virgin Islands with limited liability on 23 May 2007. In March 2008, Park Wealth acquired the entire equity interest of the Shanghai Comfort Group. Shanghai Comfort is a company established under the laws of the PRC. The business of the Shanghai Comfort Group comprises three divisions: the terminal water treatment department, the air purification department and the water engineering department. The terminal water treatment department produces water drinking machines with purification system for use in households, offices, factories, large food and beverage chain stores, gas station, government bodies, schools and hospitals. The purification system not only purifies tap water and filters all harmful substances, but also improves the water quality by using an air-water mixing technology which helps to enrich the oxygen level in the water by releasing ozone, preventing fresh water from secondary pollutions. The drinking and purification machines manufactured by the Shanghai Comfort Group are installed at the premises of users who pay service charges based on actual usage of purified water. The air purification department produces air filters and sterilizing equipments. At present, most of the air purification equipment manufactured by the Shanghai Comfort Group are sold to and installed at food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. The water engineering department specializes in the area of industrial water use, sewage treatment, family use water treatment and reclaimed water reuse.

Set out in part A of this Appendix is the accountants' report of the Park Wealth Group covering the period from 23 May 2007 (date of incorporation) to 31 December 2007 and the eight months period ended 31 August 2008. As supplemental information, the accountants' report and management discussion and analysis in relation to the Shanghai Comfort Group are set out in Appendix III to this circular which shows the pre-acquisition financial information of the Shanghai Comfort Group covering the period from 23 September 2005 (date of establishment) to 31 December 2005, the years ended 31 December 2006 and 2007, and the period from 1 January 2008 to 17 March 2008. The management discussion and analysis in relation to the Park Wealth Group is set out below:

1. For the period from 23 May 2007 (date of incorporation) to 31 December 2007

(a) Business review

Park Wealth is an investment holding company incorporated in the British Virgin Islands with limited liability on 23 May 2007. In the current period, no investment has been made.

(b) Financial result and financial position

The registered share capital as at 31 December 2007 was US$1,000 (equivalent to approximately RMB7,565) and the net asset value was RMB152,964. The profit for the period was RMB145,399 which was resulted mainly from interest income from bank deposits. The cash and bank balance at 31 December 2007 was RMB10,256,074 which was contributed by shareholder as non-interest bearing short term loan as investment fund of the company. No other loan was outstanding as at 31 December 2007.

(c) Capital structure

The operation of Park Wealth was financed by its internal resources. There was no change in capital structure of Park Wealth during the year. No financial instrument was used for hedging purposes during the period.

On 16 October 2007, a conditional agreement was entered into with上海康福特環保產品科技有限公司 (Shanghai Comfort Environmental Product Technology Company Limited*) and Mr. Chen Xuejun to acquire 100% of the shareholding of Shanghai Comfort with a consideration of RMB5,526,300. Shanghai Comfort is principally engaged in the manufacturing and sale of water purification system and production and installation of air purification and sewage treatment facilities. The acquisition was subject to a number of conditions, including the approval of the relevant authority of the PRC government and the approval of the shareholders of Park Wealth, which were satisfied and completed on 17 March 2008. As a result of this acquisition, a committment of RMB5,526,300 existed as at 31 December 2007. Save as disclosed above, there was no significant investment held, and no material acquisitions or disposals made during the period.

(d) Future Plan and Prospects

Shanghai Comfort is a company established under the laws of the PRC. The business of the Shanghai Comfort Group comprises three divisions: the terminal water treatment department, the air purification department and the water engineering department. The terminal water treatment department produces water drinking machines with purification system for use in households, offices, factories, schools and hospitals. The purification system not only purifies tap water and filters all harmful substances but also improves the water quality by using an air-water mixing technology which helps to enrich the oxygen level in the water by releasing ozone, preventing fresh water from secondary pollutions. The drinking and purification machines manufactured by the Shanghai Comfort Group are installed at the premises of users who pay service charges based on actual usage of purified water. The air purification department produces air filters and sterilizing equipments. At present, most of the air purification equipment manufactured by the Shanghai Comfort Group are sold to and installed at food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. The water engineering department specializes in the area of industrial water use, sewage treatment, family use water treatment and reclaimed water reuse. Shanghai Comfort shall become wholly-owned subsidiary of Park Wealth after the acquisition. The director consider that the growth potential of water and air purification business and the direct drinking water machine market in the PRC are huge. The acquisition will generate a good return to the shareholders.

* *The English name is for identification purpose only.*

(e) Employment and remuneration policy

As Park Wealth was just incorporated on 23 May 2007, there was no employee as at 31 December 2007 except for the director of the company and no staff cost was incurred during the year.

(f) Details of charges on assets

Park Wealth had no charge on its assets as at 31 December 2007.

(g) Borrowings and gearing ratio

As at 31 December 2007, Park Wealth did not have any bank facilities and bank borrowings outstanding. Therefore, the gearing ratio was zero.

Park Wealth did not have any contingent liabilities as at 31 December 2007.

(h) Foreign exchange exposure

As part of the assets and liabilities of Park Wealth are denominated in Hong Kong dollars, in order to minimize the foreign currency risk, Park Wealth aims to utilize the fund for transactions that are denominated in the same currency. There was no exposure to fluctuations in exchange rates and any related hedges.

2. *For the eight months period ended 31 August 2008*

(a) Business review

In 17 March 2008, Park Wealth obtained the approval from the relevant authority of the PRC government and acquired the entire equity interest of Shanghai Comfort with a consideration of RMB5,526,300. Shanghai Comfort was consolidated to Park Wealth after the acquisition to become a member of the Park Wealth Group. There are two major business operations, namely (1) direct drinking water; and (2) air and water purification equipment and system.

– Direct drinking water

In order to develop and capture the market of direct drinking water in PRC, more resources were used to develop different models with variety of size and special functions to match the requirement of different customers. The number of direct drinking water machine installed up to 31 August 2008 was increased significantly by 25,116 units to 30,946 units when compared with 5,830 units in 31 December 2007. Service charges generated from water purification service for the current period was RMB9,290,726. Sales offices and an agency network have been set up in major cities in the PRC including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Suzhou, Fuzhou, Xiamen, Handan, Xian, Liaoning, Tianjin, Shenyang and Dongguan which provide sales and after-sale services for our products. The major target customers are households, offices, factories, large food and beverage chain stores, gas stations, government bodies, school and hospital.

– Air and water purification equipment and system

The Park Wealth Group possesses strong technical knowledge and wins wide recognition in the application of ozone technology in the air and water purification industry, and has obtained orders from various well-known food enterprises for the entire year in the PRC, such as Mengniu, Yili, Bright Dairy, Fuji, Chaoda and Strong Group. It enables Park Wealth Group to successfully secure the contracts with certain authorized food suppliers for the 2008 Beijing Olympic Games to provide the ozone sterilization equipments to purify the food processing factories of these food suppliers. Besides, the Park Wealth Group also secured the contract to provide air purification facilities to the research bases of an aerospace project (「嫦娥奔月計劃」) in the PRC. The revenue resulted from sales and installation of the air and water purification equipment and system for the current period was RMB14,060,192.

(b) Financial result, financial position and capital structure

The turnover of the Park Wealth Group for the current period was RMB23,350,918 which represented mainly the turnover of the Shanghai Comfort Group since its acquisition in March 2008. The turnover comprised service charges generated from water purification service and sales of air and water purification equipment and system. The cost of sales was RMB16,369,874 and the gross profit was RMB6,981,044. A loss of RMB8,679,622 was recorded for the current period, which was mainly due to the deduction of:

(i) selling and distribution expenses in aggregate of RMB7,236,954, which comprised primarily salaries and wages of sales team (RMB3,888,226), transportation costs (RMB639,537), marketing expenses (RMB802,867) and travelling expenses of sales team (RMB401,219);

(ii) administrative expenses in aggregate of RMB8,145,883, which comprised primarily salary of administrative staff (RMB1,990,222), office rental (RMB1,556,694), motor vehicles running expenses (RMB299,775), depreciation (RMB257,494) and bad debt provision (RMB1,813,004); and

(iii) interest expense amounted to RMB614,979 on the unsecured short term borrowings.

As at 31 August 2008, the total assets and liabilities of the Park Wealth Group stood at RMB105,193,979 and RMB107,199,324 respectively. Non-current assets amounted to RMB58,033,502 which comprised mainly production equipment and machinery and the direct drinking machines installed at the premises of the customers and goodwill arisen on the acquisition of the Shanghai Comfort Group. Current assets amounted to RMB47,160,477 which comprised mainly inventory, trade and other receivables and cash and cash equivalents. Total cash and bank balances amounted to RMB11,749,612 and most of which were in Renminbi. Current liabilities amounted to RMB106,187,077 which comprised mainly trade and other payables, amounts due to customers for contract work, amount due to a related party, short term borrowings and deferred income to be recognised within 12 months. Non-current liability amounted to RMB1,012,247 and represented the deferred income to be recognised after 12 months. The net current liabilities as at 31 August 2008 was RMB59,026,600. The Park Wealth Group recorded a shareholders' deficit of RMB2,005,345 as at 31 August 2008.

The Park Wealth Group funded its operations by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the year.

On 30 April 2008, Shanghai Comfort acquired 100% equity interests in Shenzhen Comfort Environmental Protection Technology Development Company Limited from independent third parties at a consideration of RMB1,000,000. A goodwill of RMB1,725,055 was recorded. This subsidiary will take care of the direct drinking water market in Shenzhen. Save as disclosed above, there was no significant investment held, and no material acquisitions or disposals occurred during the year.

After the acquisition of Shanghai Comfort in March 2008, Park Wealth committed to increase the registered capital of Shanghai Comfort from RMB10,000,000 to RMB46,000,000 and HK$8,000,000 (equivalent to RMB7,030,560) was injected to Shanghai Comfort. At 31 August 2008, Park Wealth had a capital commitment of RMB28,969,440 in respect the registered capital of Shanghai Comfort.

The Park Wealth Group had a capital commitment amounting to RMB1,669,805 in respect of acquisition of property, plant and equipment as at 31 August 2008.

(c) Employment and remuneration policy

At 31 August 2008, the number of employees was 729. Total staff costs for the current period were approximately RMB8,869,832. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

With the promulgation of 中華人民共和國食品安全法(草案) (Draft Food Safety Law*) in October 2007 and 節能減排綜合性工作方案 (Comprehensive Working Scheme for Energy Conservation and Reduction of Pollution*) in June 2007, the demand for the installation of air and water purification and sewage treatment equipment and system is expected to remain strong in the coming years.

As the society is becoming increasingly affluent and with the exposure of incidents like the "Sanlu milk scandal" and the contamination of bottled water in the PRC, Chinese residents have become more concerned about the safety of food and beverages. It is expected that the direct drinking water machine will become more popular in the PRC and the Park Wealth will focus and put more resources to develop this business. The Park Wealth also plans to launch more promotion campaign to increase the popularity of our own registered brand name of "Ozone Comfort" (浩澤 • 康福特) in order to capture the market share and target to be the market leader.

To achieve expansion and development, the Park Wealth will try its best to secure international strategic investors to inject funding and share their business vision and international best practices in business strategy, management modules and corporate governance.

(e) Details of charges on assets

The Park Wealth Group had no charge on its assets as at 31 August 2008.

(f) Borrowings and gearing ratio

The total outstanding loans of the Park Wealth Group as at 31 August 2008 was RMB55,353,882 which represented unsecured short-term borrowings with interest accrued at a fixed interest rate and an interest-free amount due to a related party. The Park Wealth Group's gearing ratio, measured by total borrowings to total assets, was 52.6% as at 31 August 2008.

The Park Wealth Group did not have contingent liabilities as at 31 August 2008.

(g) Foreign exchange exposure

As part of the assets and liabilities of the Park Wealth Group are denominated in Hong Kong dollars, in order to minimize the foreign currency risk, the Park Wealth Group aims to utilize the fund for transaction that are denominated in the same currency. There was no exposure to fluctuations in exchange rates and any related hedges.

A. ACCOUNTANTS' REPORT OF SHANGHAI COMFORT GROUP

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu.

Deloitte.
德勤

22 January 2009

The Directors
Chaoyue Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding上海康福特環境科技有限公司Shanghai Comfort Environment and Science Company Limited* ("Shanghai Comfort") and its subsidiaries (hereinafter collectively referred to as the "Shanghai Comfort Group") for the period from 23 September 2005 (date of establishment) to 31 December 2005, each of the two years ended 31 December 2006 and 2007 and the period from 1 January 2008 to 17 March 2008 (the "Relevant Periods") for inclusion in the circular issued by Chaoyue Group Limited (the "Company"), a company incorporated in Bermuda with its shares being listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), dated 22 January 2009 in connection with the proposed acquisition of 100% interest in Park Wealth International Limited ("Park Wealth"), pursuant to an agreement dated 11 October 2008 ("Agreement") entered into between Successtime Limited, a wholly owned subsidiary of the Company, and the shareholders of Park Wealth comprising Sure Achieve Limited, Sureguide Limited and Teamwon Limited (the "Circular").

* *The English name is for identification purpose only.*

Shanghai Comfort was established in the People's Republic of China (the "PRC") on 23 September 2005 as a limited liability company and the entire share capital of Shanghai Comfort was acquired by Park Wealth on 17 March 2008. The principal activities of Shanghai Comfort Group are water purification service, sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system.

Shanghai Comfort has the following subsidiaries:

Name of subsidiary	Place and date of establishment/ operation	Issued and fully paid registered capital	Equity interest directly attributable to Shanghai Comfort				Principal activities	Legal form
			At 31 December			At 17 March		
			2005	2006	2007	2008		
上海康福特水業發展有限公司 Shanghai Comfort Water Development Company Limited*	The PRC 31 July 2006	RMB3,000,000	N/A	100%	100%	100%	Water purification service, sales of air purification and water purification equipments	Limited liability company
成都康福特水業有限責任公司 Chengdu Comfort Water Company Limited* ("Chengdu Comfort")	The PRC 28 March 2007	RMB500,000	N/A	N/A	0%	100%	Water purification service	Limited liability company
上海康福特環保工程安裝有限公司 Shanghai Comfort Environmental Engineering Company Limited*	The PRC 7 December 2007	RMB100,000	N/A	N/A	100%	100%	Construction and installation of air purification and sewage treatment system	Limited liability company
上海康之耐五金製品有限公司 Shanghai Kang Zhi Nai Manufacturing Company Limited*	The PRC 7 December 2007	RMB100,000	N/A	N/A	100%	100%	Inactive	Limited liability company
上海康誠和空氣淨化設備有限公司 Shanghai Kang Cheng He Air Purification Equipment Company Limited*	The PRC 7 December 2007	RMB500,000	N/A	N/A	100%	100%	Construction and installation of air purification and sewage treatment system	Limited liability company
上海宏佳空氣淨化設備有限公司 Shanghai Hong Jia Air Purification Equipment Company Limited*	The PRC 20 December 2007	RMB500,000	N/A	N/A	100%	100%	Inactive	Limited liability company
北京康福特康潔水業有限公司 Beijing Comfort Kang Jie Water Company Limited*	The PRC 25 February 2008	RMB500,000	N/A	N/A	N/A	100%	Water purification service	Limited liability company

* *The English name is for identification purpose only*

The statutory financial statements of Shanghai Comfort for the period from 23 September 2005 (date of establishment) to 31 December 2005 and the year ended 31 December 2006, which were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC, were audited by上海海德會計師事務所有限公司Shanghai Haide Certified Public Accountants Company Limited*, a firm of certified public accountants registered in the PRC. The statutory financial statements of Shanghai Comfort for the year ended 31 December 2007, which were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC, were audited by上海滬中會計師事務所有限公司Shanghai Huzhong Certified Public Accountants Company Limited*, a firm of certified public accountants registered in the PRC. In addition, as explained by the directors of Shanghai Comfort, there was no statutory audit requirement for the subsidiaries of Shanghai Comfort in the PRC during the Relevant Periods.

For the purpose of this report, the directors of Shanghai Comfort have prepared consolidated management accounts for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accounts (the "HKICPA") (the "HKFRSs Financial Statements"). We have, for the purpose of this report, performed independent audit procedures on the HKFRSs Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRSs Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

However, the scope of our audit procedures was limited as the Shanghai Comfort Group did not carry out physical counts of its inventories amounting to RMB2,481,266 and RMB7,375,584 as at 31 December 2005 and 2006, respectively. There were no practicable alternative audit procedures that we could apply to verify the existence and condition of the inventories of the Shanghai Comfort Group at those dates. Accordingly, we have not been able to satisfy ourselves as to whether the inventories held by the Shanghai Comfort Group as at 31 December 2005 and 2006 were fairly stated. Any adjustments found to be necessary may have an effect on the amount of the inventories as at 31 December 2005 and 2006 and on the results and cash flows of the Shanghai Comfort Group for the period from 23 September 2005 (date of establishment) to 31 December 2005 and each of the two years ended 31 December 2006 and 2007.

The Financial Information set out in this report has been prepared from the HKFRSs Financial Statements for the purpose of preparing our report for inclusion in the Circular without making any adjustments. The preparation of the HKFRSs Financial Statements are the responsibility of the directors of Shanghai Comfort, who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRSs Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

* *The English name is for identification purpose only.*

Because of the significance of the possible effects of the limitation in the scope of our audit work referred to above, we do not express an opinion as to whether the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flows of the Shanghai Comfort Group for the period from 23 September 2005 (date of establishment) to 31 December 2005 and of each of the two years ended 31 December 2006 and 2007.

In our opinion, the Financial Information, together with the notes thereon gives, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flows for the period from 1 January 2008 to 17 March 2008 and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to whether the inventories held by Shanghai Comfort Group as at 31 December 2005 and 2006 were fairly stated, of the state of affairs of the Shanghai Comfort Group as at 31 December 2005, 2006 and 2007 and 17 March 2008.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	1 January 2008 to 17 March 2008
		RMB	*RMB*	*RMB*	*RMB*
Revenue	*7*	296,297	5,794,944	13,172,362	2,019,754
Cost of sales		(389,135)	(5,163,900)	(14,419,010)	(1,806,090)
Gross (loss) profit		(92,838)	631,044	(1,246,648)	213,664
Other income	*8*	9,629	16,288	200,979	147,424
Selling and distribution expenses		(191,416)	(2,788,902)	(4,198,041)	(1,200,692)
Administrative expenses		(518,621)	(3,086,460)	(5,670,312)	(2,454,553)
Finance costs	*9*	–	(392,000)	(720,000)	(128,000)
Discount on acquisition of a subsidiary	*28*	–	–	–	42,573
Loss for the period/year	*11*	(793,246)	(5,620,030)	(11,634,022)	(3,379,584)

CONSOLIDATED BALANCE SHEETS

	Notes	At 31 December 2005 RMB	2006 RMB	2007 RMB	At 17 March 2008 RMB
NON-CURRENT ASSETS					
Property, plant and equipment	14	4,303,648	4,776,077	10,153,181	13,598,703
Prepayment for acquisition of a subsidiary	15	–	–	–	1,000,000
		4,303,648	4,776,077	10,153,181	14,598,703
CURRENT ASSETS					
Inventories	16	2,481,266	7,375,584	3,405,344	5,157,154
Amounts due from customers for contract work	17	–	64,189	1,113,616	1,269,212
Trade and other receivables	18	526,658	1,215,197	10,451,318	13,118,021
Amount due from a director	19	21,040	–	–	–
Amount due from a former shareholder	20	2,723,454	303,904	328,904	137,471
Bank balances and cash	21	2,218,286	1,366,357	7,015,905	1,255,346
		7,970,704	10,325,231	22,315,087	20,937,204
CURRENT LIABILITIES					
Amounts due to customers for contract work	17	13,143	96,709	3,897,239	5,156,664
Trade and other payables	22	812,907	4,789,619	11,633,573	15,128,047
Amount due to a director	23	–	192,770	16,172,755	17,863,253
Borrowings – due within one year	24	–	–	8,000,000	8,000,000
Warranty provision	25	9,495	186,510	441,054	436,332
Deferred income	26	–	16,923	138,892	146,440
		835,545	5,282,531	40,283,513	46,730,736
NET CURRENT ASSETS (LIABILITIES)		7,135,159	5,042,700	(17,968,426)	(25,793,532)
TOTAL ASSETS LESS CURRENT LIABILITIES		11,438,807	9,818,777	(7,815,245)	(11,194,829)
NON-CURRENT LIABILITY					
Borrowings – due after one year	24	2,000,000	6,000,000	–	–
		9,438,807	3,818,777	(7,815,245)	(11,194,829)
CAPITAL AND RESERVES					
Paid-in capital	27	10,000,000	10,000,000	10,000,000	10,000,000
Reserves		(561,193)	(6,181,223)	(17,815,245)	(21,194,829)
		9,438,807	3,818,777	(7,815,245)	(11,194,829)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB*	Capital reserve *RMB* *(note)*	Accumulated losses *RMB*	Total *RMB*
Injection of capital on 23 September 2005 (date of establishment)	10,000,000	232,053	–	10,232,053
Loss and total recognised expense for the period	–	–	(793,246)	(793,246)
At 31 December 2005	10,000,000	232,053	(793,246)	9,438,807
Loss and total recognised expense for the year	–	–	(5,620,030)	(5,620,030)
At 31 December 2006	10,000,000	232,053	(6,413,276)	3,818,777
Loss and total recognised expense for the year	–	–	(11,634,022)	(11,634,022)
At 31 December 2007	10,000,000	232,053	(18,047,298)	(7,815,245)
Loss and total recognised expense for the period	–	–	(3,379,584)	(3,379,584)
At 17 March 2008	10,000,000	232,053	(21,426,882)	(11,194,829)

Note: Capital reserve represents additional capital contribution by a shareholder on 23 September 2005.

CONSOLIDATED CASH FLOW STATEMENTS

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December		1 January 2008 to 17 March 2008
		2006	2007	
	RMB	*RMB*	*RMB*	*RMB*
OPERATING ACTIVITIES				
Loss for the period/year	(793,246)	(5,620,030)	(11,634,022)	(3,379,584)
Adjustments for:				
Discount on acquisition of a subsidiary	–	–	–	(42,573)
Depreciation of property, plant and equipment	119,766	544,795	705,052	167,152
Gain on disposal of property, plant and equipment	–	–	(34,352)	(40,957)
Impairment loss recognised in respect of property, plant and equipment	–	–	293,875	19,449
Allowances for obsolete and slow-moving inventories	–	22,100	10,692	623
Allowances for bad and doubtful debts	7,433	113,478	515,830	350,857
Interest income	(8,603)	(14,372)	(9,227)	(1,158)
Finance costs	–	392,000	720,000	128,000
Warranty charges	9,495	186,510	420,167	93,440
Realisation of deferred income	–	(16,728)	(164,110)	(139,796)
Operating cash flows before movements in working capital	(665,155)	(4,392,247)	(9,176,095)	(2,844,547)
(Increase) decrease in inventories	(2,481,266)	(4,916,418)	3,959,548	(1,752,433)
Increase in amounts due from customers for contract work	–	(64,189)	(1,049,427)	(155,596)
Increase in trade and other receivables	(534,091)	(802,017)	(9,751,951)	(3,012,684)
Increase in trade and other payables	812,907	3,912,712	6,187,954	3,333,019
Increase in amounts due to customers for contract work	13,143	83,566	3,800,530	1,259,425
Decrease in warranty provision	–	(9,495)	(165,623)	(98,162)
Increase in deferred income	–	33,651	286,079	147,344
Cash used in operations	(2,854,462)	(6,154,437)	(5,908,985)	(3,123,634)
Interest paid	–	(328,000)	(64,000)	–
NET CASH USED IN OPERATING ACTIVITIES	(2,854,462)	(6,482,437)	(5,972,985)	(3,123,634)

	Note	23 September 2005 (date of establishment) to 31 December 2005 RMB	Year ended 31 December 2006 RMB	Year ended 31 December 2007 RMB	1 January 2008 to 17 March 2008 RMB
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(191,361)	(1,017,224)	(6,605,506)	(4,225,272)
Proceeds from disposal of property, plant and equipment		–	–	263,827	912,669
Prepayment for acquisition of a subsidiary		–	–	–	(1,000,000)
Acquisition of business (net of cash and cash equivalents acquired)	*28*	–	–	–	(207,411)
(Advance to) repayment from a director		(21,040)	21,040	–	–
(Advance to) repayment from a former shareholder		(2,723,454)	2,419,550	(25,000)	191,433
Interest received		8,603	14,372	9,227	1,158
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(2,927,252)	1,437,738	(6,357,452)	(4,327,423)
FINANCING ACTIVITIES					
New borrowings raised		2,000,000	4,000,000	2,000,000	–
Advance from a director		–	192,770	15,979,985	1,690,498
Increase in paid-in capital		6,000,000	–	–	–
CASH FROM FINANCING ACTIVITIES		8,000,000	4,192,770	17,979,985	1,690,498
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,218,286	(851,929)	5,649,548	(5,760,559)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR		–	2,218,286	1,366,357	7,015,905
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by bank balances and cash		2,218,286	1,366,357	7,015,905	1,255,346

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

The address of the registered office and the principal place of business of Shanghai Comfort is No. 60, Guiqiao Road, Pudong Shanghai, the PRC.

The Shanghai Comfort Group is principally engaged in the business of water purification service, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system.

Since 17 March 2008, Park Wealth International Limited ("Park Wealth"), a company incorporated in the British Virgin Islands with limited liability, has become the ultimate holding company and parent of Shanghai Comfort.

The Financial Information has been prepared on a going concern basis notwithstanding the fact that the Shanghai Comfort Group had net current liabilities and net liabilities of RMB25,793,532 and RMB11,194,829, respectively, at 17 March 2008. In the event of unsuccessful completion of the acquisition of Park Wealth by Successtime Limited, a wholly owned subsidiary of the Company, the existing shareholders of Park Wealth has agreed to provide adequate funds to enable the Shanghai Comfort Group to meet in full the financial obligations as they fall due for the foreseeable future.

In the event of the successful completion of the acquisition of Park Wealth by Successtime Limited, the Company will provide the financial support to the Park Wealth and its subsidiaries (hereinafter collectively referred to as the "Park Wealth Group") to enable it to meet its financial obligation as they fall due for the foreseeable future.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of Shanghai Comfort for the Relevant Periods.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "New HKFRSs") which are effective for the Shanghai Comfort Group's financial year beginning on 1 January 2008. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Shanghai Comfort Group has consistently adopted all these New HKFRSs throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective. The Shanghai Comfort Group has not early applied these standards, amendments or interpretations.

HKFRSs (Amendments)	Improvements to HKFRSs [1]
Hong Kong Accounting Standard ("HKAS") 1 (Revised)	Presentation of Financial Statements [2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [2]
HKAS 39 (Amendment)	Eligible Hedged items [3]
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets [4]

HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [2]
HKFRS 3 (Revised)	Business Combinations [3]
HKFRS 8	Operating Segments [2]
HK(IFRIC) – INT 13	Customer Loyalty Programmes [5]
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate [2]
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation [6]
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners [3]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 July 2009.

[4] Effective from 1 July 2008

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

[6] Effective for annual periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of Shanghai Comfort anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and the financial position of the Shanghai Comfort Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporates the financial statements of Shanghai Comfort and entities controlled by Shanghai Comfort (its subsidiaries). Control is achieved where Shanghai Comfort has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Shanghai Comfort Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Shanghai Comfort Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Shanghai Comfort Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Shanghai Comfort Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested from impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating-unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business net of discounts.

Revenue from sales of air purification and water purification machines are recognised when goods are delivered and title has passed.

Income from water purification service is recognised when the services are rendered and is based on the expected consumption volume of customer.

Contract revenue is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than assets under installation are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than assets under installation over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Assets under installation include property, plant and equipment in the course of construction for production or for its own use purposes. Assets under installation are carried at cost less any recognised impairment loss. Assets under installation are transferred to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Shanghai Comfort Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Impairment losses – other than goodwill

At each balance sheet date, the Shanghai Comfort Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised in the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by reference to the value of work carried out during the year to the estimated total costs for the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable, contract costs are recognised as expense in the period in which they are incurred.

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Shanghai Comfort Group's financial assets are mainly classified as loans and receivables.

Effective interest method

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

Income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from a director and a shareholder and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Shanghai Comfort Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, it is written off against the allowance account.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Shanghai Comfort Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Shanghai Comfort Group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Trade and other payables, amounts due to a director and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Shanghai Comfort Group has transferred substantially all the risks and rewards of the ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum received is recognised in profit or loss. If Shanghai Comfort Group retains substantially all the risks and rewards of ownership of a transferred financial asset, Shanghai Comfort Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable including other liabilities assumed is recognised in profit or loss.

Provisions

Provisions are recognised when the Shanghai Comfort Group has a present obligation as a result of a past event, and it is probable that the Shanghai Comfort Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise.

Retirement benefits costs

Payments to state-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Shanghai Comfort Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Shanghai Comfort Group's accounting policies, which are described in note 3, the management has made various estimates factors about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. 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.

The following are 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.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Shanghai Comfort Group is based on the evaluation of collectability and aging analysis of trade receivables and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. When there is objective evidence of impairment loss, the Shanghai Comfort Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Revenue recognition of construction contracts

Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total costs. Accordingly, any changes to the estimated total cost may have material impact on the contract revenue recognised in each accounting period over the contract term.

Revenue recognition of direct drinking water purification service

Revenue from direct drinking water purification service is recognised based on the expected level of consumption volume while having taking into account of the purchase frequency of the recharge cards, which customers purchase for operation of the direct drinking water machines, by each individual customer. Accordingly, any changes to the estimated consumption volume may have material impact on the service income recognised in each accounting period.

Provision

Provision has been made for additional costs to repair or replace defective goods, such as labour (whether internal or external) and material costs, and cost that might not be recovered from customers for rework. The provision requires management to estimate the extent of repairment and replacements with reference to historical warranty trends and may vary as a result of new materials and altered manufacturing proceeds. Any of these factors may affect the extent of the repairment or replacement required and therefore the ultimate repair and replacement costs to be incurred in the future period.

5. CAPITAL RISK MANAGEMENT

The Shanghai Comfort Group manages its capital to ensure that entities in the Shanghai Comfort Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Shanghai Comfort Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Shanghai Comfort Group consists of debt, which includes amount due to a director disclosed in note 23 and borrowings disclosed in note 24, cash and cash equivalents disclosed in note 21, and equity attributable to equity holders of Shanghai Comfort, comprising issued capital and reserves.

The directors of Shanghai Comfort review the capital structure periodically. As a part of this review, the corporate finance department reviews the planned projects proposed by engineering department and prepares the annual budget taking into account of the provision of funding. The directors of Shanghai Comfort then assess the annual budget and consider the cost of capital and the risks associated with each class of capital. The directors of Shanghai Comfort also balance its overall capital structure through the increase in paid-in capital as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December			At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
Financial assets				
Loans and receivables (including cash and cash equivalents)	5,316,887	2,054,462	13,437,503	10,065,327
Financial liabilities				
Amortised cost	2,652,749	9,608,851	32,769,878	37,559,993

(b) Financial risk management objectives and policies

The Shanghai Comfort Group's major financial instruments include trade and other receivables, amount due from a director, amount due from a shareholder, bank balances and cash, trade and other payables, amount due to a director and borrowings. Details of these financial instruments are disclosed in respective notes.

The management monitors and manages the financial risks relating to the operations of the Shanghai Comfort Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Foreign currency risk management

The director's of Shanghai Comfort consider that the Shanghai Comfort Group had no currency risk exposure as the Shanghai Comfort Group had no foreign currency transaction during the Relevant Periods.

(d) Interest rate risk management

The Shanghai Comfort Group is exposed to cash flow interest rate risk due to fluctuation of prevailing market interest rate on bank balances (see note 21).

The Shanghai Comfort Group is also exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 24).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the above-mentioned non-derivative instruments at the balance sheet date. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the respective balance sheet dates, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Shanghai Comfort Group's loss for the period from 23 September 2005 (date of establishment) to 31 December 2005, two years ended 2006 and 2007 and the period from 1 January 2008 to 17 March 2008 would decrease/increase by approximately RMB11,091, RMB6,832, RMB35,080 and RMB6,277, respectively.

(e) Credit risk management

As at each balance sheet date, the Shanghai Comfort Group's maximum exposure to credit risk which will cause a financial loss to the Shanghai Comfort Group due to failure to discharge an obligation by the counterparties provided by the Shanghai Comfort Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the Shanghai Comfort Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Shanghai Comfort Group reviews the recoverable amount of each individual trade debt at balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Shanghai Comfort consider that the Shanghai Comfort Group's credit risk is significantly reduced.

The Shanghai Comfort Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers.

The Shanghai Comfort Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC.

(f) Liquidity risk management

The Shanghai Comfort Group had net current liabilities and net liabilities of RMB25,793,532 and RMB11,194,829, respectively, at 17 March 2008. The Shanghai Comfort Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

To manage the liquidity risk, the Shanghai Comfort Group has obtained financial supports (as described in note 1 to the Financial Information) to meet its financial obligations as and when they arise and to continue its operations in the foreseeable future.

The following table details the Shanghai Comfort Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Shanghai Comfort Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity table

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1 – 2 years	2 – 3 years	Total undiscounted cash flows	Carrying amount at balance sheet date
	%	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
As at 17 March 2008								
Non-derivative financial liabilities								
Trade and other payables	–	1,104,623	4,271,923	6,320,194	–	–	11,696,740	11,696,740
Amount due to a director	–	17,863,253	–	–	–	–	17,863,253	17,863,253
Borrowings	9.6	–	–	8,544,000	–	–	8,544,000	8,000,000
		18,967,876	4,271,923	14,864,194	–	–	38,103,993	37,559,993
As at 31 December 2007								
Non-derivative financial liabilities								
Trade and other payables	–	1,132,874	2,102,840	5,361,409	–	–	8,597,123	8,597,123
Amount due to a director	–	16,172,755	–	–	–	–	16,172,755	16,172,755
Borrowings	9.6	–	–	8,704,000	–	–	8,704,000	8,000,000
		17,305,629	2,102,840	14,065,409	–	–	33,473,878	32,769,878
As at 31 December 2006								
Non-derivative financial liabilities								
Trade and other payables	–	369,553	1,244,081	1,802,447	–	–	3,416,081	3,416,081
Amount due to a director	–	192,770	–	–	–	–	192,770	192,770
Borrowings	9.6	–	–	576,000	6,528,000	–	7,104,000	6,000,000
		562,323	1,244,081	2,378,447	6,528,000	–	10,712,851	9,608,851
As at 31 December 2005								
Non-derivative financial liabilities								
Trade and other payables	–	130,426	210,000	312,323	–	–	652,749	652,749
Borrowings	9.6	–	–	192,000	192,000	2,176,000	2,560,000	2,000,000
		130,426	210,000	504,323	192,000	2,176,000	3,212,749	2,652,749

(g) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

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

7. REVENUE AND SEGMENT INFORMATION

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December		1 January 2008 to 17 March 2008
		2006	2007	
	RMB	*RMB*	*RMB*	*RMB*
Rendering of services	–	16,728	164,110	139,796
Sales of goods	212,797	3,588,716	7,966,936	749,990
Contract revenue	83,500	2,189,500	5,041,316	1,129,968
	296,297	5,794,944	13,172,362	2,019,754

The Shanghai Comfort Group is principally engaged in water purification service, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system in the PRC. These divisions are the basis on which the Shanghai Comfort Group reports its primary segment information during the Relevant Periods.

Principal activities are as follows:

Direct drinking water	–	Water purification service
Purification equipment	–	Manufacturing and sales of air purification and water purification equipments
Environmental engineering	–	Construction and installation of air purification and sewage treatment system

The segment information about these business segments is presented below.

Revenue and results

For the period from 23 September 2005 (date of establishment) to 31 December 2005

	Direct drinking water	Purification equipment	Environmental engineering	Total
	RMB	*RMB*	*RMB*	*RMB*
REVENUE				
External sales	–	212,797	83,500	296,297
RESULT				
Segment result	–	(236,470)	(46,758)	(283,228)
Unallocated income				8,603
Unallocated corporate expenses				(518,621)
Loss for the period				(793,246)

Balance sheet

At 31 December 2005

	Direct drinking water	Purification equipment	Environmental engineering	Total
	RMB	*RMB*	*RMB*	*RMB*
ASSETS				
Segment assets	–	7,278,172	33,400	7,311,572
Unallocated corporate assets				4,962,780
Total assets				12,274,352
LIABILITIES				
Segment liabilities	–	822,402	13,143	835,545
Unallocated corporate liabilities				2,000,000
Total liabilities				2,835,545

Other information

For the period from 23 September 2005 (date of establishment) to 31 December 2005

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Total *RMB*
Capital additions	–	191,361	–	191,361
Depreciation of property, plant and equipment	–	119,766	–	119,766
Allowance on bad and doubtful debts	–	7,433	–	7,433

Revenue and results

For the year ended 31 December 2006

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Elimination *RMB*	Total *RMB*
REVENUE					
External sales	16,728	3,588,716	2,189,500	–	5,794,944
Inter-segment sales	–	1,160,504	–	(1,160,504)	–
Total	16,728	4,749,220	2,189,500	(1,160,504)	5,794,944
RESULT					
Segment result	(1,010,642)	(1,252,424)	(245,706)	352,830	(2,155,942)
Unallocated income					14,372
Unallocated corporate expenses					(3,478,460)
Loss for the year					(5,620,030)

Balance sheet

At 31 December 2006

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Total *RMB*
ASSETS				
Segment assets	212,030	13,044,660	174,357	13,431,047
Unallocated corporate assets				1,670,261
Total assets				15,101,308
LIABILITIES				
Segment liabilities	–	4,461,762	627,999	5,089,761
Unallocated corporate liabilities				6,192,770
Total liabilities				11,282,531

Other information

For the year ended 31 December 2006

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Total *RMB*
Capital additions	453,504	563,720	–	1,017,224
Depreciation of property, plant and equipment	933	543,862	–	544,795
Allowance for obsolete and slow-moving inventories	–	22,100	–	22,100
Allowance on bad and doubtful debts	–	113,478	–	113,478

Revenue and results

For the year ended 31 December 2007

	Direct drinking water	Purification equipment	Environmental engineering	Elimination	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
REVENUE					
External sales	164,110	7,966,936	5,041,316	–	13,172,362
Inter-segment sales	–	1,816,427	–	(1,816,427)	–
Total	164,110	9,783,363	5,041,316	(1,816,427)	13,172,362
RESULT					
Segment result	(1,288,401)	(4,833,039)	1,071,925	(204,272)	(5,253,787)
Unallocated income					9,227
Unallocated corporate expenses					(6,389,462)
Loss for the year					(11,634,022)

Balance sheet

At 31 December 2007

	Direct drinking water	Purification equipment	Environmental engineering	Total
	RMB	*RMB*	*RMB*	*RMB*
ASSETS				
Segment assets	3,274,797	20,697,589	1,151,073	25,123,459
Unallocated corporate assets				7,344,809
Total assets				32,468,268
LIABILITIES				
Segment liabilities	4,222,335	7,991,184	3,897,239	16,110,758
Unallocated corporate liabilities				24,172,755
Total liabilities				40,283,513

Other information

For the year ended 31 December 2007

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Total *RMB*
Capital additions	3,167,018	3,438,488	–	6,605,506
Depreciation of property, plant and equipment	111,848	593,204	–	705,052
Impairment loss recognised in respect of property, plant and equipment	293,875	–	–	293,875
Gain on disposal of property, plant and equipment	(34,352)	–	–	(34,352)
Allowance for obsolete and slow-moving inventories	–	10,692	–	10,692
Allowance on bad and doubtful debts	212,637	303,193	–	515,830

Revenue and results

For the period from 1 January 2008 to 17 March 2008

	Direct drinking water *RMB*	Purification equipment *RMB*	Environmental engineering *RMB*	Elimination *RMB*	Total *RMB*
REVENUE					
External sales	139,796	749,990	1,129,968	–	2,019,754
Inter-segment sales	–	2,066,967	–	(2,066,967)	–
Total	139,796	2,816,957	1,129,968	(2,066,967)	2,019,754
RESULT					
Segment result	(505,570)	(356,969)	173,563	(153,086)	(842,062)
Unallocated income					1,158
Unallocated corporate expenses					(2,581,253)
Discount on acquisition of a subsidiary					42,573
Loss for the period					(3,379,584)

Balance sheet

At 17 March 2008

	Direct drinking water	Purification equipment	Environmental engineering	Total
	RMB	*RMB*	*RMB*	*RMB*
ASSETS				
Segment assets	5,386,606	22,159,622	6,596,862	34,143,090
Unallocated corporate assets				1,392,817
Total assets				35,535,907
LIABILITIES				
Segment liabilities	2,896,208	11,342,003	6,629,272	20,867,483
Unallocated corporate liabilities				25,863,253
Total liabilities				46,730,736

Other information

For the period from 1 January 2008 to 17 March 2008

	Direct drinking water	Purification equipment	Environmental engineering	Total
	RMB	*RMB*	*RMB*	*RMB*
Capital additions	2,668,800	1,835,035	–	4,503,835
Depreciation of property, plant and equipment	45,124	122,028	–	167,152
Impairment loss recognised in respect of property, plant and equipment	19,449	–	–	19,449
Gain on disposal of property, plant and equipment	(40,957)	–	–	(40,957)
Allowance for obsolete and slow moving inventories	–	623	–	623
Allowance on bad and doubtful debts	290,202	60,655	–	350,857

As all the revenue and operating results of the Shanghai Comfort Group for the Relevant Periods are derived in the PRC, an analysis of revenue and operating results of the Shanghai Comfort Group by geographical location is not presented.

All identifiable assets and liabilities of the Shanghai Comfort Group are located in the PRC. Accordingly, no geographical segmental analysis is presented.

8. OTHER INCOME

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	1 January 2008 to 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Bank interest income	8,603	14,372	9,227	1,158
Gain on disposal of property, plant and equipment	–	–	34,352	40,957
Sales of scrap materials	1,026	1,916	155,072	105,309
Others	–	–	2,328	–
	9,629	16,288	200,979	147,424

9. FINANCE COSTS

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	1 January 2008 to 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Interests on borrowings	–	392,000	720,000	128,000

10. INCOME TAX EXPENSE

The PRC Enterprise income tax of the Relevant Periods represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the Shanghai Comfort Group in the PRC. No provision for PRC Enterprise income tax has been made in the Financial Information as the Shanghai Comfort Group were loss making during the Relevant Periods.

Prior to 1 January 2008, according to PRC tax laws and regulations, in general, the PRC companies should be liable to pay Enterprise income tax at the rate of 33% on their assessable income except where existing laws, administrative regulations or any other relevant regulations promulgated by the PRC State Council provide for tax exemptions or other relief.

Shanghai Comfort was established in Shanghai Pudong New Area, which was subject to PRC income tax at a concessionary rate of 15% for the period from 23 September 2005 (date of establishment) to 31 December 2007. During 2008, Shanghai Comfort is regarded as advanced technology enterprises by local tax bureau and is entitled to PRC income tax at concessionary rate of 15% from year 2008 to 2010.

Pursuant to the new PRC Enterprise Income Tax Law promulgated on 16 March 2007, the Enterprise Income Tax for both domestic and foreign-invested enterprises has been unified at 25% effective from 1 January 2008. The New Law and Implementation Regulations has changed the tax rate from 33% to 25% for all subsidiaries except Shanghai Comfort from 1 January 2008 onwards.

At the balance sheet date, the Shanghai Comfort Group has the following unused tax losses that can be carried forward to future year. Their respective expiration years are as follows:

	At 31 December			At 17 March
Expiry year	**2005**	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
2010	347,084	347,084	347,084	347,084
2011	–	3,189,375	3,189,375	3,189,375
2012	–	–	9,993,722	9,993,722
2013	–	–	–	2,780,635
	347,084	3,536,459	13,530,181	16,310,816

No deferred tax asset has been recognised in respect of unused tax losses available for offset against future profits due to unpredictability of future profit streams.

The Shanghai Comfort Group did not have any other significant unprovided deferred taxation arising during the Relevant Periods or at the balance sheet dates.

The income tax expense for the Relevant Periods can be reconciled to the loss for the period/year per consolidated income statements as follows:

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December		1 January 2008 to 17 March 2008
		2006	**2007**	
	RMB	*RMB*	*RMB*	*RMB*
Loss for the period/year	(793,246)	(5,620,030)	(11,634,022)	(3,379,584)
Tax at applicable income tax rate *(Note)*	(118,987)	(843,005)	(1,745,103)	(844,896)
Tax effect of income not taxable for tax purposes	–	(52,925)	(86)	(12,015)
Tax effect of expenses not deductible for tax purposes	66,924	417,524	246,130	161,752
Tax effect of tax losses not recognised	52,063	478,406	1,499,059	695,159
Income tax expense for the period/year	–	–	–	–

Note: Majority of the business was carried out by Shanghai Comfort during the period from 23 September 2005 (date of establishment) to 31 December 2007 so that the applicable income tax rate of 15% is used. The applicable income tax rate changed to 25% since 1 January 2008 is as a result of the expanded operations of Shanghai Comfort's subsidiaries.

11. LOSS FOR THE PERIOD/YEAR

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	2007	1 January 2008 to 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Loss for the period/year at after charging (crediting):				
Staff costs including director's emoluments	402,294	2,425,856	4,511,128	2,247,060
Retirement benefit scheme contributions	5,544	122,105	242,385	76,016
Total staff costs	407,838	2,547,961	4,753,513	2,323,076
Auditor's remuneration	4,000	4,000	20,000	–
Depreciation of property, plant and equipment	119,766	544,795	705,052	167,152
Impairment loss recognised in respect of property, plant and equipment	–	–	293,875	19,449
Cost of inventories recognised as expenses	169,060	2,523,613	8,600,494	727,300
Costs of contract cost recognised as expenses	172,953	2,465,646	3,702,913	897,742
Allowance for obsolete and slow-moving inventories	–	22,100	10,692	623
Allowance on bad and doubtful debts	7,433	113,478	515,830	350,857

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

Details of the emoluments paid to the directors of Shanghai Comfort for the Relevant Periods are as follow:

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December		1 January 2008 to 17 March 2008
		2006	2007	
	RMB	*RMB*	*RMB*	*RMB*
Directors				
– fee	–	–	–	–
– salaries and other benefits	12,000	48,000	90,789	17,053
– contributions to retirement benefits scheme	–	–	1,094	1,284
	12,000	48,000	91,883	18,337

The emoluments of the directors on a named basis are as follows:

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December		1 January 2008 to 17 March 2008
		2006	2007	
	RMB	*RMB*	*RMB*	*RMB*
Xiao Shu (肖述)	12,000	48,000	48,000	8,000
Zhang Yu Lin (張玉林)	–	–	37,521	4,773
Chen Jie (陳潔)	–	–	6,362	5,564
	12,000	48,000	91,883	18,337

The five highest paid individuals of the Shanghai Comfort Group for the period from 23 September 2005 (date of establishment) to 31 December 2005 and each of the two years ended 31 December 2006 and 2007 included one director, details of which are set out above. The remunerations of the remaining four individuals for the period from 23 September 2005 (date of establishment) to 31 December 2005 and each of the two years ended 31 December 2006 and 2007 and five highest paid individuals for the period from 1 January to 17 March 2008 are as follows:

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December		1 January 2008 to 17 March 2008
		2006	2007	
	RMB	*RMB*	*RMB*	*RMB*
Employees				
– salaries and other benefits	24,600	127,327	175,325	41,639
– contributions to retirement benefits scheme	–	11,904	26,256	6,420
	24,600	139,231	201,581	48,059

The emoluments of each of the remaining four highest paid individuals in Shanghai Comfort Group for the period from 23 September 2005 (date of establishment) to 31 December 2005 and each of the two years ended 31 December 2006 and 2007 and the emoluments of each of the five highest paid individuals for the period from 1 January 2008 to 17 March 2008 were below HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Shanghai Comfort Group to any of the directors of Shanghai Comfort or the five highest paid individuals as an inducement to join or upon joining the Shanghai Comfort Group or as compensation for loss of office. None of the directors of Shanghai Comfort waived any remuneration during the Relevant Periods.

13. EARNINGS PER SHARE

Earnings per share of the Shanghai Comfort Group are not presented herin as such information is not considered meaningful in the context of this report.

14. PROPERTY, PLANT AND EQUIPMENT

	Equipment and machinery	Furniture and fixtures	Motor vehicles	Assets under installation	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
COST					
Contribution from former owners of Shanghai Comfort on 23 September 2005 (date of establishment)	3,486,680	263,035	482,338	–	4,232,053
Additions	151,610	39,751	–	–	191,361
At 31 December 2005 and 1 January 2006	3,638,290	302,786	482,338	–	4,423,414
Additions	636,041	266,278	114,905	–	1,017,224
At 31 December 2006 and 1 January 2007	4,274,331	569,064	597,243	–	5,440,638
Additions	2,672,990	790,008	33,679	3,108,829	6,605,506
Disposals	(230,703)	–	–	–	(230,703)
Reclassification	559,662	–	–	(559,662)	–
At 31 December 2007 and 1 January 2008	7,276,280	1,359,072	630,922	2,549,167	11,815,441
Acquisition of business (note 28)	278,563	–	–	–	278,563
Additions	679,084	365,806	265,933	2,914,449	4,225,272
Disposals	(878,796)	–	–	–	(878,796)
Reclassification	2,038,853	–	–	(2,038,853)	–
At 17 March 2008	9,393,984	1,724,878	896,855	3,424,763	15,440,480
DEPRECIATION AND IMPAIRMENT					
At 23 September 2005 (date of establishment)	–	–	–	–	–
Provided for the period	92,202	4,653	22,911	–	119,766
At 31 December 2005 and 1 January 2006	92,202	4,653	22,911	–	119,766
Provided for the year	368,091	77,782	98,922	–	544,795
At 31 December 2006 and 1 January 2007	460,293	82,435	121,833	–	664,561
Provided for the year	472,234	118,248	114,570	–	705,052
Impairment loss recognised	293,875	–	–	–	293,875
Eliminated on disposals	(1,228)	–	–	–	(1,228)
At 31 December 2007 and 1 January 2008	1,225,174	200,683	236,403	–	1,662,260
Provided for the period	108,293	34,671	24,188	–	167,152
Impairment loss recognised	19,449	–	–	–	19,449
Eliminated on disposals	(7,084)	–	–	–	(7,084)
At 17 March 2008	1,345,832	235,354	260,591	–	1,841,777
CARRYING VALUES					
At 31 December 2005	3,546,088	298,133	459,427	–	4,303,648
At 31 December 2006	3,814,038	486,629	475,410	–	4,776,077
At 31 December 2007	6,051,106	1,158,389	394,519	2,549,167	10,153,181
At 17 March 2008	8,048,152	1,489,524	636,264	3,424,763	13,598,703

The above property, plant and equipment, other than assets under installation, are depreciated on a straight-line basis after taking into account their estimated residual values at the following rates per annum:

Equipment and machinery	9.5%
Furniture and fixtures	19%
Motor vehicles	19%

15. PREPAYMENT FOR ACQUISITION OF A SUBSIDIARY

In January 2008, Shanghai Comfort has prepaid 100% of the consideration in relation to the acquisition of Shenzhen Comfort Environmental Protection Technology Development Company Limited (深圳康福特環保技術發展有限公司) and the acquisition was subsequently completed in April 2008.

16. INVENTORIES

	At 31 December			At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
Raw materials	1,817,408	2,088,551	2,890,868	4,688,729
Work-in-progress	462,558	3,102,559	367,792	425,450
Finished goods	201,300	2,184,474	146,684	42,975
	2,481,266	7,375,584	3,405,344	5,157,154

17. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	At 31 December			At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
Contracts in progress at balance sheet date:				
Contract costs incurred plus recognised profit less recognised losses	153,857	379,180	3,874,340	4,511,929
Less: Progress billings	(167,000)	(411,700)	(6,657,963)	(8,399,381)
	(13,143)	(32,520)	(2,783,623)	(3,887,452)
Analysed for reporting purposes as:				
Amounts due from customers for contract work	–	64,189	1,113,616	1,269,212
Amounts due to customers for contract work	(13,143)	(96,709)	(3,897,239)	(5,156,664)
	(13,143)	(32,520)	(2,783,623)	(3,887,452)

At 31 December 2005, 2006, 2007 and 17 March 2008, there were no retention money held by customers for contract work performed. At 31 December 2005, 2006, 2007 and 17 March 2008, advances received from customers for contract work amounted to RMB7,500, RMB308,690, RMB1,262,333 and RMB1,472,608 respectively, which were included in trade and other payables.

18. TRADE AND OTHER RECEIVABLES

		At 31 December		At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
Trade receivables	74,400	269,934	5,768,974	7,813,358
Advances to suppliers	172,551	607,271	3,834,815	3,981,942
Other receivables	279,707	114,267	323,720	859,152
Prepayments and deposits	–	172,499	428,500	378,409
Value added tax recoverable	–	51,226	95,309	85,160
	526,658	1,215,197	10,451,318	13,118,021

The following is an aged analysis of trade receivables of the Shanghai Comfort Group net of allowance for doubtful debts at the balance sheet date:

		At 31 December		At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
0 to 30 days	74,400	71,730	1,481,398	2,141,702
31 to 90 days	–	48,170	3,851,101	4,420,597
91 to 180 days	–	23,285	280,890	1,105,931
181 to 365 days	–	126,749	155,585	114,578
Over 1 year	–	–	–	30,550
	74,400	269,934	5,768,974	7,813,358

Other than cash sales, the Shanghai Comfort Group generally allows an average credit period of 30 days to 180 days to its trade customers.

Before accepting any new customer, the Shanghai Comfort Group has assessed the potential customer's credit quality and defined credit rating limits of each customers. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Shanghai Comfort Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to reporting date and no impairment is necessary for those balances which are not past due.

Included in the Shanghai Comfort Group's trade receivables balance are debtors with aggregate carrying amount of Nil, RMB126,749, RMB155,585 and RMB145,128 at 31 December 2005, 2006, 2007 and 17 March 2008, respectively, which are past due for which the Shanghai Comfort Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Shanghai Comfort Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

		At 31 December		**At 17 March**
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
181 to 365 days	–	126,749	155,585	114,578
Over 1 year	–	–	–	30,550
	–	126,749	155,585	145,128

Movement in the allowance for doubtful debts in respect of trade and other receivables

	23 September 2005 (date of establishment) to 31 December 2005	**Year ended 31 December 2006**	**Year ended 31 December 2007**	**1 January 2008 to 17 March 2008**
	RMB	*RMB*	*RMB*	*RMB*
Balance at beginning of the period/year	–	7,433	120,911	636,741
Impairment losses recognised on trade and other receivables	7,433	113,478	515,830	350,857
Balance at end of the period/year	7,433	120,911	636,741	987,598

As at 31 December 2005, 2006 and 2007 and 17 March 2008, included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB7,433, RMB120,911, RMB636,741 and RMB987,598, respectively, the debtors of which have been in severe financial difficulties.

19. AMOUNT DUE FROM A DIRECTOR

		At 31 December		**At 17 March**
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
Xiao Shu (肖述)	21,040	–	–	–

Maximum balance outstanding during the period/year.

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	2007	1 January 2008 to 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Xiao Shu (肖述)	21,040	21,040	–	–

The amount is interest free, unsecured and was settled during the year ended 31 December 2006.

20. AMOUNT DUE FROM A FORMER SHAREHOLDER

	At 31 December 2005	2006	2007	At 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
上海康福特環保產品科技有限公司 Shanghai Comfort Environmental Product Technology Company Limited	2,723,454	303,904	328,904	137,471

Maximum balance outstanding during the period/year.

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	2007	1 January 2008 to 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
上海康福特環保產品科技有限公司 Shanghai Comfort Environmental Product Technology Company Limited	2,723,454	2,723,454	328,904	328,904

The amount is interest free, unsecured and is expected to be settled within twelve months.

21. BANK BALANCES AND CASH

The Shanghai Comfort Group's bank balances carry interest rates range from 0.72% to 1.15% per annum at 31 December 2005, 2006 and 2007 and 17 March 2008.

22. TRADE AND OTHER PAYABLES

	At 31 December			At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
Trade payables	522,323	3,046,528	6,312,828	8,996,861
Bills payable	–	–	145,911	145,911
Other payables	–	43,081	430,257	623,854
Other tax payables	17,136	32,109	494,615	320,869
Payroll payable	130,426	262,472	988,127	1,082,114
Receipt in advance from customers	43,710	1,221,733	2,341,613	2,973,470
Accruals	99,312	119,696	200,222	136,968
Interest payable	–	64,000	720,000	848,000
	812,907	4,789,619	11,633,573	15,128,047

Trade payables principally comprise amounts outstanding for purchase of raw materials and ongoing expenses. The average credit period for purchase of raw materials ranged from 30 days to 180 days.

The following is an aged analysis of trade payables at the balance sheet date:

	At 31 December			At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
0 to 30 days	522,323	1,506,371	5,014,369	5,910,879
31 to 90 days		877,577	844,648	2,037,701
91 to 180 days	–	428,746	222,856	746,181
181 to 365 days	–	232,512	126,300	144,582
Over 1 year	–	1,322	104,655	157,518
	522,323	3,046,528	6,312,828	8,996,861

23. AMOUNT DUE TO A DIRECTOR

	At 31 December			At 17 March
	2005	**2006**	**2007**	**2008**
	RMB	*RMB*	*RMB*	*RMB*
Name of director				
Xiao Shu (肖述)	–	192,770	16,172,755	17,863,253

The amount is interest free, unsecured and repayable on demand.

24. BORROWINGS

The amount represents an unsecured fixed rate loan from an independent third party with maturity periods exceeding one year as at 31 December 2005 and 2006 but within one year as at 31 December 2007 and 17 March 2008. The fixed rate loans are unsecured and interest bearing at 9.6% per annum.

The exposure of the Shanghai Comfort Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	At 31 December 2005	At 31 December 2006	At 31 December 2007	At 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Within one year	–	–	8,000,000	8,000,000
More than one year, but not exceeding two years	–	6,000,000	–	–
More than two years, but not exceeding five years	2,000,000	–	–	–
	2,000,000	6,000,000	8,000,000	8,000,000
Less: Amounts due within one year shown under current liabilities	–	–	8,000,000	8,000,000
	2,000,000	6,000,000	–	–

25. WARRANTY PROVISION

	RMB
Provided for the period from 23 September 2005 (date of establishment) to 31 December 2005 and balance at 31 December 2005 and 1 January 2006	9,495
Provided for the period	186,510
Amount utilised	(9,495)
At 31 December 2006 and 1 January 2007	186,510
Provided for the year	420,167
Amount utilised	(165,623)
At 31 December 2007 and 1 January 2008	441,054
Provided for the period	93,440
Amount utilised	(98,162)
At 17 March 2008	436,332

The provision for warranty claims represents the director's best estimate of the future outflow of economic benefits that will be required under the Shanghai Comfort Group's warranty program for sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system for two to three years. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials and altered manufacturing processes.

26. DEFERRED INCOME

Deferred income represents the amount received in respect of water purification service.

The deferred income is released to the consolidated income statement when the services are rendered. Movements of deferred income during the Relevant Periods are as follows:

	RMB
At 23 September 2005 (date of establishment) and balance at 31 December 2005	–
Additions	33,651
Realised to consolidated income statement	(16,728)
At 31 December 2006	16,923
Additions	286,079
Realised to consolidated income statement	(164,110)
At 31 December 2007	138,892
Additions	147,344
Realised to consolidated income statement	(139,796)
At 17 March 2008	146,440

27. PAID-IN CAPITAL

	RMB
SHANGHAI COMFORT	
Paid-in capital	10,000,000

Paid-in capital of RMB10,000,000 injected on 19 September 2005 in form of RMB6,000,000 cash and RMB4,232,053 property, plant and equipment, was verified by Shanghai Zhaoxin Certified Public Accountants Company Limited (上海兆信會計師事務所有限公司). There was no movement in paid-in capital during the Relevant Periods.

28. ACQUISITION OF BUSINESS

On 2 March 2008, the Shanghai Comfort Group acquired 100% equity interests in Chengdu Comfort from independent third parties at a consideration of RMB302,000. This acquisition has been accounted for using the purchase method. The discount on acquisition was RMB42,573.

The net assets of Chengdu Comfort the date of acquisition are as follows:

	Fair value
	RMB
Net assets acquired	
Property, plant and equipment	278,563
Trade and other receivables	4,876
Bank balances and cash	94,589
Trade and other payables	(33,455)
	344,573
Discount on acquisition of a subsidiary	(42,573)
Total consideration satisfied by	
Cash	302,000
Net cash outflow arising on acquisition	
Cash consideration paid	(302,000)
Bank balances and cash acquired	94,589
	(207,411)

Chengdu Comfort did not contribute significantly to the Shanghai Comfort Group's cash flow, turnover and loss for the period between the date of acquisition and 17 March 2008. The contribution to the Shanghai Comfort Group's turnover and profit for the period from 1 January 2008 to 17 March 2008 would be insignificant had the acquisition been completed on 1 January 2008.

29. MAJOR NON-CASH TRANSACTION

On 23 September 2005, Shanghai Comfort Environmental Product Technology Company Limited (上海康福特環保產品科技有限公司) has satisfied part of capital contribution amounting to RMB4,232,053 by property, plant and equipment.

30. OPERATING LEASE COMMITMENTS

The Shanghai Comfort Group as lessee

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	2007	1 January 2008 to 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Minimum lease payment under operating lease during the period/year	–	460,255	1,243,634	468,525

At the respective balance sheet dates, the Shanghai Comfort Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December 2005	2006	2007	At 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Within one year	–	480,000	2,452,247	2,674,311
In the second to the fifth year inclusive	–	200,000	3,505,448	3,299,823
	–	680,000	5,957,695	5,974,134

Operating lease payments represent rentals payable by the Shanghai Comfort Group for certain offices premises. Leases are negotiated for a term of 1 to 5 years with fixed rentals.

31. CAPITAL COMMITMENTS

	At 31 December 2005	2006	2007	At 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment	–	–	1,387,805	3,564,805

32. RETIREMENT BENEFITS PLANS

The employees working in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The Shanghai Comfort Group are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Shanghai Comfort Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

33. RELATED PARTY DISCLOSURES

1) Transactions between Shanghai Comfort and its subsidiaries, which are related parties of Shanghai Comfort have been eliminated on consolidation and are not disclosed in this note. Balances and other arrangements with related parties are set out in the balance sheets and notes 19, 20 and 23.

2) Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods were as follows:

	23 September 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006	2007	1 January 2008 to 17 March 2008
	RMB	*RMB*	*RMB*	*RMB*
Short-term benefit	47,130	282,220	437,137	97,111
Post-employment benefit	–	17,856	30,632	8,988
	47,130	300,076	467,769	106,099

II. SUBSEQUENT EVENTS

No significant events took place subsequent to 17 March 2008.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Shanghai Comfort or any of its subsidiaries have been prepared in respect of any financial period subsequent to 17 March 2008.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS

The Shanghai Comfort Group

Shanghai Comfort is a company established under the laws of the PRC. The business of the Shanghai Comfort Group comprises three divisions: the terminal water treatment department, the air purification department and the water engineering department. The terminal water treatment department produces water drinking machines with purification system for use in households, offices, factories, schools and hospitals. The purification system not only purifies tap water and filters all harmful substances but also improves the water quality by using an air-water mixing technology which helps to enrich the oxygen level in the water by releasing ozone, preventing fresh water from secondary pollutions. The drinking and purification machines manufactured by the Shanghai Comfort Group are leased to users who pay lease charges as well as service charges based on actual usage of purified water. The air purification department produces air filters and sterilizing equipments. At present, most of the air purification equipment manufactured by the Shanghai Comfort Group are sold to and installed at food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. The water engineering department specializes in the area of industrial water use, sewage treatment, family use water treatment and reclaimed water reuse. Set out in part A of this Appendix is the accountants' report of the Shanghai Comfort Group covering the period from 23 September 2005 (date of establishment) to 31 December 2005, the year ended 31 December 2006, 2007 and the period from 1 January 2008 to 17 March 2008. The management discussion and analysis in relation to the Shanghai Comfort Group for each of the aforesaid periods is set out below.

Management Discussion and Analysis of Shanghai Comfort Group

1. *For the period from 23 September 2005 (date of establishment) to 31 December 2005*

(a) Business review

The company was established on 23 September 2005 with registered capital of RMB10,000,000. The principal activities of the company was engaged in manufacturing, installation and sale of air purification equipment and system with the ozone and filtration technology. The target customers are food processing factories, auto manufacturing plants and hospitals at which high standard of purification in their facilities and environment were required.

(b) Financial result, financial position and capital structure

As the business was just set up and operated for a very short period, the turnover for the current period was RMB296,297 which represented mainly the turnover from sales of air purification equipment and system and a gross loss of RMB92,838 was recorded. Net loss for the current period amounted to RMB793,246, which was mainly arisen after the deduction of:

(i) selling and distribution expenses in aggregate of RMB191,416, which comprised primarily transportation fee (RMB24,703), marketing expenses (RMB79,920) and travelling expenses of sales team (RMB59,160); and

(ii) administrative expenses in aggregate of RMB518,621, which comprised primarily salary of administrative staff (RMB280,953), travelling expenses (RMB65,895), motor vehicles running expenses (RMB20,581).

As at 31 December 2005, the total assets and liabilities stood at RMB12,274,352 and RMB2,835,545 respectively. Non-current assets amounted to RMB4,303,648 which comprised mainly production equipment and machinery. Current assets amounted to RMB7,970,704 which comprised mainly inventory, amount due from a shareholder and cash and cash equivalents. Total cash and bank balances amounted to RMB2,218,286 and all of which were denominated in Renminbi. Current liabilities amounted to RMB835,545 which comprised mainly trade and other payables. Non-current liability amounted to RMB2,000,000 and represented an unsecured borrowing due after one year. The net current assets as at 31 December 2005 were RMB7,135,159. The net asset value as at 31 December 2005 was RMB9,438,807.

The Shanghai Comfort Group funded its operation by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the period.

There were no material acquisitions and disposals of subsidiaries and associated companies during the current period.

Since the operation of company are in PRC and most of the transaction, monetary assets and liabilities are denominated in Renminbi, the company's exposure to foreign currency risk is minimal.

There were no contingent liabilities and capital commitment as at 31 December 2005.

(c) Employment and remuneration policy

At 31 December 2005, the number of employees was 105. Total staff costs for the current period were approximately RMB407,838. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

In 2003, the Ministry of Health of the PRC implemented 食品安全行動計劃 (Food Safety Action Plan*) which stipulated, among other things, hygiene standard in food production and processing. It is expected that the food manufacturers and processors will be required to install additional purification system to improve the hygiene and sterilization facilities in order to meet the new standard and there exist business opportunities for the company.

(e) Details of charges on assets

The Shanghai Comfort Group had no charge on its assets as at 31 December 2005.

(f) Borrowings and gearing ratio

The total outstanding loans as at 31 December 2005 were RMB2,000,000 which was an unsecured long term borrowing with interest accrued at a fixed interest rate. The gearing ratio expressed by all loan balances over net asset value was 0.21 as at 31 December 2005.

(g) Foreign exchange exposure

Since the operations of the company are in PRC and most of the transactions, monetary assets and liabilities are denominated in Renminbi, the company's exposure to foreign currency risk is minimal.

2. *For the year ended 31 December 2006*

(a) Business review

During the year, the company continued to develop and modify the application of ozone and filtration technology in order to widen the business opportunity for the company. In addition to the air purification, the company successfully applied the ozone and filtration technology on water purification. The business of the company was extended to purification of industrial water use, sewage treatment, family use water treatment and reclaimed water reuse. In addition, during the year, the company focused on building a sales team and a marketing service network, as well as stepping up the training of qualified management and financial personnel, and the research and development of technology related to direct drinking water machines.

(b) Financial result, financial position and capital structure

The turnover was generated mainly from sales of air and water purification equipment and system for the current year amounted to RMB5,794,944, comparing to RMB269,297 in period from 23 September 2005 (date of incorporation) to 31 December 2005. The significant increase was due to a full year operation in the current year. A gross profit of RMB631,044 was recorded for the current year and the gross profit ratio was 10.89%. Net loss for the current year amounted to RMB5,620,030, which was arisen after the deduction of:

(i) selling and distribution expenses in aggregate of RMB2,788,902, which comprised primarily salaries and wages of sales team (RMB709,473), transportation costs (RMB246,473), marketing expenses (RMB1,076,017 and travelling expenses of sales team (RMB296,060);

(ii) administrative expenses in aggregate of RMB3,086,460, which comprised primarily salaries of administrative staff (RMB944,965), office rental (RMB460,255), motor vehicles running expenses (RMB222,418) and depreciation (RMB189,021); and

(iii) interest expenses amounted to RMB392,000 on the unsecured long term borrowing.

As at 31 December 2006, the total assets and liabilities stood at RMB15,101,308 (2005: RMB12,274,352) and RMB11,282,531 (2005: RMB2,835,545) respectively. Non-current assets amounted to RMB4,776,077 (2005: RMB4,303,648) which comprised mainly production equipment and machinery. Current assets amounted to RMB10,325,231 (2005: RMB7,970,704) which comprised mainly inventory, trade and other receivables and cash and cash equivalents. Total cash and bank balances amounted to RMB1,366,357 (2005: RMB2,218,286) and all of which were denominated in Renminbi. Current liabilities amounted to RMB5,282,531 (2005: 835,545) which comprised mainly trade and other payables. Non-current liability amounted to RMB6,000,000 and represented an unsecured borrowing due after one year. The current assets and current liabilities for the current year increased significantly as a result of the expansion of business. The net current assets as at 31 December 2006 were RMB5,042,700 (2005: RMB7,135,159). The net asset value as at 31 December 2006 was RMB3,818,777 (2005: RMB9,438,807).

The Shanghai Comfort Group funded its operation by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the year.

There were no material acquisitions and disposals of subsidiaries and associated companies during the year.

There were no contingent liabilities and capital commitment as at 31 December 2006.

(c) Employment and remuneration policy

At 31 December 2006, the number of employees was 152. Total staff costs for the current year were approximately RMB2,547,961. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

With its ozone sterilizing and filtration technology, the company started to develop a drinking water machine with purification system during the year. The purification system not only purifies tap water and filters all harmful substances but also improves the water quality by using an air-water mixing technology which helps to enrich the oxygen level in the water by releasing ozone, preventing fresh water from secondary pollutions. The business model for the direct drinking machine were to provide the machines to users who pay lease charges as well as service charges based on actual usage of purified water. The purified water produced by the machine had been testified by the Ministry of Health of the People's Republic of China (中華人民共和國衛生部) and reached the standard of the drinking water set out by the Ministry of Health. The company planned to launch the direct drinking water machines to the market in the coming year and the company will put more resources to develop this products in view of the huge market potential.

(e) Details of charges on assets

The Shanghai Comfort Group had no charge on its assets as at 31 December 2006.

(f) Borrowings and gearing ratio

The total outstanding loans as at 31 December 2006 were RMB6,192,770 which represented the unsecured long term borrowings and the amount due to a director. The gearing ratio expressed by all loan balances over net asset value was 1.62 as at 31 December 2006 (2005: 0.21).

(g) Foreign exchange exposure

Since the operation of company are in PRC and most of the transaction, monetary assets and liabilities are denominated in Renminbi, the company's exposure to foreign currency risk is minimal. There was no exposure to fluctuations in exchange rates and any related hedges.

3. *For the year ended 31 December 2007*

(a) Business review

During the year, the direct drinking water machine with its unique business model was successfully launched to the market. With the existing air and water purification equipment and system business, there are two major business operations in the Shanghai Comfort Group. Their performances for the current year are detailed below:

– Direct drinking water

During the year, the company focused on market expansion and publicity, and launched a trial operation of the "service/marketing model" on a small scale in Shanghai. The number of direct drinking water machine installed in the current year was 5,830 units up to 31 December 2007. Service charges generated from water purification service for the current year was RMB164,110.

– Air and water purification equipment and system

Different models of air and sewage purification equipment were developed for customers with different requirement. This business continued to develop with a strong growth rate. The revenue resulted from sales and installation of the air and water purification equipment and system for the current year was RMB13,008,252.

(b) Financial result, financial position and capital structure

The turnover for the current year was RMB13,172,362 which was mainly contributed by the sales of air and water purification equipment and system. There was a 1.27 increment in turnover for the current year. However, the group recorded a gross loss of RMB1,246,648 for the current year as a result of significant cost incurred during the development stage of the direct drinking water machines. Net loss for the current year amounted to RMB11,634,022, which was arisen after the deduction of:

(i) selling and distribution expenses in aggregate of RMB4,198,041, which comprised primarily salaries and wages of sales team (RMB1,990,757), transportation costs (RMB414,258), marketing expenses (RMB626,982) and travelling expenses of sales team (RMB376,777);

(ii) administrative expenses in aggregate of RMB5,670,312, which comprised primarily salaries of administrative staff (RMB1,273,577), office rental (RMB1,243,634), motor vehicles running expenses (RMB268,390), depreciation (RMB248,142) and bad debt provision (RMB515,829); and

(iii) interest expenses amounted to RMB720,000 on the unsecured short term borrowings.

As at 31 December 2007, the total assets and liabilities stood at RMB32,468,268 (2006: RMB15,101,308) and RMB40,283,513 (2006: RMB11,282,531) respectively. Non-current assets amounted to RMB10,153,181 (2006: RMB4,776,077) which comprised mainly production equipment machinery and the direct drinking water machines leased to the customers. Current assets amounted to RMB22,315,087 (2006: RMB10,325,231) which comprised mainly inventory, trade and other receivables and cash and cash equivalents. Total cash and bank balances amounted to RMB7,015,905 (2006: RMB1,366,357) and all of which were denominated in Renminbi. Current liabilities amounted to RMB40,283,513 (2006: RMB5,282,531) which comprised mainly trade and other payables, amount due to a director and short term loans. The group recorded a net current liabilities of RMB17,968,426 and a shareholders' deficit of RMB7,815,245 as at 31 December 2007.

The Shanghai Comfort Group funded its operation by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the year.

There were no material acquisitions and disposals of subsidiaries and associated companies during the year.

There were no contingent liabilities as at 31 December 2007.

The group had a capital commitment amounted to RMB1,387,805 in respect of acquisition of property, plant and equipment as at 31 December 2007.

(c) Employment and remuneration policy

At 31 December 2007, the number of employees was 355. Total staff costs for the current year were approximately RMB4,753,513. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

With the promulgation of 中華人民共和國食品安全法(草案) (Draft Food Safety Law*) in October 2007 and 節能減排綜合性工作方案 (Comprehensive Working Scheme for Energy Conservation and Reduction of Pollution*) in June 2007, the company expected the demand of the installation of air and water purification and sewage treatment equipment and system will remain strong in the coming years. In addition, as the general public in the PRC has become increasingly affluent and more conscious about safety of food and beverages, turnover from the direct drinking water machines are expected to have a substantial growth in the coming years. The first phase of development in this segment will be targeted at Beijing, Shanghai, Guangzhou and Shenzhen.

(e) Details of charges on assets

The Shanghai Comfort Group had no charge on its assets as at 31 December 2007.

(f) Borrowings and gearing ratio

The total outstanding loans as at 31 December 2007 were RMB24,172,755 which comprised unsecured short term borrowings amounting to RMB8,000,000 and an amount due to a director of RMB16,172,755. The Shanghai Comfort Group's gearing ratio, measured by total borrowing to total assets, was 74.5% as at 31 December 2007.

(g) Foreign exchange exposure

Since the operations of the company are in PRC and most of the transactions, monetary assets and liabilities are denominated in Renminbi, the company's exposure to foreign currency risk is minimal. There was no exposure to fluctuations in exchange rates and any related hedges.

4. For the period from 1 January 2008 to 17 March 2008

(a) Business review

The performances of the two business operations for the current period are detailed below:

– Direct drinking water

Following the success in the trial operation of the "service/marketing model" on a small scale in Shanghai, the company began to launch the model on a large scale in four major cities – Beijing, Guangzhou, Shenzhen and Shanghai. The total number of direct drinking water machines installed up to 17 March 2008 was around 10,000 units (31 December 2007: 5,830 units). Service charges generated from water purification service for the current period was RMB139,796.

– Air and water purification equipment and system

Different models of air and water purification equipment were developed for customers with different requirement. This business continued to develop with a steady growth rate. The revenue resulted from sales and installation of the air and water purification equipment and system for the current period was RMB1,879,958.

(b) Financial result, financial position and capital structure

The turnover for the current period was RMB2,019,754 (year ended 31 December 2007: RMB13,172,362) and the gross profit was RMB213,664 (year ended 31 December 2007: gross loss of RMB1,246,648). Net loss for the current period amounted to RMB3,379,580, which was arisen after the deduction of:

(i) selling and distribution expenses in aggregate of RMB1,200,692, which comprised primarily salaries and wages of sales team (RMB757,152) transportation costs (RMB11,360), marketing expenses (RMB100,250) and travelling expenses of sales team (RMB122,312);

(ii) administrative expenses in aggregate of RMB2,454,553, which comprised primarily salaries of administrative staff (RMB641,876), office rental (RMB468,525), motor vehicles running expenses (RMB85,514), depreciation (RMB62,127) and bad debt provision (RMB350,857); and

(iii) interest expenses amounted to RMB128,000 on the unsecured borrowing.

As at 17 March 2008, the total assets and liabilities stood at RMB35,535,907 (31 December 2007: RMB32,468,268) and RMB46,730,736 (31 December 2007: RMB40,283,513) respectively. Non-current assets amounted to RMB14,598,703 (31 December 2007: RMB10,153,181) which comprised mainly production equipment and machinery and the direct drinking water machines leased to the customers and prepayment for acquisition of a subsidiary. Current assets amounted to RMB20,937,204 (31 December 2007: RMB22,315,087) which comprised mainly inventory, amounts due from customers for contract work, trade and other receivables and cash and cash equivalents. Total cash and bank balances amounted to RMB1,255,346 (31 December 2007: RMB7,015,905) and all of which were denominated in Renminbi. Current liabilities amounted to RMB46,730,736 (31 December 2007: RMB40,283,513) which comprised mainly amounts due to customers for contract work, trade and other payables and short term loans. The group recorded a net current liabilities of RMB25,793,532 and a shareholder’s deficit of RMB11,194,829 as at 17 March 2008.

The Shanghai Comfort Group funded its operation by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the year.

On 2 March 2008, the group acquired 100% equity interest in Chengdu Comfort Water Company Limited from independent third parties at a consideration of RMB302,000. The discount on acquisition was RMB42,573. This subsidiary will take care of the direct drinking water machine market in Chengdu. Save as disclosed above, there was no material investment held, and no material acquisitions and disposals of subsidiaries and associated companies during the period.

There were no contingent liabilities as at 17 March 2008.

The group had a capital commitment amounted to RMB3,564,805 in respect of acquisition of property, plant and equipment as at 17 March 2008.

(c) Employment and remuneration policy

At 17 March 2008, the number of employees was 472. Total staff costs for the current period were approximately RMB2,323,076. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual.

(d) Future plan and prospects

With the recognition of our technology in the usage of ozone in sterilizing and purifying the air and water, the company successfully secured the contracts with certain food suppliers for the 2008 Beijing Olympic Games to install the air and water purification equipment and system for their food supply factories. This is a great business opportunity for the company and a good opportunity to prove our ability and competency by participating in this international event.

With the issue of contaminated bottled water revealed in March 2008, the general public was alert and their consciousness on the quality of the water and health was increased. This is the business opportunity for our direct drinking water machines which can produce oxygen-enriched purified water.

(e) Details of charges on assets

The Shanghai Comfort Group had no charge on its assets as at 17 March 2008.

(f) Borrowings and gearing ratio

The total outstanding loans as at 17 March 2008 were RMB25,863,253 which comprised unsecured short term borrowings amounting to RMB8,000,000 and the amount due to a director of RMB17,863,253. The Shanghai Comfort Group's gearing ratio, measured by total borrowings to total assets, was 72.8% as at 17 March 2008.

(g) Foreign exchange exposure

Since the operations of the company are in PRC and most of the transactions, monetary assets and liabilities are denominated in Renminbi, the company's exposure to foreign currency risk is minimal. There was no exposure to fluctuations in exchange rates and any related hedges.

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group (referred to as the "Unaudited Pro Forma Financial Information") has been prepared on the basis set out below for the purpose of illustrating the effect of the acquisition of shareholding interest in Park Wealth International Limited (the "Acquisition") as if it had taken place on 30 September 2008.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on (i) the unaudited consolidated balance sheet as at 30 September 2008 extracted from the interim report of the Group; and (ii) the audited consolidated balance sheet of the Park Wealth Group as at 31 August 2008 as extracted from the accountants' report thereon set out in Appendix II 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 September 2008.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to provide the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had been completed on 30 September 2008. As it is prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 September 2008 or at any future date.

	The Group at 30 September 2008	Park Wealth Group at 31 August 2008		Unaudited pro forma adjustments	*Notes*	Pro forma Enlarged Group Total
	HK$'000	*RMB'000*	*HK$'000* equivalent *(Note 1)*	*HK$'000*		*HK$'000*
NON-CURRENT ASSETS						
Property, plant and equipment	348	39,587	44,985	–		45,333
Goodwill	–	18,446	20,961	682,609	*2(a) & (b)*	703,570
	348	58,033	65,946	682,609		748,903
CURRENT ASSETS						
Inventories	–	8,064	9,164	–		9,164
Amounts due from customers for contract work	–	1,507	1,713	–		1,713
Trade and other receivables	701	25,840	29,364	–		30,065
Bank balances and cash	255,254	11,750	13,352	(12,330)	*2(b)*	256,276
	255,955	47,161	53,593	(12,330)		297,218
CURRENT LIABILITIES						
Trade and other payables	1,685	28,674	32,584	–		34,269
Amounts due to customers for contract work	–	11,097	12,610	–		12,610
Amount due to a related party	–	26,897	30,565	–		30,565
Taxation payable	99	138	157	–		256
Other borrowings	9,777	28,457	32,338	–		42,115
Derivative financial instruments	22,380	–	–	–		22,380
Warranty provision	–	895	1,017	–		1,017
Deferred income	–	10,029	11,397	–		11,397
	33,941	106,187	120,668	–		154,609
NET CURRENT ASSETS (LIABILITIES)	222,014	(59,026)	(67,075)	(12,330)		142,609
TOTAL ASSETS LESS CURRENT LIABILITIES	222,362	(993)	(1,129)	670,279		891,512
NON-CURRENT LIABILITIES						
Convertible bonds	168,475	–	–	–		168,475
Deferred income	–	1,012	1,150	–		1,150
	168,475	1,012	1,150	–		169,625
	53,887	(2,005)	(2,279)	670,279		721,887
CAPITAL AND RESERVES						
Share capital	3,370	8	8	(8)	*2(c)*	3,370
Reserves	50,517	(2,013)	(2,287)	670,287	*2(b) & (c)*	718,517
	53,887	(2,005)	(2,279)	670,279		721,887

Notes:

1. The amounts are translated based on the exchange rate of HK$1.00 to RMB0.88, which represents the exchange rate as at 30 September 2008.

2. Upon completion of the Acquisition, the identifiable assets and liabilities of the Park Wealth Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value estimated by the Directors under the purchase method of accounting.

   The adjustments represent:

   (a) the recognition of goodwill of approximately HK$682,609,000 arising from the acquisition of the Park Wealth Group, being the excess of the aggregate purchase consideration of approximately HK$680,330,000 over the Group's interest in the fair value of the identifiable assets and liabilities of the Park Wealth Group of approximately HK$2,279,000. For the purpose of the purchase price allocation, the fair values of the identifiable assets and liabilities of the Park Wealth Group are estimates made by the Directors as if the Acquisition were completed on 30 September 2008 and are assumed to be the same as the carrying amount of Park Wealth Group's assets and liabilities at that date. Since the fair value of the identifiable assets (including other intangible assets) and liabilities (including deferred income) of the Park Wealth 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 identifiable assets (including other intangible assets), liabilities and contingent liabilities, as well as goodwill to be recognised in connection with the Acquisition could be different from the estimated amount stated herein.

   (b) the total consideration for the Acquisition of approximately HK$680,330,000 above comprises the fair value of the Non-voting Convertible Preference Shares of approximately HK$676,000,000 and estimated directly attributable transaction costs of approximately HK$4,330,000. In addition, referral fee amounted to approximately HK$8,000,000 was included in the profit or loss. Approximately HK$200,000 of the estimated directly attributable transaction costs was paid as at 31 December 2008 and the remaining will be financed by the Company's internal resources.

   The Company will satisfy the consideration of the Acquisition by allotting and issuing the Non-voting Convertible Preference Shares with face value of HK$800,000,000, where the number of non-voting preference share to be issued is subjected to downward adjustment depending on the net profit of Park Wealth Group for the year ending 31 December 2009. The Non-voting Convertible Preference Shares are non-redeemable unless in the case of liquidation of the Company and is convertible into the Company's ordinary shares at a conversion price of HK$4. The Non-voting Convertible Preference Shares shall rank equally among themselves and pari passu with all other issued ordinary shares of the Company in respect of the right to any dividends and distribution declared. The Non-voting Convertible Preference Share is therefore an equity instrument issued by the Company in connection with the Acquisition and is included in the equity of the Enlarged Group. The amount HK$676,000,000 is determined by reference to the market prices of the Company's ordinary shares as at 30 September 2008 as if the Acquisition would have been completed on 30 September 2008 and is subject to finalisation at the date of completion of the Acquisition;

   (c) the elimination of share capital and pre-acquisition reserves of the Park Wealth Group of approximately HK$7,800 and HK$2,287,000, respectively.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
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TO THE DIRECTORS OF CHAOYUE GROUP LIMITED

We report on the unaudited pro forma financial information of Chaoyue Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of 100% interests in shares of Park Wealth International Limited ("Park Wealth") might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 22 January 2009 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 174-176 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.

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 Hong Kong Institute of Certified Public Accountants. 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 complied 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 judgments 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 future and may not be indicative of the financial position of the Group as at 30 September 2008.

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) 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 January 2009

The principal terms of the Non-voting Convertible Preference Shares to be issued by the Company will be as follows:

1.1 FACE VALUE:

Up to HK$800,000,000 (subject to adjustment).

1.2 CONVERSION AND REDEMPTION:

1.2.1 The Non-voting Convertible Preference Shares are not redeemable.

1.2.2 Provided that (A) any conversion of the Non-voting Convertible Preference Shares does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the relevant holder of the Non-voting Convertible Preference Shares who exercises the conversion rights, whether or not such mandatory offer obligation is triggered by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Non-voting Convertible Preference Shares and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of Non-voting Convertible Preference Shares and/or parties acting concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or (B) the shareholding in the Company held by the public will not be less than 25% or the minimum percentage as set out in Listing Rules from time to time or otherwise pursuant to other provisions of the Takeovers Code, the holder(s) of the Non-voting Convertible Preference Shares shall have the right to convert the whole or any part (in an amount or integral multiple of HK$400,000) into Shares at the Conversion Price of HK$4.00 per Share, subject to customary anti-dilution adjustments, in the following manner:

(i) up to 40% of the Non-voting Convertible Preference Shares at any time during the period commencing from the first Business Day following the 2nd anniversary of the Completion Date until the 3rd anniversary of the Completion Date;

(ii) up to 70% of the Non-voting Convertible Preference Shares at any time during the period commencing from the first Business Day following the 3rd anniversary of the Completion Date until the 4th anniversary of the Completion Date; and

(iii) all the remaining Non-voting Convertible Preference Shares at any time after the first Business Day following the 4th anniversary of the Completion Date.

1.3 ADJUSTMENT:

(A) The adjustment events will arise as a result of certain changes in the share capital of the Company including:

(i) Consolidation or Subdivision:

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:–

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(ii) Capitalisation of Profits or Reserves:

If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves, other than Shares issued in lieu of the whole or any part of a cash dividend (the "**Relevant Cash Dividend**"), being a dividend which the Shareholders concerned would or could otherwise have received in cash ("**Scrip Dividend**"), the Conversion Price shall be adjusted in the case of an issue of Shares other than by way of Scrip Dividend by multiplying the Conversion Price in force immediately before such issue by the following fraction:–

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue; and

in the case of an issue of Shares by way of a Scrip Dividend the Current Market Price of which Shares exceeds 110 per cent. of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Capital Distribution, by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;

B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount per Share of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price of the number of Shares issued in respect of each existing Share in lieu of the whole, or the relevant part of the Relevant Cash Dividend; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an approved merchant bank or the auditors of the Company for the time being shall certify to the Company is fair and reasonable.

Such adjustment shall become effective on the date of issue of such Shares.

(iii) Capital Distribution:

If and whenever the Company shall pay or make any Capital Distribution to the Shareholders (except where the Conversion Price falls to be adjusted under sub-paragraph (ii) above (or falls within sub-paragraph (ii) above but no adjustment falls to be made), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Capital Distribution by the following fraction:–

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the trading day last preceding the date on which the Capital Distribution is publicly announced; and

B is the fair market value on the date of such announcement, as determined in good faith by an approved merchant bank or the auditors of the Company for the time being, of the portion of the Capital Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Capital Distribution is actually made.

(iv) Rights Issues of Shares or Options Over Shares:

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 90 per cent. of the Current Market Price per Share on the last trading day preceding the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:–

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

(v) *Right Issues of Other Securities:*

If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights of any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:–

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last trading day preceding the date on which such issue or grant is publicly announced; and

B is the fair market value on the date of such announcement as determined in good faith by an approved merchant bank or the auditors of the Company for the time being, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

(vi) *Issues at less than Current Market Price:*

If and whenever the Company shall issue (otherwise than as mentioned in sub-paragraph (iv) above) wholly for cash any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or on the issue or grant of (otherwise than as mentioned in sub-paragraph (iv) above) options, warrants or other rights to subscribe for or purchase Shares in each case at a price per Share which is less than 90 per cent. of the Current Market Price on the trading day last preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:–

$$\frac{A + B}{C}$$

where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for or purchase any Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

(vii) Other issues at less than Current Market Price:

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this sub-paragraph (vii), if and whenever the Company or any Subsidiary (otherwise than as mentioned in sub-paragraphs (iv), (v) or (vi) above), or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary) any other person shall issue wholly for cash any securities (other than the Non-voting Convertible Preference Shares) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares (or grant any such rights in respect of any existing securities so issued) to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 90 per cent. of the Current Market Price per share on the last trading day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted, by multiplying the Conversion Price in force immediately prior to such issue (or grant) by the following fraction:–

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue (or grant);

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or subscription for or exchange of or upon exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and

C is the maximum number of Shares to be issued upon conversion into or subscription for exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of Issue (or grant) of such securities.

(viii) Modification of Rights of Conversion etc:

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (vii) above (other than in accordance with the terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 90 per cent. of the Current Market Price per share on the last trading day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:–

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(ix) Other offers to Shareholders:

If and whenever the Company or any Subsidiary or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary) any other person issues, sells or distributes any securities in connection with an offer by or on behalf of the Company or any Subsidiary or such other person pursuant to which offer the Shareholders generally (meaning for these purposes the holders of at least 75 per cent. of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under sub-paragraphs (iv) to (vii) above), the Conversion Price shall be adjusted by, multiplying the Conversion Price in force immediately prior to such issue by the following fraction:–

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last trading day preceding the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement, as determined in good faith by an approved merchant bank or the auditors of the Company for the time being, of the portion of the relevant offer attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

(x) Other Events:

If the Company considers that it would be appropriate for an adjustment to be made to the Conversion Price as a result of one or more events or circumstances not referred to in the above adjustment provisions, the Company shall at its own expense, request an approved merchant bank or the auditors of the Company for the time being to determine (acting as experts) as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (provided that the adjustment would result in a reduction in the Conversion Price) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph(x) if the approved merchant bank or the auditors of the Company for the time being is so requested to make such a determination; provided that where the circumstances giving rise to any adjustment pursuant to the above adjustment provisions have already resulted or shall result in an adjustment to the Conversion Price or where any other circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or shall give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of above adjustment as may be advised by the relevant approved merchant bank or the auditors of the Company for the time being in question to be in their opinion appropriate to give the intended result.

(B) Calculation of Consideration Receivable

For the purpose of any calculation of the consideration receivable pursuant to sub-paragraphs (vi), (vii) and (viii) of paragraph 1.3(A), the following provisions shall apply:–

(i) Issue of Shares for Cash:

the aggregate consideration receivable for Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission or any expenses paid or incurred by the Company for any underwriting of the issue or otherwise in connection therewith;

(ii) Issue of Shares on Conversion or Exercise of Securities:

(x) the aggregate consideration receivable for the Shares to be issued upon the conversion into or subscription for or exchange of, any securities shall be deemed to be the consideration received or receivable by the Company for any such securities and (y) the aggregate consideration receivable for the Shares to be issued upon the exercise of rights of subscription attached to any securities shall be deemed to be that part (which may be the whole) of the consideration received or receivable by the Company for such securities which is attributed by the Company to such rights of subscription or, if no part of such consideration is so attributed, the fair market value of such rights of subscription as at the date of announcement of the terms of issue of such securities (as determined in good faith by an approved merchant bank or the auditors of the Company for the time being, plus in the case of each of (x) and (y) above, the additional minimum consideration (if any) to be received by the Company upon the conversion or exchange of such securities, or upon the exercise of such rights of subscription attached thereto (the consideration in all such cases to be determined subject to the proviso in sub-paragraph (i) of this paragraph 1.3(B)) and (z) the consideration per Share receivable by the Company upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such securities shall be the aggregate consideration referred to in (x) or (y) above (as the case may be) converted into Hong Kong dollars if such consideration is expressed in a currency other than Hong Kong dollars at such rate of exchange as may be determined in good faith by an approved merchant bank or the auditors of the Company for the time being to be the spot rate ruling at the close of business on the date of announcement of the terms of issue of such securities, divided by the number of Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate.

(C) More than One Event in Quick Succession:

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an approved merchant bank or the auditors of the Company for the time being the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by an approved merchant bank or the auditors of the Company for the time being to be in their opinion appropriate in order to give such intended result.

(D) Share Option Scheme:

No adjustment shall be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered or granted to employees (including executive directors) of the Company or any Subsidiary pursuant to the Share Option Scheme or other employee option scheme(s) as may be adopted by the Company.

(E) Non-cash Consideration:

No adjustment shall be made in respect of an issue by the Company or any Subsidiary of securities convertible into or rights to acquire Shares in consideration in whole or in part of the acquisition of any other securities, assets or business.

(F) Certificate Conclusive:

If any doubt shall arise as to the appropriate adjustment to the Conversion Price a certificate of an approved merchant bank or the auditors of the Company for the time being who shall act as experts, shall be conclusive and binding on all concerned save in the case of fraud, manifest or proven error.

(G) Rounding and Minor Adjustments:

On any adjustment, the resultant Conversion Price, if not an integral multiple Hong Kong cents, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustments shall be given to the holders of the Non-voting Convertible Preference Shares as soon as practicable after the determination thereof.

(H) No Discount to Par Value:

The Conversion Price may not be adjusted or reduced so that the Conversion Price is lower than the par value of the Shares or, on conversion of the Non-voting Convertible Preference Shares, Shares would fall to be issued at a discount to their par value and if the Conversion Price as adjusted is lower than the par value of the Shares, the adjusted Conversion Price shall be equal to the par value of the Shares.

(I) Post-Record Date Adjustments:

Subject to paragraph 1.2.1, if the Registration Date in relation to any Convertible Preference Share shall be after the record date for any such issue, distribution or grant (as the case may be) as is mentioned in sub-paragraphs (ii) to (v) and (ix) of paragraph 1.3(A), or any such issue as is mentioned in sub-paragraphs (vi) and (vii) of paragraph 1.3(A) which is made to the Shareholders or any of them, but before the relevant adjustment becomes effective under paragraph 1.3(A), the Company shall (conditional upon such adjustment becoming effective) procure that there shall be issued to the converting holder of the Non-voting Convertible Preference Shares or in accordance with the instructions contained in the Conversion Notice (subject to the consent of the Company and any applicable exchange control or other laws or other regulations) such additional number of Shares as, together with the Shares issued or to be issued on conversion of the relevant holder of the Non-voting Convertible Preference Shares, is equal to the number of Shares which would have been required to be issued on conversion of such Non-voting Convertible Preference Shares if the relevant adjustment to the Conversion Price had in fact been made and become effective immediately before the relevant record date. Such additional Shares shall be allotted as at, and within one month after, the relevant Conversion Date or, if the adjustment results from the issue of Shares, the date of issue of Shares. Certificate for such Shares shall be despatched within such period of one month.

(J) For the purposes of this paragraph 1.3:

"**announcement**" includes the release of an announcement to the press or the delivery or transmission by telephone, telex or otherwise of an announcement to the Stock Exchange and "date of announcement" shall mean the date first appearing on such announcement;

"**approved merchant bank**" means an independent financial adviser in Hong Kong selected by the Company for the purpose of providing a specific opinion or calculation or determination hereunder;

"**Capital Distribution**" (without prejudice to the generality of that phrase) includes distributions in cash or specie. Any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a Capital Distribution provided that any such dividend shall not automatically be so deemed if it is paid out of the aggregate of the net profits (less losses) attributable to the holders of Shares for all financial periods after 31 March 2008 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each financial period ended 31 March;

"**Current Market Price**" in respect of a Share at a particular date the average of the closing prices published in the Stock Exchange's Daily Quotations Sheet for one Share (assuming a transaction in a board lot) for the five consecutive trading days ending on and including the trading day last preceding such date;

"**issue**" shall include allot;

"**Registration Date**" in respect of a Convertible Preference Share presented for conversion means the date on which the person entitled thereto is first registered as the holder thereof in the Company's register of members in respect of the relevant Conversion Shares;

"**reserves**" includes unappropriated profits; and

"**rights**" includes rights in whatsoever form issued.

1.4 CONVERSION SHARES:

On the basis of the aggregate face value of HK$800,000,000 and the Conversion Price of HK$4.00, a total of 200,000,000 Conversion Shares will be issued upon full conversion of the Non-voting Convertible Preference Shares.

The Conversion Shares shall upon issue rank pari passu in all respects with the then issued Shares.

1.5 LISTING:

No application will be made for the listing of the Non-voting Convertible Preference Shares on any stock exchange. Application will be made for the listing of and permission to deal in the Conversion Shares on the Stock Exchange and necessary arrangements will be made for the Conversation Shares to be admitted into CCASS.

1.6 VOTING:

Holder(s) of the Non-voting Convertible Preference Shares shall not be entitled to vote at any general meetings of the Company by reason only of it being a holder of the Non-voting Convertible Preference Shares, but holder(s) of the Non-voting Convertible Preference Shares shall be entitled to receive notices of general meetings of the Company and to attend the same.

1.7 RANKING:

The Non-voting Convertible Preference Shares shall rank equally among themselves and pari passu with all other issued Shares in respect of the right to any dividends and distributions declared.

In the event of liquidation, dissolution or winding up, or merger, reorganization, disposal of the whole or substantially the whole of the Company's business resulting in any distribution of assets of the Company, the holders of the Non-voting Convertible Preference Shares will receive an amount equal to 100% of the face value of the Non-voting Convertible Preference Shares in issue before a return of capital is made to the holders of the Shares. Thereafter, the remaining assets of the Company will be distributed to the Shareholders and holders of Non-voting Convertible Preference Shares pro-rata on an as-if-converted basis. Save as described herein, holders of the Non-voting Convertible Preference Shares are not entitled to any return of capital.

1.8 TRANSFERABILITY:

The Non-voting Convertible Preference Shares shall not be transferred without the prior written consent of the Company, except for a transfer to subsidiaries or holding company or fellow subsidiaries of the holders. The Non-voting Convertible Preference Shares may not be transferred, without the prior written consent of the Company, to any connected person of the Company. The Company undertakes to the Stock Exchange that it will notify the Stock Exchange immediately upon becoming aware of any dealings in the Non-voting Convertible Preference Shares by any connected persons of the Company.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

Assuming there being no change to the number of shares in issue from the Latest Practicable Date to the date of Completion, the authorised and issued share capital of the Company (a) as at the Latest Practicable Date; (b) after Completion and issue in full of the Non-voting Convertible Preference Shares but before conversion of the Non-voting Convertible Preference Shares; and (c) after Completion and issue in full of all the Non-voting Convertible Preference Shares and after full conversion of the Non-voting Convertible Preference Shares will be as follows:

(a) As at the Latest Practicable Date

		HK$
Authorised:		
50,000,000,000	Shares	500,000,000.00
Issued and fully paid:		
337,031,016	Shares	3,370,310.16

(b) After Completion and issue in full of the Non-voting Convertible Preference Shares but before conversion of the Non-voting Convertible Preference Shares

		HK$
Authorised:		
49,800,000,000	Shares	498,000,000.00
200,000,000	Non-voting Convertible Preference Shares	2,000,000.00
50,000,000,000		500,000,000.00
Issued and fully paid or credited as fully paid:		
337,031,016	Existing Shares	3,370,310.16
200,000,000	Non-voting Convertible Preference Shares	2,000,000.00
537,031,016		5,370,310.16

(c) After Completion and issue in full of all the Non-voting Convertible Preference Shares and after full conversion of the Non-voting Convertible Preference Shares

		HK$
Authorised:		
49,800,000,000	Shares	498,000,000.00
200,000,000	Non-voting Convertible Preference Shares	2,000,000.00
50,000,000,000		500,000,000.00
Issued and fully paid or credited as fully paid:		
337,031,016	Existing Shares	3,370,310.16
200,000,000	Conversion Shares	2,000,000.00
537,031,016		5,370,310.16

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of each Director and the 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 have been 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 in which they have taken or deemed to have taken under such provisions of the SFO), or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

(i) Long position in shares and underlying shares of the Company

Name of Director	Total number of Shares interested	Options to subscribe for Shares of the Company	Number of Shares held under equity derivative	Capacity in which interests are held	Interests as to % to the issued share capital of the Company
Yuen Leong	251,247,388 *(Note 1)*	–	–	Interest of a controlled corporation	74.55%
	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%
	–	–	830,000,000 *(Note 3)*	Interest of a controlled corporation	246.27%
	–	–	207,500,000 *(Note 3)*	Interest of a controlled corporation	61.57%
Chen Ye	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%
Chan Wai Dune	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%
Lam Man Kit Dominic	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%

Notes:

(1) These 251,247,388 shares are held by Long Grand Limited which is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the 251,247,388 shares held by Long Grand Limited for the purposes of the SFO.

(2) Pursuant to the share option scheme adopted by a resolution of the Shareholders on 17 September 2004, these share options were granted on 17 July 2008 and are exercisable at HK$5.32 per Share from 17 July 2008 to 16 September 2014.

(3) Long Grand Limited also held convertible bonds in the amount of HK$124,500,000 which are convertible into 830,000,000 new shares at an initial conversion price of HK$0.15 per share (subject to adjustments) with warrants (one warrant for every four new shares to be issued upon conversion of the convertible bonds) attached conferring right to subscribe up to 207,500,000 new shares at an initial subscription price of HK$0.15 per share (subject to adjustments). By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the respective 830,000,000 shares and 207,500,000 shares to be issued to Long Grand Limited upon conversion of the convertible bonds for the purposes of the SFO.

(ii) Long positions in shares and underlying shares of associated corporation

					Number of ordinary shares (long positions)	
Name of Director	**Name of associated corporation**	**Interest held by controlled corporation**	**Personal interest**	**Family interest**	**Total number of shares held in associated corporation**	**Approximate percentage of issued share capital of associated corporation**
Yuen Leong	Long Grand Limited	–	Beneficial owner	–	300	30%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning 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 required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (not being a Director or chief executive of the Company) have an interest or short position in the Shares and 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 are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Enlarged Group or have any options in respect of such capital:

Name	Capacity	Number of issued ordinary shares of the Company held	Approximate percentage of total number shareholding
Long Grand Limited (*Note 1*)	Beneficial owner	251,247,388	74.55%
	Beneficial owner	830,000,000 (*Note 2*)	246.27%
	Beneficial owner	207,500,000 (*Note 2*)	61.57%

Notes:

(1) Long Grand Limited is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong.

(2) Long Grand Limited also held convertible bonds in the amount of HK$124,500,000 which are convertible into 830,000,000 new Shares at an initial conversion price of HK$0.15 per Share (subject to adjustments) with warrants (one warrant for every four new Shares to be issued upon conversion of the convertible bonds) attached conferring right to subscribe up to 207,500,000 new Shares at an initial subscription price of HK$0.15 per Share (subject to adjustments). By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the respective 830,000,000 Shares and 207,500,000 Shares to be issued to Long Grand Limited upon conversion of the convertible bonds for the purposes of the SFO.

Save as disclosed above, so far as is known to the Directors or chief executive of the company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken 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, 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 other member of the Group or held any option in respect of such capital.

5. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Enlarged Group) have been entered into by any member of the Enlarged Group within the two years preceding the Latest Practicable Date:

(a) the sale and purchase agreement dated 11 May 2007 entered into between Trump Star Limited, an independent third party, and Invigo Overseas Limited ("Invigo"), a wholly-owned subsidiary of the Company, in relation to the disposal of two ordinary shares of HK$1 each in the issued share capital of Gentech (Asia) Limited ("Gentech") (a wholly-owned subsidiary of Invigo), which represent its entire issued share capital as at the date of the aforesaid agreement, and the assignment of all loans owing by Gentech to Invigo as at the date of the aforesaid agreement to Trump Star Limited by Invigo at a consideration of approximately HK$8.88 million;

(b) the sale and purchase agreement dated 16 October 2007 entered into between Park Wealth and 上海康福特環保產品科技有限公司 (Shanghai Comfort Environment Protection Product Technology Company Limited*) and Mr. Chen Xuejun to acquire 100% of the issued share capital of Shanghai Comfort at a consideration of RMB5,526,299.67;

(c) the conditional subscription agreement dated 14 November 2007 entered into between the Company and Long Grand Limited in relation to (i) the issue and subscription of 170,000,000 Shares; (ii) the issue of two-year zero coupon convertible bonds in an aggregate principal amount of HK$124,500,000; and (iii) the issue of unlisted warrant issued by way of bonus by the Company to Long Grand Limited;

(d) the conditional placing agreement dated 14 November 2007 entered into between the Company and Emperor Securities Limited in relation to the placing of the two-year zero coupon convertible bonds up to an aggregate principal amount of HK$60,000,000 together with the unlisted warrants of the Company issued by way of bonus by Emperor Securities Limited for and on behalf of the Company;

(e) the sale and purchase agreement dated 2 March 2008 entered into between Shanghai Comfort and 余惠玲 (Yu Huiling*) and 李敏 (Li Min*) to acquire 100% equity interest in Chengdu Comfort Water Company Limited at a consideration of RMB302,000;

(f) the sale and purchase agreement dated 30 April 2008 entered into between Shanghai Comfort and 楊秀英 (Yang Xiuying*), 張中國 (Zhang Zhongguo*) and 王暉 (Wong Hui*) to acquire 100% equity interest in Shenzhen Comfort Environmental Protection Technology Development Company Limited at a consideration of RMB1,000,000;

(g) the Agreements; and

(h) the Loan Agreement.

* *The English names is for identification purpose only.*

6. LITIGATION

So far as the Directors were aware, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. EXPERT AND CONSENT

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

Name	Qualification
Deloitte Touche Tohmatsu ("DTT")	certified public accountants

DTT has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, DTT had no shareholding, directly or indirectly, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, DTT had no direct or indirect interests in any assets which had been, since 31 March 2008 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to the Enlarged Group, or proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Enlarged Group which will not expire or is not determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

9. CONTRACTS OR ARRANGEMENT AND COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, save as disclosed below, none of the Directors, the directors of the subsidiaries of the Company or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

Name of directors and subsidiary of the Company	Name of competing entity	Nature of business of the competing entity	Nature of interest of the director in the competing entity
Mr. Ling Tai Yuk, John, the director of Koniko Company Limited	Casual Center Garment Industries Limited	Manufacture and trading of garments	director and substantial shareholder
	Pace Fashion Industries Limited	Leasing of properties to companies engaged in the manufacture of garments, the trading of garments and the design and sale of sample garment products	director
	Progressive Industries	Trading of fabric and garments	sole proprietor

10. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been since 31 March 2008, the date to which the latest published audited accounts 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.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit 2302, 23rd Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong, from the date of this circular and up to and including 11 February 2009:

(a) the memorandum and Bye-laws of the Company;

(b) the material contracts as referred to in the section headed "Material Contracts" in this appendix;

(c) the annual report of the Company for each of the two years ended 31 March 2007 and 2008;

(d) the accountants' reports on the Park Wealth Group (as set out in Appendix II to this circular) and the Shanghai Comfort Group (as set out in Appendix III to this circular);

(e) the letter from DTT in relation to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular; and

(f) the letter of consent referred to under the section headed "Expert and consent" in this appendix.

12. GENERAL

(a) The qualified accountant and company secretary of the Company is Mr. Chung Yau Tong. He is a certified public accountant of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(b) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(c) The registered office of the Company is situated at Clarendon House, Church Street, Hamilton, HM 11, Bermuda.

(d) The head office and principal place of business of the Company in Hong Kong is located at Unit 2302, 23rd Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

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

CHAOYUE GROUP LIMITED
超越集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 00147)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Chaoyue Group Limited ("**Company**") will be held at Unit 2302, 23rd Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong on Wednesday, 11 February 2009 at 11:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modification, the following resolutions of the Company:

ORDINARY RESOLUTIONS

(1) "**THAT**

(a) the loan agreement (the "**Loan Agreement**") dated 11 October 2008 entered into between Park Wealth International Limited ("**Park Wealth**") as the borrower and Successtime Limited ("**Successtime**"), a wholly-owned subsidiary of the Company, as the lender, 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 Successtime has agreed to provide a facility in an aggregate principal amount of up to HK$80,000,000 (the "**Facility**"), which bears interest at the prime lending rate for HK$ quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time, to Park Wealth, be and is hereby approved, confirmed and ratified; and

(b) 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 the Loan Agreement and do all such acts and things and to sign and execute all such other or further documents (if any) and to take all such steps which in his opinion, may be necessary, appropriate, desirable or expedient to give effect to or in connection with the matters contemplated in and for completion of the provision of the Facility and the transactions contemplated therein and to agree to any variation, amendment, supplement or waiver of matters relating thereto as are, in his opinion, in the interest of the Company, to the extent that such variation, amendment, supplement or waiver do not constitute material changes to the material terms of the transactions contemplated under the Loan Agreement."

(2) "**THAT**

(a) the conditional agreement dated 11 October 2008 and the supplemental agreement dated 28 November 2008 (the "**Agreements**") entered into between Successtime (as defined in resolution numbered (1) set out in this notice), Teamwon Limited (the "**First Vendor**"), Sureguide Limited (the "**Second Vendor**"), Sure Achieve Limited (the "**Third Vendor**", together with the First Vendor and the Second Vendor, the

"**Vendors**"), Mr. Jorge Ernesto De Almeida (the "**First Guarantor**"), Mr. Yang Zhuoya (the "**Second Guarantor**") and Mr. Wong Kin San (the "**Third Guarantor**", together with the First Guarantor and the Second Guarantor, "**Guarantors**"), a copy of which is tabled at the meeting and marked "**B**" and initialed by the chairman of the meeting for identification purposes, pursuant to which Successtime has conditionally agreed to acquire from the Vendors the entire issued share capital of Park Wealth (as defined in resolution numbered (1) set out in this notice) (the "**Acquisition**") for an aggregate consideration of HK$800,000,000 (subject to adjustment) which will be satisfied by Successtime procuring the Company to allot and issue the non-voting and non-redeemable convertible preference shares with an aggregate face value of up to HK$800,000,000 (the "**Non-voting Convertible Preference Shares**") at the conversion price of HK$4 per Conversion Share (as defined in the circular of the Company dated 22 January 2009), be and is hereby approved, confirmed and ratified;

(b) 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 the Agreements and do all such acts and things and to sign and execute all such other or further documents (if any) and to take all such steps which in his opinion, may be necessary, appropriate, desirable or expedient to give effect to or in connection with the matters contemplated in and for completion of the Acquisition and the transactions contemplated therein and to agree to any variation, amendment, supplement or waiver of matters relating thereto as are, in his opinion, in the interest of the Company, to the extent that such variation, amendment, supplement or waiver do not constitute material changes to the material terms of the transactions contemplated under the Agreements;

(c) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and the permission to deal in, the Conversion Shares and subject to resolution numbered (3) set out in this notice being duly passed, the allotment and issue of the Non-voting Convertible Preference Shares to the Vendors or their nominees to satisfy the consideration of the Acquisition be and is hereby confirmed and approved; and

(d) the directors of the Company be and are hereby authorised to issue the Conversion Shares pursuant to the terms of the Agreements and the Non-voting Convertible Preference Shares and the directors of the Company be and are hereby also authorised to do all such acts and things they consider necessary or expedient in relation to the exercise of conversion right attaching to the Non-voting Convertible Preference Shares."

(3) "**THAT** the creation and designation of 200,000,000 shares of HK$0.01 each in the authorised share capital of the Company as Non-voting Convertible Preference Shares of the Company having the special rights and being subject to the terms of the Non-voting Convertible Preference Shares set out in Appendix V to the circular of the Company dated 22 January 2009, a copy of which is tabled at the meeting and marked "**C**" and initialed by the chairman of the meeting for identification purposes, and the designation

of the remaining authorised but unissued shares of HK$0.01 each and the existing issued shares of HK$0.01 each of the Company as Ordinary Shares of the Company be and are hereby approved and confirmed."

(4) "**THAT**

(a) subject to and conditional upon the Listing Committee of the Stock Exchange (as defined in resolution numbered (1) (c) set out in the notice) granting approval for the listing of, and permission to deal in, the shares in the share capital of the Company to be issued pursuant to the exercise of share options which may be granted under the Scheme Mandate Limit (as defined below), the refreshment of the limit in respect of the granting of share options under the share option scheme of the Company adopted on 17 September 2004 and all other share option scheme(s) up to 10% of the number of shares of the Company in issue at the date of the passing of this resolution (the "**Scheme Mandate Limit**") be and is hereby approved; and

(b) any Director of the Company be and is hereby authorised to do all such acts and execute all such documents to effect the refreshment of the Scheme Mandate Limit."

By order of the Board
Yuen Leong
Executive Director

Hong Kong, 22 January 2009

Notes:

1. Any member of the Company entitled to attend and vote at the meeting of the Company by the above notice shall be entitled to appoint another person as his/her proxy to attend and vote instead of such member. A proxy need not be a member of the Company.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

3. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notary certified copy of such power or authority must be delivered to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong or by way of notice to or in any document accompanying the notice convening the meeting not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.

4. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. In the case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.