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CHINA HAIDIAN HOLDINGS LIMITED

中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

MAJOR TRANSACTION IN RELATION TO THE ESTABLISHMENT OF JOINT VENTURE FOR DEVELOPMENT OF LAND

Financial Adviser to China Haidian Holdings Limited



Quam Capital Limited

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DEFINITIONS

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

“Actor Investments”	Actor Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Jia Cheng
“Article of Association”	the article of association of the JV Company
“Auction PRC Land”	a land parcel located at 93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, PRC (深圳市南山區月亮灣大道93號) with a total area of 49,581.66 sq. m.
“Board”	the board of Directors
“Citychamp”	Citychamp Dartong Company Limited (冠城大通股份有限公司), the shares of which are listed on the SSE in the PRC
“Citychamp Group”	Citychamp and its subsidiaries
“Company”	China Haidian Holdings Limited 中國海澱集團有限公司, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Confirmation Letter”	the letter dated 26 November 2008 entered into among SZFDC, the Shenzhen Government, Seti Trading and Suzhou Citychamp which confirms the winning of the bid
“connected person”	has the meaning ascribed thereto in the Listing Rules and the word “connected” shall be construed accordingly
“Consideration”	the land premium for the acquisition of the Auction PRC Land
“Director(s)”	the director(s) of the Company
“Fujian Fengrong”	Fujian Fengrong Investment Company Limited (福建豐榕投資有限公司), a company established in the PRC and owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively

DEFINITIONS

“Full Day”	Full Day Limited, a company incorporated in the British Virgin Islands with limited liability
“Fuzhou Dartong”	Fuzhou Dartong M&E Co., Ltd. (福州大通機電有限公司), a sino-foreign equity joint venture established in the PRC and owned as to 51% by Citychamp and 49% by the Company with the voting power equally shared between the two shareholders
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Jia Cheng”	Jia Cheng Investment Limited, a company incorporated in the British Virgin Islands with limited liability
“Jiangsu Dartong”	Jiangsu Dartong M&E Co. Ltd. (江蘇大通機電有限公司), a sino-foreign equity joint venture established in the PRC and owned as to 42.20%, 32.22% and 25.58% by Citychamp, Qingjiang and the Company respectively
“Joint Arrangement”	the arrangement to jointly invest in the restoration of the PRC Land by Seti and Citychamp pursuant to the Joint Arrangement Agreement
“Joint Arrangement Agreement”	the agreement dated 3 December 2007 entered into between Seti and Citychamp in relation to the Joint Arrangement
“Joint Venture Agreement”	the agreement dated 26 November 2008 entered into between Seti Trading and Suzhou Citychamp in relation to the establishment of the JV Company
“JV Company”	a joint venture company to be formed by Seti Trading and Suzhou Citychamp for the purpose of holding and development of the Auction PRC Land
“Land Resumption”	resumption of the PRC Land by the Shenzhen Government pursuant to the Land Resumption Agreement

DEFINITIONS

“Land Resumption Agreement”	the agreement dated 3 December 2007 entered into between Seti and the Shenzhen Government in relation to the Land Resumption
“Latest Practicable Date”	17 December 2008, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Hon”	Mr. Hon Kwok Lung, an executive Director
“Ms. Lu”	Ms. Lu Xiaojun, a shareholder of Fujian Fengrong
“Ms. Sit”	Ms. Sit Lai Hei, a shareholder of Fujian Fengrong and a non-executive Director
“Open Auction”	the auction of the Auction PRC Land at Shenzhen Land and Real Estate Exchange Centre (深圳市土地房產交易中心)
“PRC”	the People’s Republic of China
“PRC Land”	a land parcel located at 93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, PRC (深圳市南山區月亮灣大道93號) with an area of 101,576.7 sq. m.
“Project Agreement”	the agreement dated 26 November 2008 entered into among the Shenzhen Government, Seti Trading and Suzhou Citychamp which sets out the terms of the acquisition of the Auction PRC Land
“Qingjiang”	Jiangsu Qingjiang Investment Holdings Company Limited (江蘇清江投資股份有限公司), a company established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC, and the exchange rate for RMB into HK\$ for the purpose of this circular is RMB1.00 = HK\$1.13
“Rossini Group”	Zhuhai Rossini Watch Industry Ltd. (珠海羅西尼錶業有限公司), a company established in the PRC with limited liability, and its subsidiary

DEFINITIONS

“Seti”	Seti Timber Industry (Shenzhen) Co., Ltd. 森帝木業(深圳)有限公司, a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Seti Trading”	Shenzhen Seti Trading Development Company Limited (深圳市森帝貿易發展有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Government”	People’s Government of the Nanshan District of the Shenzhen Municipal (深圳市南山區人民政府)
“Sincere View”	Sincere View International Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned as to 80% by Mr. Hon and 20% by Ms. Lam Suk Ying, the wife of Mr. Hon
“sq. m.”	square metre(s)
“SSE”	The Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Suzhou Citychamp”	Suzhou Citychamp Hongye Property Development Company Limited (蘇州冠城宏業房地產有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of Citychamp
“Transaction”	acquisition of the Auction PRC Land and establishment of the JV Company
“SZFDC”	Shenzhen Municipal Bureau of Land Resources and Housing Management (深圳市國土資源和房產管理局)
“%”	per cent

LETTER FROM THE BOARD



CHINA HAIDIAN HOLDINGS LIMITED

中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

Executive Directors:

Mr. Hon Kwok Lung (*Chairman*)

Mr. Wang Shaolan (*Vice Chairman*)

Mr. Shang Jianguang (*Chief Executive Officer*)

Mr. Shi Tao

Mr. Lam Toi Man

Registered office:

P.O. Box 309

Ugland House

South Church Street

Grand Cayman

Cayman Islands

Non-executive Director:

Ms. Sit Lai Hei

Head office and principal place

of business in Hong Kong:

Units 1902–04

Level 19

International Commerce Centre

1 Austin Road West

Kowloon

Hong Kong

Independent non-executive Directors:

Mr. Fung Tze Wa

Dr. Kwong Chun Wai, Michael

Mr. Li Qiang

19 December 2008

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO
THE ESTABLISHMENT OF JOINT VENTURE
FOR DEVELOPMENT OF LAND**

INTRODUCTION

It was announced that on 26 November 2008, Seti Trading, a wholly-owned subsidiary of the Company, and Suzhou Citychamp jointly won the bid at the Open Auction to acquire the land use right of the Auction PRC Land located in the Nanshan District, Shenzhen, Guangdong Province, PRC. On the same date, SZFDC, the Shenzhen Government, Seti Trading and Suzhou Citychamp entered into the Confirmation Letter which confirms the winning of the bid; and the Shenzhen Government, Seti Trading and Suzhou Citychamp entered into the Project Agreement which sets out the terms of the acquisition of the Auction PRC Land.

LETTER FROM THE BOARD

Following the successful bidding of the Auction PRC Land, Seti Trading and Suzhou Citychamp entered into the Joint Venture Agreement on 26 November 2008, pursuant to which Seti Trading and Suzhou Citychamp will procure to establish the JV Company for holding and development of the Auction PRC Land.

The purpose of this circular is to give you, among other things, further details of the Transaction.

ACQUISITION OF THE AUCTION PRC LAND

Reference is made to the announcement dated 6 December 2007 and the circular dated 27 December 2007 issued by the Company in relation to, among other things, details of the Land Resumption Agreement and the Joint Arrangement Agreement.

On 26 November 2008, Seti Trading, a wholly-owned subsidiary of the Company, and Suzhou Citychamp jointly won the bid at the Open Auction to acquire the land use right of the Auction PRC Land located in the Nanshan District, Shenzhen, Guangdong Province, PRC. On the same date, SZFDC, the Shenzhen Government, Seti Trading and Suzhou Citychamp entered into the Confirmation Letter which confirms the winning of the bid; and the Shenzhen Government, Seti Trading and Suzhou Citychamp entered into the Project Agreement which sets out the terms of the acquisition of the Auction PRC Land.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, SZFDC and the Shenzhen Government are third parties independent of and not connected with the Company or its connected persons.

Consideration and payment terms

Pursuant to the Project Agreement, the Consideration for the acquisition of the Auction PRC Land is RMB800 million (equivalent to approximately HK\$904 million) and will be settled in cash. RMB240 million (equivalent to approximately HK\$271.2 million) of the Consideration was paid to the Shenzhen Government within five business days from the date of the Open Auction. The remaining Consideration shall be paid in two instalments: (i) RMB240 million (equivalent to approximately HK\$271.2 million) shall be paid within 180 days from the date of the Open Auction; and (ii) RMB320 million (equivalent to approximately HK\$361.6 million) shall be paid within five business days from the date of signing of the land use right transfer agreement.

The Consideration was the amount jointly bid by Seti Trading and Suzhou Citychamp at the Open Auction and is equivalent to the reserve price of the Auction PRC Land. The Consideration was determined with reference to market prices of land in the proximity and potential value of the development of the Auction PRC Land. Seti Trading is required to pay 30% of the Consideration in the amount of RMB240 million (equivalent to approximately HK\$271.2 million).

LETTER FROM THE BOARD

Source of funding

Pursuant to the Land Resumption Agreement, the Shenzhen Government will pay Seti 89.5% of the Consideration as compensation for the Land Resumption, being RMB716 million (equivalent to approximately HK\$809.1 million). According to the Joint Arrangement Agreement, Seti and Citychamp agreed to cooperate in the restoration of the PRC Land. The respective interests of Seti and Citychamp in the Joint Arrangement are 71.27% and 28.73%. Accordingly, Seti's share of the gross proceeds from the Land Resumption is estimated to be approximately RMB510.3 million (equivalent to approximately HK\$576.6 million).

The total amount payable by Seti Trading of RMB240 million (equivalent to approximately HK\$271.2 million) will be financed by the net proceeds from the Land Resumption. Prior to the receipt of the compensation from the Shenzhen Government, Seti Trading intends to finance the payments by internal resources of the Group and/or bank borrowings.

ESTABLISHMENT OF THE JV COMPANY

Following the successful bidding of the Auction PRC Land, Seti Trading and Suzhou Citychamp entered into the Joint Venture Agreement on 26 November 2008, pursuant to which Seti Trading and Suzhou Citychamp will procure to establish the JV Company for holding and development of the Auction PRC Land. The major terms of the Joint Venture Agreement will be incorporated into the Article of Association. The principal terms of the Joint Venture Agreement are as follows:

- | | |
|--|---|
| Date | : 26 November 2008 |
| Parties | : Seti Trading and Suzhou Citychamp |
| Formation of joint venture | : Seti Trading and Suzhou Citychamp shall procure to establish the JV Company for holding and development of the Auction PRC Land. |
| Name of the JV Company | : The name of the JV Company is tentatively proposed to be Shenzhen Guanyang Property Development Company Limited (深圳冠洋房地產有限公司). |
| Shareholdings in the JV Company | : The shareholdings of Suzhou Citychamp and Seti Trading in the JV Company shall be in the proportions of 70% and 30% respectively. |

LETTER FROM THE BOARD

- Registered capital** : The registered capital of the JV Company will be RMB100 million (equivalent to approximately HK\$113 million) and payable by Seti Trading and Suzhou Citychamp in cash proportionately to their respective interests in the JV Company upon obtaining the approval(s) of relevant government authority(ies) for the formation of the JV Company.
- Total investment amount** : The total investment amount of the JV Company shall be approximately RMB1.5 billion (equivalent to approximately HK\$1.7 billion). It is intended that the funding required to finance the development of the Auction PRC Land shall be raised by the JV Company.
- Profit distribution** : The profits available for distribution of the JV Company will be distributed to Seti Trading and Suzhou Citychamp in proportion to their respective interests in the JV Company.
- Board composition** : The board of directors of the JV Company will comprise three members, of which two directors will be nominated by Suzhou Citychamp and one director will be nominated by Seti Trading.

As at the Latest Practicable Date, save as Seti Trading's share of the registered capital of the JV Company and the Consideration, being RMB270 million (equivalent to approximately HK\$305.1 million) in aggregate, there is no other capital commitment or contractual commitment on the part of the Group regarding the JV Company. The funding requirement of Seti Trading's share of the registered capital of the JV Company will be financed by the Group's internal resources. The Company will comply with the requirements of the Listing Rules if Seti Trading is required to inject further capital into the JV Company. The interest of Seti Trading in the JV Company will be accounted for as an associate of the Company.

INFORMATION OF THE AUCTION PRC LAND

The Auction PRC Land is located at 93 Yueliangwan Main Road, Nanshan District, Shenzhen, Guangdong Province, PRC (深圳市南山區月亮灣大道93號) with a total area of 49,581.66 sq. m.. The Auction PRC Land was previously occupied by Seti for its production plant. Restoration work is being conducted on the Auction PRC Land. The Auction PRC Land is planned to be developed into a residential, commercial, office and hotel complex with a total gross floor area of 205,693 sq. m..

LETTER FROM THE BOARD

As at 30 September 2008, the unaudited carrying value of the prepaid land lease payments in respect of the PRC Land was RMB40,101,673 (equivalent to approximately HK\$45,314,890). According to a valuation carried out by Greater China Appraisal Limited, an independent valuer in Hong Kong, the appraised value of the Auction PRC Land was RMB780 million (equivalent to approximately HK\$881.4 million) as at 30 November 2008.

The restoration of the PRC Land shall be completed within 200 days from the auction date. Prior to the Land Resumption, Seti is required to, among other things, demolish buildings on the PRC Land and dispose of machineries, materials and inventories of the timber business. It is difficult to ascertain all expenses and other income to be generated from the Land Resumption at the early stage. Therefore, the gain or loss on the resumption and restoration of the PRC Land cannot be ascertained at this stage.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The PRC government's previous austerity measures, tightening credits, global economic slowdown, and negative wealth effect from the stock market have triggered a recent period of significant correction in the PRC property market. The property sector is described as a pillar industry critical for everything from steel to home appliances. Realising the importance of the property sector to the PRC's economic recovery, the PRC government has recently announced a series of stimulus measures. In addition, the State Council of the PRC also emphasised that a long-term healthy development of the property market is important to the PRC's sustainable growth. The PRC government's intention and related measures should help stabilise the PRC property market in the medium term. Shenzhen, being one of the fastest growing city in the past and with a strong economic base, is believed to benefit from the supportive measures and to be one of the first cities capable of recovering from the weaken economy.

According to the statistics posted on the website of the Shenzhen Municipal Government, the Nanshan District of Shenzhen has developed rapidly in the last decade with its gross domestic product grew at a compound annual growth rate of approximately 16.7% between 1997 and 2007. For the first nine months of 2008, the gross domestic product of the Nanshan District increased by about 12.0% compared to the same period in 2007.

Given that the strong economic growth of the Nanshan District and the Auction PRC Land is in the proximity to a high technology development zone, high quality residential areas, the proposed bonded warehouse, highways and underground transportations, the Company considers that the Transaction is an attractive opportunity for the Group to capture the future recovery of the property market in the PRC. The investment in property development will also help to diversify the Group's revenue sources. In addition, the formation of the joint venture with the Citychamp Group will enable the Group to benefit from its expertise in property development in the PRC.

In light of the foregoing, the Directors (including the independent non-executive Directors) consider that the terms of the Transaction are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECT OF THE TRANSACTION ON THE GROUP

The investment in the JV Company by the Group is expected to generate positive contribution to the earnings of the Group in the medium term. The total assets and total liabilities of the Group are expected to remain unchanged as a result of the Transaction.

INFORMATION ON THE GROUP AND THE CITYCHAMP GROUP

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

Suzhou Citychamp is a wholly-owned subsidiary of Citychamp. Citychamp is a company listed on the SSE. The Citychamp Group is principally engaged in property development and investment, and manufacture and sale of enamelled copper wires. The Company owns 14.78% interest of Citychamp.

Fujian Fengrong, the single largest shareholder of Citychamp, is interested in approximately 26.08% of the issued share capital of Citychamp as at the Latest Practicable Date. Fujian Fengrong is owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively. Ms. Sit is a non-executive Director and hence a connected person of the Company. In addition, both of Ms. Sit and Ms. Lu are daughters-in-law of Mr. Hon. Hence, Ms. Lu is also a connected person of the Company. Save as the aforesaid and to the Directors' best knowledge, no connected person of the Company has any interest in Citychamp. Ms. Sit and Ms. Lu do not have any interest in the Company.

Fujian Fengrong is interested in less than 30% of the issued share capital of Citychamp. In addition, under the PRC law, Ms. Sit and Ms. Lu do not, by virtue of their approximately 26.08% interests in Citychamp, have control over the board of directors of Citychamp and its subsidiaries and thus Ms. Sit and Ms. Lu are not able to appoint the directors of Citychamp without the support of other shareholders of Citychamp. Therefore, Citychamp is not a connected person of the Company under the Listing Rules. Ms. Sit is a director of Citychamp while Ms. Lu does not hold any position in Citychamp.

Fuzhou Dartong, a jointly-controlled entity of the Company, is owned as to 51% by Citychamp and 49% by the Company with the voting power equally shared between the two shareholders. Jiangsu Dartong, an associate of the Company, is owned as to 42.20%, 32.22% and 25.58% by Citychamp, Qingjiang and the Company respectively. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Qingjiang and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

LETTER FROM THE BOARD

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

LISTING RULES IMPLICATIONS

The Transaction constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to Shareholders' approval. On 26 November 2008, written approvals of the Transaction have been obtained from Sincere View and Full Day which beneficially owned 683,441,515 Shares and 1,750,000,000 Shares respectively, representing approximately 19.29% and 49.41% of the issued share capital of the Company as at 26 November 2008 and the Latest Practicable Date. Mr. Hon and his wife collectively own 100% interest in Sincere View. Full Day is a company wholly-owned by Mr. Hon. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Transaction and therefore no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the Transaction. As such, pursuant to Rule 14.44 of the Listing Rules, the written approvals provided by Sincere View and Full Day in relation to the Transaction are accepted in lieu of holding a general meeting.

There is no prior transaction which is required to be aggregated with the Transaction under Rule 14.22 of the Listing Rules.

ADDITIONAL INFORMATION

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

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

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three years ended 31 December 2007 extracted from the relevant annual reports of the Company.

Consolidated Income Statements

	Year ended 31 December		
	2007 HK\$'000	2006 HK\$'000 (Restated)	2005 HK\$'000 (Restated)
Continuing operations			
Revenue	576,058	330,774	144,847
Cost of sales	<u>(468,903)</u>	<u>(251,462)</u>	<u>(78,713)</u>
Gross profit	107,155	79,312	66,134
Other revenue and financial revenue	16,560	11,449	3,755
Selling and distribution costs	(54,708)	(45,602)	(36,259)
Administrative expenses	(65,910)	(51,906)	(47,308)
Gain on fair value changes in financial assets at fair value through profit or loss, net	24,629	38,589	(329)
Net surplus on revaluation of investment properties	10,178	22,031	996
Dividend income from available-for-sale financial assets	48,383	–	–
Gain on disposal of an investment property	22,853	–	–
Other operating income, net	4,614	3,473	16,238
Finance costs	(7,157)	(2,880)	–
Share of results of associates	<u>2,212</u>	<u>5,028</u>	<u>–</u>
Profit before income tax	108,809	59,494	3,227
Income tax expense	<u>(7,168)</u>	<u>(7,815)</u>	<u>(3,362)</u>
Profit/(loss) after income tax from continuing operations	101,641	51,679	(135)
Discontinued operations			
Profit/(loss) from discontinued operations	<u>325,566</u>	<u>(29,612)</u>	<u>(43,576)</u>
Profit/(loss) for the year	<u>427,207</u>	<u>22,067</u>	<u>(43,711)</u>
Attributable to:			
Equity holders of the Company	427,467	22,347	(43,275)
Minority interest	<u>(260)</u>	<u>(280)</u>	<u>(436)</u>
Profit/(loss) for the year	<u>427,207</u>	<u>22,067</u>	<u>(43,711)</u>

Consolidated Balance Sheets

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

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

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

The following are the audited consolidated financial statements of the Group extracted from the annual report of the Company for the year ended 31 December 2007.

Consolidated Income Statement

For the year ended 31 December 2007

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

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

Consolidated Balance Sheet*As at 31 December 2007*

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

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

Balance Sheet*As at 31 December 2007*

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

Consolidated Cash Flow Statement*For the year ended 31 December 2007*

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

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

Consolidated Statement of Changes in Equity*For the year ended 31 December 2007*

	Equity attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium account* HK\$'000	Goodwill arising on consolidation* HK\$'000	Statutory reserves* HK\$'000	Exchange fluctuation reserve* HK\$'000	Investment revaluation reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total equity HK\$'000
At 1 January 2006	154,483	-	(15,300)	14,747	6,803	-	298,285	459,018	20,877	479,895
Exchange realignment	-	-	-	-	8,150	-	-	8,150	87	8,237
Total income and expense for the year recognised directly in equity	-	-	-	-	8,150	-	-	8,150	87	8,237
Transfer to statutory reserves	-	-	-	3,072	-	-	(3,072)	-	-	-
Net profit for the year	-	-	-	-	-	-	22,347	22,347	(280)	22,067
Total recognised income and expense for the year	-	-	-	3,072	8,150	-	19,275	30,497	(193)	30,304
Issue of new shares	24,720	23,700	-	-	-	-	-	48,420	-	48,420
Increase in paid up capital of a subsidiary	-	-	-	-	-	-	-	-	12,019	12,019
At 31 December 2006 and 1 January 2007	179,203	23,700	(15,300)	17,819	14,953	-	317,560	537,935	32,703	570,638
Exchange realignment	-	-	-	-	6,175	-	-	6,175	143	6,318
Change in fair value of available-for-sale financial assets	-	-	-	-	-	241,797	-	241,797	-	241,797
Total income and expense for the year recognised directly in equity	-	-	-	-	6,175	241,797	-	247,972	143	248,115
Transfer to statutory reserves	-	-	-	1,974	-	-	(1,974)	-	-	-
Net profit for the year	-	-	-	-	-	-	427,467	427,467	(260)	427,207
Total recognised income and expense for the year	-	-	-	1,974	6,175	241,797	425,493	675,439	(117)	675,322
Disposals of subsidiaries (Note 44)	-	-	-	-	-	-	-	-	(30,194)	(30,194)
Balance at 31 December 2007	179,203	23,700	(15,300)	19,793	21,128	241,797	743,053	1,213,374	2,392	1,215,766

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

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION

China Haidian Holdings Limited (the “Company”) is a limited liability company incorporated and domiciled in the Cayman Islands. The address of its registered office is P.O. Box 309, Uglund House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Units 1902-04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

- Manufacture and distribution of watches and timepieces
- Property investment

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

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

On 15 September 2006, a shareholders’ resolution was passed to dispose of the entire paid-up capital of two subsidiaries, namely Beijing Jing Guan Property Development Company Limited (“Jing Guan”) and Beijing Xin Yang Property Development Company Limited (“Xin Yang”) (which is 80% owned by Jing Guan). Jing Guan and Xin Yang were both incorporated in the PRC and are principally engaged in the property development (the “2006 Discontinued Property Development Business”). Details of this transaction have been set out in the Company’s circular dated on 30 August 2006 (the “2006 Circular”). The disposals of the 2006 Discontinued Property Development Business carried out by Jing Guan and Xin Yang were completed on 22 May 2007. Jing Guan and Xin Yang are together referred to as the “2006 Disposal Group” hereafter.

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

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

The consolidated financial statements on pages 34 to 137 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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

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

2. ADOPTION OF NEW OR REVISED HKFRS

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

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

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

- a sensitive analysis explained the Group’s market risk exposure in regard to its financial instruments, and
- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1.1 Basis of preparation

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

The financial statements have been prepared on the historical cost convention except for investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.1.2 Going concern

The financial statements have been prepared on a going concern basis though the Remaining Group had net current liabilities (after excluding the non-current assets held for sale/assets and liabilities in disposal group held for sale) of HK\$69,490,000 (2006: HK\$76,860,000) as at 31 December 2007. The Group has taken and will continue the following measures to ensure the Group will have adequate cash flows for the operations of the Group:

- (i) to impose tight cost controls;
- (ii) to raise funds as and when necessary;
- (iii) to obtain extension of repayment of existing borrowings; and
- (iv) to obtain necessary funding from bankers.

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

In addition, one of the related companies has agreed not to demand repayment of the amount of HK\$191,490,000 due to it from the Group until such time when repayment will not affect the Remaining Group's ability to repay other creditors and the directors do not foresee any circumstances that the banks will not continue the bank loan facilities for the Group. Accordingly, the directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the next twelve months from 31 December 2007 without significant curtailment of operations and are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments relating to the carrying amounts and reclassifications of assets and liabilities that might be necessary should the Remaining Group be unable to continue as a going concern.

3.2 Basis of consolidation

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

3.3 Subsidiaries

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

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

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

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

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

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

3.4 Joint ventures

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

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

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

3.5 Associates

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

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

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

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

3.6 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in associate or jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.7). In respect of associates or jointly controlled entities, the carrying amount of goodwill, if any, is included in the carrying amount of the Group's interest in the associate or jointly controlled entity and is assessed for impairment as part of the interests in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in income statement.

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

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

3.7 Impairment of assets

Goodwill, property, plant and equipment, investment properties, prepaid land lease payments and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

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

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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

Interim financial reporting and impairment

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

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

3.8 Related parties

A party is considered to be related to the Group if:

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

3.9 Property, plant and equipment

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

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

Buildings	Over the terms of the leases or estimated useful lives, ranging between 6 years and 50 years, whichever is shorter
Leasehold improvements	Over the terms of the leases, or estimated useful life of 10 years, whichever is shorter
Plant and machinery	6% to 25%
Furniture and fixtures	10% to 33⅓%
Motor vehicles	10% to 25%

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

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

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

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

3.10 Investment property

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

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

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

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

3.11 Properties under development

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

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

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

3.12 Properties held for sale

Properties for sale held at the balance sheet date are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. As properties held for sale were all carried out within the 2006 Discontinued Property Development Business, these are included in assets in disposal group classified as held for sale.

3.13 Operating Leases

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

(i) Operating lease charges as the lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line method over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(ii) Prepaid land lease payments

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

3.14 Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

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

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, that is, the date that the Group commits to purchase or sell the asset. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

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

(ii) *Loans and receivables*

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

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in the income statement. Interest calculated using the effective interest rate method is recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

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

Impairment of financial assets

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

(i) *Loans and receivables*

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

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

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

(ii) *Available-for-sale financial assets*

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

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

3.15 Financial liabilities

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

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

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

(i) *Borrowings*

Borrowings are mainly bank loans and are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

(ii) *Trade and other payables and amounts due to related companies*

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

(iii) *Derivative financial instruments*

Detail policy is included in note 3.16 below.

3.16 **Derivative financial instruments**

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

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

3.17 **Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

3.18 **Cash and cash equivalents**

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

3.19 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

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

3.20 Accounting for income taxes

Income tax comprises current and deferred tax.

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

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

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

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

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

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

3.21 Government grants

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

3.22 Revenue recognition

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

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

Revenue arising from the sale of properties held for sale within the 2006 Discontinued Property Development Business is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received.

Rental income, is recognised on a time proportion basis over the lease terms.

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

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

3.23 Retirement benefit costs and short term employee benefits

(i) *Defined contribution plan*

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

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), for those employees who are eligible to participate in the MPF Scheme not previously covered by the ORSO Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) *Pension schemes and other retirement benefits*

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

(iii) *Short-term employee benefits*

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

3.24 **Borrowing costs**

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

3.25 **Foreign currency translation**

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

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

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

3.26 **Financial guarantees issued**

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

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

3.27 Segment reporting

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

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, prepaid land lease payments, inventories, receivables and operating cash, and mainly exclude available-for-sale financial assets and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and exclude items such as borrowings and other liabilities that are incurred for financing rather than operating purpose.

Capital expenditure comprises additions to property, plant and equipment.

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

3.28 Assets held for sale

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

3.29 Discontinued operations

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

3.30 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical judgements in applying the entity's accounting policies

Operating lease commitments – Group as lessor

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

4.2 Critical accounting estimates and assumptions

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

Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Goodwill of the Group amounting to HK\$4,816,000 has been fully impaired for the years ended 31 December 2007 and 2006, further details of which are set out in note 20 to the financial statements.

Provision against slow-moving inventories

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

Depreciation

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

Estimated impairment of trade receivable

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

Income taxes

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

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

Fair value of investment properties

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

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

Fair value of available-for-sale financial assets

The available-for-sale financial assets of the Group (other than available-for-sale investments in equity securities which do not have a quoted market price in an active market and whose fair value cannot be reliably measured) were stated at fair value in accordance with the accounting policy stated in note 3.14. The fair values of the available-for-sale financial assets are determined by Asset Appraisal Limited, an independent professionally qualified valuer, and the fair values of available-for-sale financial assets are set out in note 25 to the financial statements. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

5. SEGMENT INFORMATION**Primary reporting format – business segments**

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

- (a) manufacture and distribution of watches and timepieces;
- (b) manufacture and distribution of enamelled copper wires (carried out by the Group's jointly controlled entity);
- (c) property investment; and

Manufacture and distribution of timber products carried out by the 2007 Discontinued Timber Business and the 2006 Discontinued Property Development Business carried out by the Disposal Group as mentioned in note 1 during the year have been classified as discontinued operations for the year (note 11).

Inter-segment sales are charged at prevailing market prices.

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

2006 (Restated)

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

Secondary reporting format – Geographical segments

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

Sales revenue by geographical markets:

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

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

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

6. REVENUE

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

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

7. OTHER INCOME AND FINANCIAL INCOME

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

8. FINANCE COSTS

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

9. PROFIT BEFORE INCOME TAX

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

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

10. INCOME TAX EXPENSE

For the year ended 31 December 2007, Hong Kong profits tax for the Group has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong (2006: 17.5%). The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 33%.

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

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

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

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

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

11.1 2007 Discontinued Timber Business

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

According to the Land Resumption Agreement, the Shenzhen Municipal Government shall retain 50% of the PRC Land and shall arrange for the remaining 50% of the PRC Land (the “Auction PRC Land”) to be auctioned for sale at an open auction (the “Open Auction”) in 2008. The compensation to be paid to Seti by the Shenzhen Municipal Government, as a result of the land resumption, shall be 89.5% of the proceeds of the Auction PRC Land as determined in the Open Auction in 2008 and shall be paid by the Shenzhen Municipal Government to Seti in 60 days after the proceeds from the Open Auction are collected.

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

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

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

11.2 2006 Discontinued Property Development Business and 2006 Disposal Group

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

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

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

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

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

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

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

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

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

HK\$

Non-current assets held for sale:

Property, plant and equipment (<i>note 17</i>)	150,759
Prepaid land lease payments (<i>note 19</i>)	50,230
	<hr/>
	200,989
	<hr/> <hr/>

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

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

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

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

HK\$

Assets included in disposal group classified as held for sale:

Property, plant and equipment (<i>note 17</i>)	8,658
Investment properties (<i>note 18</i>)	31,900
Properties under development	890,406
Properties held for sale	70,164
Trade receivables	5,806
Prepayments, deposits and other receivables	52,115
Due from minority equity holders	489
Pledged deposits	8,090
Cash and cash equivalents	194,780
	<hr/>
	1,262,408
	<hr/> <hr/>

Liabilities in disposal group classified as held for sale:

Trade payables	89,773
Deposits received from customers	270,488
Other payables and accruals	58,271
Tax payables	13,560
Interest-bearing bank borrowings	330,000
Other loans	90,000
Due to related companies	296
Deferred tax liabilities	1,444
Deferred income	185,023
	<hr/>
	1,038,855
	<hr/> <hr/>

Net assets

223,553

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of 427,467,000 (2006: HK\$22,347,000), a loss of HK\$16,805,000 (2006: HK\$6,824,000) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The board of directors did not recommend any payment of dividends during the year (2006: Nil).

14. EARNINGS/(LOSS) PER SHARE

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

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

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

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

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

16.1 Directors' emoluments

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Contributions to pension scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
2007				
Executive directors				
Mr. Hon Kwok Lung	–	1,690	12	1,702
Mr. Wang Shaolan	–	1,580	–	1,580
Mr. Shang Jianguang	–	1,720	60	1,780
Mr. Shi Tao	–	1,690	–	1,690
Mr. Lam Toi Man	–	1,430	12	1,442
Non executive director				
Ms. Sit Lai Hei	100	–	–	100
Independent non-executive directors				
Mr. Fung Tze Wa	150	–	–	150
Dr. Kwong Chun Wai, Michael	100	–	–	100
Mr. Li Qiang	100	–	–	100
	<u>450</u>	<u>8,110</u>	<u>84</u>	<u>8,644</u>
2006				
Executive directors				
Mr. Hon Kwok Lung	–	1,690	12	1,702
Mr. Wang Shaolan	–	1,580	12	1,592
Mr. Shang Jianguang	–	1,725	60	1,785
Mr. Shi Tao	–	1,707	–	1,707
Mr. Lam Toi Man	–	1,430	12	1,442
Non executive director				
Ms. Sit Lai Hei	100	–	–	100
Independent non-executive directors				
Mr. Fung Tze Wa	133	–	–	133
Dr. Kwong Chun Wai, Michael	100	–	–	100
Mr. Li Qiang	100	–	–	100
	<u>433</u>	<u>8,132</u>	<u>96</u>	<u>8,661</u>

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

16.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and their emoluments are reflected in the above analysis. No emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006							
Cost	102,438	5,578	118,264	29,643	12,870	-	268,793
Accumulated depreciation	(14,206)	(2,412)	(23,659)	(12,164)	(2,765)	-	(55,206)
Net carrying amount	<u>88,232</u>	<u>3,166</u>	<u>94,605</u>	<u>17,479</u>	<u>10,105</u>	<u>-</u>	<u>213,587</u>
Year ended 31 December 2006							
Opening net book amount	88,232	3,166	94,605	17,479	10,105	-	213,587
Additions	-	144	1,817	591	6,694	-	9,246
Disposals/write-off	-	-	-	-	(30)	-	(30)
Depreciation	(5,378)	(1,383)	(10,171)	(2,498)	(2,478)	-	(21,908)
Exchange realignment	10,378	80	116	(3,112)	985	-	8,447
Reclassified to assets in disposal group classified as held for sale (note 11.6)	(5,062)	(55)	-	(600)	(2,941)	-	(8,658)
Closing net book amount	<u>88,170</u>	<u>1,952</u>	<u>86,367</u>	<u>11,860</u>	<u>12,335</u>	<u>-</u>	<u>200,684</u>
At 31 December 2006							
Cost	107,458	5,417	120,196	26,074	15,250	-	274,395
Accumulated depreciation	(19,288)	(3,465)	(33,829)	(14,214)	(2,915)	-	(73,711)
Net carrying amount	<u>88,170</u>	<u>1,952</u>	<u>86,367</u>	<u>11,860</u>	<u>12,335</u>	<u>-</u>	<u>200,684</u>
Year ended 31 December 2007							
Opening net book amount	88,170	1,952	86,367	11,860	12,335	-	200,684
Additions	42,191	-	4,334	579	1,555	24,867	73,526
Transfer	-	-	15,069	-	-	(15,069)	-
Disposals/write-off	-	-	-	(245)	(17)	-	(262)
Depreciation	(4,884)	(1,073)	(2,399)	(1,600)	(2,006)	-	(11,962)
Exchange realignment	6,761	(109)	4,301	685	478	2,051	14,167
Reclassified to non-current assets held for sale (note 11.5)	(84,722)	-	(52,182)	(8,625)	(5,230)	-	(150,759)
Closing net book amount	<u>47,516</u>	<u>770</u>	<u>55,490</u>	<u>2,654</u>	<u>7,115</u>	<u>11,849</u>	<u>125,394</u>
At 31 December 2007							
Cost	52,177	5,502	65,199	12,951	10,806	11,849	158,484
Accumulated depreciation	(4,661)	(4,732)	(9,709)	(10,297)	(3,691)	-	(33,090)
Net carrying amount	<u>47,516</u>	<u>770</u>	<u>55,490</u>	<u>2,654</u>	<u>7,115</u>	<u>11,849</u>	<u>125,394</u>

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006				
Cost	1,767	880	713	3,360
Accumulated depreciation	<u>(525)</u>	<u>(291)</u>	<u>(575)</u>	<u>(1,391)</u>
Net carrying amount	<u>1,242</u>	<u>589</u>	<u>138</u>	<u>1,969</u>
Year ended 31 December 2006				
Opening net book amount	1,242	589	138	1,969
Additions	–	76	5,118	5,194
Depreciation	<u>(352)</u>	<u>(161)</u>	<u>(290)</u>	<u>(803)</u>
Closing net book amount	<u>890</u>	<u>504</u>	<u>4,966</u>	<u>6,360</u>
At 1 January 2007				
Cost	1,767	956	5,831	8,554
Accumulated depreciation	<u>(877)</u>	<u>(452)</u>	<u>(865)</u>	<u>(2,194)</u>
Net book amount	<u>890</u>	<u>504</u>	<u>4,966</u>	<u>6,360</u>
Year ended 31 December 2007				
Opening net book amount	890	504	4,966	6,360
Additions	–	127	–	127
Depreciation	<u>(351)</u>	<u>(172)</u>	<u>(1,083)</u>	<u>(1,606)</u>
Closing net book amount	<u>539</u>	<u>459</u>	<u>3,883</u>	<u>4,881</u>
At 31 December 2007				
Cost	1,767	1,083	5,831	8,681
Accumulated depreciation	<u>(1,228)</u>	<u>(624)</u>	<u>(1,948)</u>	<u>(3,800)</u>
Net book amount	<u>539</u>	<u>459</u>	<u>3,883</u>	<u>4,881</u>

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
At cost:		
Short-term leases	2,640	2,612
Medium-term lease	<u>49,537</u>	<u>104,846</u>
	<u>52,177</u>	<u>107,458</u>

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

At 31 December 2007, the Group has not yet obtained the title certificates for certain leasehold buildings situated in Shenzhen with an aggregate carrying value of approximately HK\$1,135,000 (2006: HK\$18,985,000). The Group's legal advisors have confirmed that the Group has legally obtained the rights to use the buildings. The directors are now in process of obtaining the relevant title certificates from the relevant government authorities.

18. INVESTMENT PROPERTIES – GROUP

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

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

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

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

	2007 HK\$'000	2006 HK\$'000
Hong Kong	12,832	120,000
The PRC	47,426	39,748
	<u>60,258</u>	<u>159,748</u>

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

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

At 31 December 2007, the Group had certain investment properties located in Dongguan, the PRC with aggregate carrying value of HK\$30,240,000 (2006: HK\$24,000,000). The Group has not yet obtained the relevant title certificate for these properties. The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these properties.

At 31 December 2007, certain of the Group's investment properties with carrying value of HK\$12,832,000 (2006: HK\$120,000,000) have been pledged to secure banking facilities granted to the Group (note 34).

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

19. PREPAID LAND LEASE PAYMENTS – GROUP

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

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

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

Their net book values are analysed as follows:

	2007 HK\$'000	2006 HK\$'000
Short-term leases	–	44,853
Medium-term leases	10,437	5,456
	<u>10,437</u>	<u>50,309</u>

20. GOODWILL – GROUP

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

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

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

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

21. INTERESTS IN SUBSIDIARIES – COMPANY

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

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

Particulars of the principal subsidiaries at 31 December 2007 are as follows:

Name	Place/ country of incorporation	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held		Principal activities and place of operation
			Directly	Indirectly	
Qingapen Limited	Hong Kong	HK\$2	100	–	Property investment in the PRC
China Haidian Commercial Network Services Limited	Hong Kong	HK\$2	100	–	Property investment in the PRC
Haidian-Creation International Limited	British Virgin Islands	US\$1	100	–	Investment holding in Hong Kong

Name	Place/ country of incorporation	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held		Principal activities and place of operation
			Directly	Indirectly	
Sure Best Management Limited	Hong Kong	HK\$1	100	-	Property investment in Hong Kong
EBOHR Luxuries International Co., Limited ("Ebohr")	PRC	HK\$30,000,000	-	100	Manufacture and sale of watches and timepieces in the PRC
Seti	PRC	US\$45,525,860	-	100	Sale of timber products in the PRC

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

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

22. DUE FROM DISPOSAL GROUP – COMPANY

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

23. INTERESTS IN JOINTLY-CONTROLLED ENTITY – COMPANY

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

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

Particulars of the jointly-controlled entity at 31 December 2007 are as follows:

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

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

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

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

24. INTERESTS IN ASSOCIATE

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

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

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

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

The summarised financial information of the Group’s associate extracted from its management accounts for the year ended 31 December 2007 are as follows:

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

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2007 HK\$’000	2006 HK\$’000
Listed equity investment, at fair value (<i>note a</i>)	853,380	–
Unlisted equity investment, at cost (<i>note b</i>)	3,477	3,477
Provision for impairment	(3,477)	(3,477)
	–	–
Total	853,380	–

Note:

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

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

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

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

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

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

- (b) The Group held an equity interest of 25.5% in 合肥光大木材工業有限公司 (“Hefei Everbright”), a joint venture company established in the PRC in 2003. Since 2004 the Group's investment in Hefei Everbright was accounted for as a long term investment. In 2006, the investment in Hefei Everbright was designated as available-for-sale investment upon adoption of HKAS 39.

Having regard to the deteriorating financial positions of Hefei Everbright, the directors are in the opinion that the investment in Hefei Everbright is not likely to be recoverable and accordingly, an impairment loss of HK\$3,477,000 had been charged to consolidated income statement in 2005. As the financial position of Hebei Everbright continued deteriorating during the year, there was no change in the accumulated impairment as at 31 December 2007.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

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

27. INVENTORIES – GROUP

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

28. TRADE AND BILLS RECEIVABLES – GROUP

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

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of three months (2006: three months) for major customers except for customers of the Group's discontinued operations where settlements were made in accordance with the sales contract entered into between the Group and the customers. Each customer has a maximum credit limit. Trade debtors with balances that are more than three months overdue are required to settle all outstanding balances before any further credit is granted. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

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

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

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

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

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

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

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

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Renminbi (“RMB”)	<u>41,409</u>	<u>90,937</u>

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Listed equity investment in Hong Kong, at market value	<u>44,178</u>	<u>48,765</u>	<u>20,130</u>	<u>37,627</u>

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

30. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

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

Cash at bank earns interest at the floating rates based on the daily bank deposits rates. Time deposits are made for various periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

Included in pledged deposits and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which it relates:

	2007 RMB'000	2006 RMB'000
RMB	<u>46,686</u>	<u>35,612</u>

All the above bank balances denominated in RMB were placed with the banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business in the PRC.

31. TRADE PAYABLES – GROUP

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

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

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

	2007 RMB'000	2006 RMB'000
RMB	<u>31,487</u>	<u>46,683</u>

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

32. OTHER PAYABLES AND ACCRUALS

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

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

33. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2007 HK\$'000	2006 HK\$'000
Current liability		
– Forward contracts for the purchase of copper	<u>5,017</u>	<u>–</u>

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

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

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

34. BORROWINGS

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

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

- (i) a legal charge over certain of the Group's prepaid land lease payments and buildings situated in the PRC (notes 11.5, 19 and 17);
- (ii) a legal charge over certain of the Group's investment properties (note 18); and
- (iii) guarantees granted by a director of the Company and certain independent third parties.

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

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

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

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

35. DUE TO RELATED COMPANIES

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

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

36. DEFERRED TAX

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

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

Deferred tax liabilities

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

Deferred tax assets

	2007 HK\$'000	2006 HK\$'000
At 1 January	1,062	1,021
Exchange difference	68	41
	<hr/>	<hr/>
At 31 December	<hr/> 1,130	<hr/> 1,062

As at 31 December 2007, the Group has tax losses arising in Hong Kong of HK\$87,891,000 (2006: HK\$76,221,000), subject to the agreement of Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as these losses were incurred by the companies that have been loss-making for some time.

During the year, there was no significant unrecognised deferred tax liability that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

37. DEFERRED INCOME

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

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

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

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

38. SHARE CAPITAL

	2007		2006	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	2,000,000	200,000	2,000,000	200,000
	<u>2,000,000</u>	<u>200,000</u>	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid:				
At 1 January	1,792,031	179,203	1,544,831	154,483
Placement of new share	–	–	247,200	24,720
	<u>1,792,031</u>	<u>179,203</u>	<u>1,792,031</u>	<u>179,203</u>
At 31 December	<u>1,792,031</u>	<u>179,203</u>	<u>1,792,031</u>	<u>179,203</u>

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

39. SHARE-BASED EMPLOYEE COMPENSATION

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

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

During the year, no share options were granted or exercised and there were no outstanding options at 31 December 2007 (2006: Nil).

40. RESERVES

Group

The amounts of the Group’s reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

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

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

Company

	Share premium account <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	–	268,029	268,029
Premium on new shares	23,700	–	23,700
Net loss for the year (<i>note 12</i>)	–	(6,824)	(6,824)
	<hr/>	<hr/>	<hr/>
At 31 December 2006 and at 1 January 2007	23,700	261,205	284,905
Net loss for the year (<i>note 12</i>)	–	(16,805)	(16,805)
	<hr/>	<hr/>	<hr/>
At 31 December 2007	23,700	244,400	268,100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

41. OPERATING LEASE COMMITMENTS

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

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

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

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

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

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

In addition, the Group is required to pay an annual fee in respect of a leasehold land in the PRC from the year 1992 up to the year 2042 with a 20% increment for every five years. During the year, an annual fee of HK\$432,000 (2006: HK\$420,000) was charged to the consolidated income statement of the Group.

42. CAPITAL COMMITMENTS

Group

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

Company

	2007 HK\$'000	2006 HK\$'000
Contracted, but not provided for		
Acquisition of Beijing Haidian (<i>note 26</i>)	–	65,621
	<u>–</u>	<u>65,621</u>

43. RELATED PARTY TRANSACTIONS

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

(i) Sales of goods

	2007 HK\$'000	2006 HK\$'000
Sales of goods to the joint venturer	310,319	195,061
	<u>310,319</u>	<u>195,061</u>

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

(ii) *Purchases of goods*

	2007 HK\$'000	2006 HK\$'000
Purchases of goods from the joint venturer	<u>761</u>	<u>966</u>

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

(iii) *Purchases of plant and machinery*

	2007 HK\$'000	2006 HK\$'000
Purchases of plant and machinery from joint venturer	<u>-</u>	<u>352</u>

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

(iv) *Rental income*

	2007 HK\$'000	2006 HK\$'000
Rental income received	<u>771</u>	<u>642</u>

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

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

	2007 HK\$'000	2006 HK\$'000
Receivables from related party – joint venturer	<u>14,080</u>	<u>80,522</u>

(vi) *Outstanding balances included in other receivables:*

	2007 HK\$'000	2006 HK\$'000
Receivables from a subsidiary of a joint venturer	<u>5,117</u>	<u>-</u>

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

	2007 HK\$'000	2006 HK\$'000
Loan interest paid to related companies	<u>9,756</u>	<u>337</u>

(viii) *Acquisition of an associate*

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

(ix) *Acquisition of investment properties*

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

43.2 Key management personnel compensation:

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

	2007 HK\$'000	2006 HK\$'000
Short term employee benefits	8,110	8,132
Post-employment benefits	<u>84</u>	<u>96</u>
	<u>8,194</u>	<u>8,228</u>

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

44. DISPOSALS OF THE 2006 DISPOSAL GROUP

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

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

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

45.1 Interest rate risk

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain between 30% and 80% of its interest-bearing borrowings at fixed interest rates. The Group's fair value interest rate risk relates primarily to fixed-rate borrowings. The Group currently had not implemented any procedures to hedge its interest rate risk.

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

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

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

45.2 Foreign currency risk

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

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

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

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

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

	2007 HK\$'000	2006 HK\$'000
Profit for the year:		
5% strengthening in HK\$	<u>13,095</u>	<u>9,297</u>
5% weakening in HK\$	<u>(13,095)</u>	<u>(9,297)</u>

45.3 Credit risk

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

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

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

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

45.4 Liquidity risk

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

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

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

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

45.5 Fair value risk

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

45.6 Commodity price risk

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

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

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

45.7 Equity price risk

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

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

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

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

45.8 Summary of financial assets and liabilities by category

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

(i) *Financial assets*

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

(ii) *Financial liabilities*

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

46. CAPITAL MANAGEMENT

The Group's capital management objectives are:

- (i) to ensure the Group's ability to continue as a going concern;
- (ii) to provide an adequate return to shareholders;
- (iii) to support the Group's sustainable growth; and
- (iv) to provide capital for the purpose of potential mergers and acquisitions.

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

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

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

47. FINANCIAL GUARANTEE CONTRACTS

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

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

48. COMPARATIVE AMOUNTS

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

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following are the unaudited consolidated financial statements of the Group extracted from the interim report of the Company for the six months ended 30 June 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		For Six months ended 30 June	
		2008	2007
		(Unaudited)	(Restated)
	Notes	HK\$'000	(Unaudited) HK\$'000
Continuing operations:			
Revenue	5	426,596	264,512
Cost of sales		(350,500)	(204,047)
Gross profit		76,096	60,465
Other income	6	1,479	38
Selling and distribution expenses		(26,993)	(24,003)
Administrative expenses		(43,713)	(26,355)
(Loss)/Gain on fair value changes in financial assets at fair value through profit or loss, net		(24,815)	15,687
Net surplus on revaluation of an investment property		–	22,853
Dividend income from available-for-sale financial assets	15	73,624	–
Other operating income, net		8,548	3,410
Operating profit		64,226	52,095
Financial income	6	983	853
Finance costs	7	(3,380)	(4,097)
Share of results of an associate		1,655	830
Profit before income tax	8	63,484	49,681
Income tax expense	9	(4,866)	(3,140)
Profit after income tax from continuing operations		58,618	46,541
Discontinued operations:			
(Loss)/Profit for the period from discontinued operations	12.1	(12,749)	345,770
Profit for the period		45,869	392,311

	<i>Notes</i>	For Six months ended 30 June	
		2008 (Unaudited) <i>HK\$'000</i>	2007 (Restated) (Unaudited) <i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		45,869	392,571
Minority interest		—	(260)
Profit for the period		<u>45,869</u>	<u>392,311</u>
Earnings per share from continuing operations attributable to equity holders of the Company			
Basic	11	<u>HK cents 3.27</u>	<u>HK cents 2.60</u>
Diluted		<u>N/A</u>	<u>N/A</u>
(Loss)/Earnings per share from discontinued operations attributable to equity holders of the Company			
Basic	11	<u>HK cents (0.71)</u>	<u>HK cents 19.31</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

		30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	135,825	125,394
Investment properties	14	60,258	60,258
Prepaid land lease payments	13	10,808	10,227
Interests in an associate		35,843	31,484
Available-for-sale financial assets	15	552,984	853,380
Prepayments and deposits		2,536	2,394
Deferred tax assets		1,207	1,130
		<u>799,461</u>	<u>1,084,267</u>
Current assets			
Inventories	16	152,289	142,026
Trade and bills receivables	17	81,729	44,052
Prepaid land lease payments	13	225	210
Prepayments, deposits and other receivables		58,425	87,277
Financial assets at fair value through profit or loss		55,192	44,178
Cash and cash equivalents	18	31,919	82,362
		<u>379,779</u>	<u>400,105</u>
Non-current assets held for sale	12.3	211,085	200,989
		<u>590,864</u>	<u>601,094</u>
Current liabilities			
Trade payables	19	68,105	33,497
Other payables and accruals		72,773	95,767
Tax payables		13,195	13,188
Derivative financial instruments		14	5,017
Borrowings	20	114,270	112,815
Due to a related company		204,545	209,311
		<u>472,902</u>	<u>469,595</u>

		30 June 2008 (Unaudited) <i>HK\$'000</i>	31 December 2007 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Net current assets		<u>117,962</u>	<u>131,499</u>
Total assets less current liabilities		<u>917,423</u>	<u>1,215,766</u>
Non-current liabilities			
Borrowings	20	<u>24,500</u>	<u>–</u>
Net assets		<u>892,923</u>	<u>1,215,766</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		179,203	179,203
Reserves		<u>711,165</u>	<u>1,034,171</u>
		890,368	1,213,374
Minority interests		<u>2,555</u>	<u>2,392</u>
Total equity		<u>892,923</u>	<u>1,215,766</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Equity attributable to equity holders of the Company									
	Share capital	Share premium account*	Goodwill arising on consolidation*	Statutory reserves*	Exchange fluctuation reserve*	Investment revaluation reserves*	Retained profits*	Total	Minority interest	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	179,203	23,700	(15,300)	17,819	14,953	-	317,560	537,935	32,703	570,638
Exchange realignment	-	-	-	-	4,979	-	-	4,979	70	5,049
Change in fair value of available-for-sale financial assets	-	-	-	-	-	5,814	-	5,814	-	5,814
Total income and expense for the period recognised directly in equity	-	-	-	-	4,979	5,814	-	10,793	70	10,863
Profit/(Loss) for the period	-	-	-	-	-	-	392,571	392,571	(260)	392,311
Total recognised income and expense for the period	-	-	-	-	4,979	5,814	392,571	403,364	(190)	403,174
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(30,195)	(30,195)
At 30 June 2007	<u>179,203</u>	<u>23,700</u>	<u>(15,300)</u>	<u>17,819</u>	<u>19,932</u>	<u>5,814</u>	<u>710,131</u>	<u>941,299</u>	<u>2,318</u>	<u>943,617</u>
At 1 January 2008	179,203	23,700	(15,300)	19,793	21,128	241,797	743,053	1,213,374	2,392	1,215,766
Exchange realignment	-	-	-	-	3,650	-	-	3,650	163	3,813
Change in fair value of available-for-sale financial assets	-	-	-	-	-	(372,525)	-	(372,525)	-	(372,525)
Total income and expense for the period recognised directly in equity	-	-	-	-	3,650	(372,525)	-	(368,875)	163	(368,712)
Transfer to statutory reserves	-	-	-	3,756	-	-	(3,756)	-	-	-
Profit/(Loss) for the period	-	-	-	-	-	-	45,869	45,869	-	45,869
Total recognised income and expense for the period	-	-	-	3,756	3,650	(372,525)	42,113	(323,006)	163	(322,843)
At 30 June 2008	<u>179,203</u>	<u>23,700</u>	<u>(15,300)</u>	<u>23,549</u>	<u>24,778</u>	<u>(130,728)</u>	<u>785,166</u>	<u>890,368</u>	<u>2,555</u>	<u>892,923</u>

* These reserve accounts comprise the consolidated reserves of HK\$711,165,000 (31 December 2007: HK\$1,034,171,000) in the consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Net cash (outflow)/inflow from operating activities of continuing and discontinued operations	(73,517)	44,843
Net cash inflow/(outflow) from investing activities of continuing and discontinued operations	16,676	(326,620)
Net cash inflow from financing activities of continuing and discontinued operations	<u>18,263</u>	<u>91,234</u>
Net decrease in cash and cash equivalents	(38,578)	(190,543)
Cash and cash equivalents at beginning of the period	82,362	234,616
Effect of foreign exchange rate changes, net	<u>(11,865)</u>	<u>9,718</u>
Cash and cash equivalents at end of the period	<u><u>31,919</u></u>	<u><u>53,791</u></u>
Analysis of balances of cash and cash equivalents		
Cash at banks and in hand	31,919	44,602
Non-pledged time deposits with original maturity of less than three months when acquired	<u>–</u>	<u>9,189</u>
	<u><u>31,919</u></u>	<u><u>53,791</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. GENERAL INFORMATION

As disclosed in note 1 and 11 to the financial statements of the Company for the year ended 31 December 2007 (the “2007 Annual Financial Statements”), Seti Timber Industry (Shenzhen) Co. Ltd. (“Seti”), a wholly-owned subsidiary of the Company, entered into a land resumption agreement with the Shenzhen Municipal Government (the “Land Resumption Agreement”), under which in 2008, the Shenzhen Municipal Government would resume a piece of the land in Shenzhen that was leased to Seti (the “PRC Land”) and Seti ceased its production operation.

Seti was incorporated in the People’s Republic of China (the “PRC”) and was principally engaged in manufacture and distribution of timber products in Shenzhen in the PRC. In this regard, Seti has significantly scaled down its operations in manufacture and distribution of timber products (the “2007 Discontinued Timber Business”) as at 31 December 2007. Please refer to the 2007 Annual Financial Statements for details. The Company and its subsidiaries are referred to as the Group hereinafter.

As at 30 June 2008, the title of the PRC Land has not yet been passed, Seti is still occupying the PRC Land although the timber operations have been significantly scaled down. As the 2007 Discontinued Timber Business carried out by Seti represented components of the Group’s business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represented the separate major lines of businesses, the Group presented, in its unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 (the “Interim Financial Statements”), the operations of the 2007 Discontinued Timber Business as discontinued operations in accordance with Hong Kong Financial Reporting Standard (“HKFRS”) 5 – Discontinued Operations. The Company and other subsidiaries not engaged in the 2007 Discontinued Timber Business are referred to as the “Remaining Group”.

For the six months ended 30 June 2007, a shareholders’ resolution was passed to dispose of the entire paid-up capital of two subsidiaries, namely Beijing Jing Guan Property Development Company Limited (“Jing Guan”) and Beijing Xin Yang Property Development Company Limited (“Xin Yang”) (which is 80% owned by Jing Guan). Jing Guan and Xin Yang were both incorporated in the PRC and are principally engaged in the property development (the “2006 Discontinued Property Development Business”). The disposals of the 2006 Discontinued Property Development Business carried out by Jing Guan and Xin Yang were completed on 22 May 2007.

The Interim Financial Statements are presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (“HK\$’000”) unless otherwise stated.

2. BASIS OF PREPARATION

The Interim Financial Statements of the Group have been prepared in accordance with the 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 the Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2.1 Going concern

The Interim Financial Statements have been prepared on a going concern basis notwithstanding the Remaining Group had net current liabilities (after excluding the non-current assets held for sale) of HK\$93,123,000 as at 30 June 2008 (31 December 2007: HK\$69,490,000). The Group has taken and will continue the following measures to ensure the Group will have adequate cash flows for the operations of the Group:

- (i) to impose tight cost controls;
- (ii) to raise funds as and when necessary;
- (iii) to obtain extension of repayment of existing borrowings; and
- (iv) to obtain necessary funding from bankers.

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

In addition, a related company has agreed not to demand repayment of the amount of HK\$204,545,000 due to it from the Group until such time when repayment will not affect the Remaining Group's ability to repay other creditors and the directors do not foresee any circumstances that the banks will not continue the bank loan facilities for the Group. Accordingly, the directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the next twelve months from 30 June 2008 without significant curtailment of operations and are satisfied that it is appropriate to prepare the Interim Financial Statements on a going concern basis. The Interim Financial Statements do not include any adjustments relating to the carrying amounts and reclassifications of assets and liabilities that might be necessary should the Remaining Group be unable to continue as a going concern.

3. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared on the historical costs basis except investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss which are measured at fair values.

The accounting policies used in the Interim Financial Statements are consistent with those of the 2007 Annual Financial Statements of the Group for the year ended 31 December 2007 except as described below.

In the current interim period, the Group has applied, the following new standards, amendments and interpretations (collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for current accounting period.

HK(IFRIC) – Int 11	HKFRS 2 "Group and Treasury Share Transactions"
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs has 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 is required.

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 32 (Amendments)	Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 2 (Amendments)	Members' Shares in Co-operative Entities and Similar Instruments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes 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 July 2008

4. SEGMENT INFORMATION

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

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

- (a) manufacture and distribution of watches and timepieces;
- (b) manufacture and distribution of enamelled copper wires (carried out by the Group's jointly controlled entity);
- (c) property investment; and
- (d) manufacture and distribution of timber products carried out by the 2007 Discontinued Timber Business which has been classified as discontinued operations for the period (note 12).

Inter-segment sales are charged at prevailing market prices.

(a) Primary reporting format – business segments

For the six months ended 30 June 2008

	Continuing operations			Discontinued operations	
	Watches and timepieces (Unaudited) <i>HK\$'000</i>	Enamelled copper wires (Unaudited) <i>HK\$'000</i>	Property investment (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>	2007 Discontinued Timber Business (Unaudited) <i>HK\$'000</i>
Segment revenue and gains:					
Sales to external customers	91,047	333,265	2,284	426,596	20,325
Other income and financial income	187	1,400	1	1,588	1,662
Total	91,234	334,665	2,285	428,184	21,987
Segment results	25,277	10,644	779	36,700	(11,757)
Unallocated corporate income, net				28,509	–
Share of results of an associate				65,209	(11,757)
Finance costs				1,655	–
				(3,380)	(992)
Profit/(Loss) before income tax				63,484	(12,749)
Income tax expense				(4,866)	–
Profit/(Loss) for the period				58,618	(12,749)

For the six months ended 30 June 2007 (Restated)

	Continuing operations				Discontinued operations		
	Watches and timepieces (Unaudited) HK\$'000	Enamelled copper wires (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	2006 Discontinued Property Development Business (Unaudited) HK\$'000	2007 Discontinued Timber Business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue and gains :							
Sales to external customers	78,584	183,583	2,345	264,512	3,350	45,185	48,535
Other income and financial income	496	-	-	496	99	2,335	2,434
Total	<u>79,080</u>	<u>183,583</u>	<u>2,345</u>	<u>265,088</u>	<u>3,449</u>	<u>47,520</u>	<u>50,969</u>
Segment results	<u>21,577</u>	<u>5,289</u>	<u>23,386</u>	<u>50,252</u>	<u>(9,785)</u>	<u>(3,897)</u>	<u>(13,682)</u>
Unallocated corporate income, net				2,696			366,806
Share of results of an associate				52,948			353,124
Finance costs				830			-
				(4,097)			(7,354)
Profit before income tax				49,681			345,770
Income tax expense				(3,140)			-
Profit for the period				<u>46,541</u>			<u>345,770</u>

(b) Secondary reporting format – geographical segments

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

Sales revenue by geographical markets:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Hong Kong	1,607	988
PRC	424,989	263,524
	<u>426,596</u>	<u>264,512</u>
Discontinued operations		
PRC	20,325	48,535
	<u>446,921</u>	<u>313,047</u>

5. REVENUE

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

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Sale of goods	424,312	262,168
Gross rental income	2,284	2,344
	<u>426,596</u>	<u>264,512</u>

6. OTHER INCOME AND FINANCIAL INCOME

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Restated) (Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Other income		
Unrealised gain on derivative financial instruments	1,077	–
Others	402	38
	<u>1,479</u>	<u>38</u>
Financial income		
Interest income	121	704
Dividend income from financial assets at fair value through profit or loss	862	149
	<u>983</u>	<u>853</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Restated) (Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Interests on bank and other loans wholly repayable within five years	3,380	4,097

8. PROFIT BEFORE INCOME TAX

The Group's profit before income tax was arrived at after charging:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Restated) (Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Depreciation	4,518	3,404
Amortisation of prepaid land lease payments	114	–

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2007: Nil). The subsidiaries and jointly controlled entity established in the PRC are subject to income taxes ranging between 18% and 25% (Six months ended 30 June 2007: between 15% and 33%).

Pursuant to relevant laws and regulations in the PRC, the jointly controlled entity enjoyed a 50% deduction in income tax rate for the six months ended 30 June 2008.

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

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Current tax for the period		
– the PRC	4,866	3,140
	<u>4,866</u>	<u>3,140</u>

10. INTERIM DIVIDEND

The board of directors did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (Six months ended 30 June 2007: Nil).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) from continuing and discontinued operations per share are based on the unaudited profit from continuing operations attributable to the equity holders of the Company for the period of HK\$58,618,000 (Six months ended 30 June 2007: HK\$46,541,000) and the loss from discontinued operations attributable to equity holders of the Company of HK\$12,749,000 (Six months ended 30 June 2007: profit of HK\$346,030,000) on the weighted average of 1,792,031,000 (Six months ended 30 June 2007: 1,792,031,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the periods ended 30 June 2008 and 2007 have not been disclosed as no dilutive events existed during these periods.

12. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

12.1 The (loss)/profit for the periods from discontinued operations was analysed as follows:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss of the 2007		
Discontinued Timber Business and 2006		
Discontinued Property Development Business (<i>note 12.2</i>)	(12,749)	(21,036)
Gain on disposal of the 2006 Discontinued Property		
Development Business	–	366,806
	<u>(12,749)</u>	<u>366,806</u>
	<u>(12,749)</u>	<u>345,770</u>

12.2 The unaudited results of discontinued operations for the periods were as follows:

	Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Restated) (Unaudited)		
	2007 Discontinued Timber Business HK\$'000	2007 Discontinued Timber Business HK\$'000	2006 Discontinued Property Development Business HK\$'000	Total HK\$'000
Revenue	20,325	45,185	3,350	48,535
Cost of sales	(22,718)	(41,293)	(9,551)	(50,844)
Gross (loss)/profit	(2,393)	3,892	(6,201)	(2,309)
Other income	1,650	2,327	22	2,349
Selling and distribution expenses	(145)	(1,382)	(508)	(1,890)
Administrative expenses	(10,817)	(9,481)	(2,899)	(12,380)
Other operating (expenses)/ income, net	(64)	739	(276)	463
Operating loss	(11,769)	(3,905)	(9,862)	(13,767)
Financial income	12	8	77	85
Finance costs – interest on bank and other loans wholly repayable within five years	(992)	(7,354)	–	(7,354)
Loss for the period	<u>(12,749)</u>	<u>(11,251)</u>	<u>(9,785)</u>	<u>(21,036)</u>

12.3 An analysis of the non-current assets of the 2007 Discontinued Timber Business classified as held for sale as at 30 June 2008 is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Non-current assets classified as held for sale:		
Property, plant and equipment	158,642	150,759
Prepaid land lease payments	52,443	50,230
	<u>211,085</u>	<u>200,989</u>

At 30 June 2008, certain buildings of the 2007 Discontinued Timber Business with carrying value of HK\$87,699,000 (31 December 2007: HK\$84,722,000), situated in the PRC had been pledged to secure certain banking facilities granted to the Group (note 20).

At 30 June 2008, certain prepaid land lease payments of the 2007 Discontinued Timber Business in the PRC with carrying value of HK\$44,832,000 (31 December 2007: HK\$43,885,000), have been pledged to secure certain banking facilities granted to the Group (note 20).

13. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

At 30 June 2008 and 31 December 2007, no buildings and prepaid land lease payments of the Remaining Group are pledged to secure banking facilities granted to the Group.

14. INVESTMENT PROPERTIES

At 30 June 2008, the Group had certain investment properties located in Dongguan, the PRC, with an aggregate carrying value of HK\$30,240,000 (31 December 2007: HK\$30,240,000). The Group has not yet obtained the relevant title certificate for these properties. The Group's legal advisors have confirmed that, the Group is the rightful and equitable owner of these properties.

At 30 June 2008, certain of the Group's investment properties with carrying value of HK\$12,832,000 (31 December 2007: HK\$12,832,000) have been pledged to secure banking facilities granted to the Group.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Listed equity investment in the PRC, at fair value	552,984	853,380
Unlisted equity investment in the PRC, at cost	4,193	3,477
Provision for impairment	(4,193)	(3,477)
	<u> </u>	<u> </u>
	–	–
	<u> </u>	<u> </u>
	552,984	853,380

As at 30 June 2008, the listed equity investment in the PRC represented 16.39% equity interest in Citychamp Dartong Company Ltd ("Citychamp") which is listed in the Shanghai Stock Exchange in the PRC.

On 14 April 2008, Citychamp declared a bonus issue of 1.5 shares together with a cash dividend of RMB0.167 for every 10 Citychamp shares. In April 2008, 11,819,909 Citychamp bonus shares and cash dividends of RMB1,316,000 were received by the Group. A dividend income totalling HK\$73,624,000 was recognised in the income statement for the six months ended 30 June 2008 (Six months ended 30 June 2007: Nil).

16. INVENTORIES

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Raw materials	60,588	40,014
Work in progress	8,572	12,891
Finished goods	83,129	89,121
	<u> </u>	<u> </u>
	152,289	142,026

17. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is normally required. The credit period is generally for a period of three months, for major customers except for customers of the Group's discontinued operations where settlements were made in accordance with the sales contract entered into between the Group and the customers. Each customer has a maximum credit limit. Trade debtors with balances that are more than three months overdue are required to settle all outstanding balances before any further credit is granted.

Ageing analysis of trade and bills receivables (including amounts due from related parties of trading in nature as disclosed in note 24.1(iii)) as at the balance sheet dates, based on invoice date, and net of provisions, is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
1 to 3 months	77,924	41,914
4 to 6 months	3,737	2,138
7 to 12 months	68	–
	<u>81,729</u>	<u>44,052</u>

18. CASH AND CASH EQUIVALENTS

Included in the cash and cash equivalents of the Group are RMB24,528,000 denominated in a currency other than the functional currency of the entity to which it relates (31 December 2007: RMB46,686,000). All the bank balances denominated in RMB were placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

19. TRADE PAYABLES

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
1 to 3 months	55,745	19,135
4 to 6 months	11,778	14,350
7 to 12 months	569	–
Over one year	13	12
	<u>68,105</u>	<u>33,497</u>

20. BORROWINGS

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	114,270	112,815
In the second year	6,682	–
In the third to fifth year	17,818	–
	<u>138,770</u>	<u>112,815</u>
Portion due within one year included under current liabilities	<u>(114,270)</u>	<u>(112,815)</u>
Non-current portion included under non-current liabilities	<u>24,500</u>	<u>–</u>

At the balance sheet dates, the Group's bank loans were secured by:

- (i) a legal charge over certain of the Group's buildings and prepaid land lease payments situated in the PRC with carrying value of approximately HK\$87,699,000 and HK\$44,832,000 (31 December 2007: HK\$84,722,000 and HK\$43,885,000) respectively (note 12.3); and
- (ii) guarantees granted by a director of the Company and certain independent third parties.

21. CONTINGENT LIABILITIES

At 30 June 2008, the Group had no material contingent liabilities (31 December 2007: Nil).

22. CAPITAL COMMITMENTS

At 30 June 2008, the Group had no capital commitment (31 December 2007: HK\$13,934,000).

23. FINANCIAL GUARANTEE CONTRACTS

At 30 June 2008, the Group's jointly controlled entity executed guarantees amounting to approximately HK\$28,409,000 (31 December 2007: HK\$26,596,000) with respect to bank loans to the joint venturer. Under these guarantees, the Group's jointly controlled entity shall be liable to the bank if the bank is unable to recover the loan. At 30 June 2008 and 31 December 2007, no provision for the obligation of the Group's jointly controlled entity under the guarantee contracts has been made as the directors considered that it is not probable that the repayments of the loan will be in default.

24. RELATED PARTY TRANSACTIONS

24.1 Other than those disclosed elsewhere in the interim financial statements, the following material transactions were carried out with related parties during the periods:

	<i>Notes</i>	Six months ended 30 June	
		2008 (Unaudited) <i>HK\$'000</i>	2007 (Unaudited) <i>HK\$'000</i>
Sales of goods to the joint venturer	(i)	290,948	133,954
Purchases of goods from the joint venturer	(i)	–	455
Rental income received from a related company	(ii)	746	457
Loan interest paid to related companies		–	4,878
		–	4,878

Notes:

- (i) A director of the Company is also a director of the joint venturer of the Group's jointly-controlled entity.
- (ii) The rental income was received from a company of which a director of the Company is also a director and it was charged at HK\$124,000 per month on average during the period (Six months ended 30 June 2007: HK\$76,000).
- (iii) Outstanding balances with related parties:
- (a) At 30 June 2008, amounts due from joint venturer arising from the sales of goods and included in trade and bills receivables are approximately HK\$59,493,000 (31 December 2007: HK\$14,080,000).
- (b) At 30 June 2008, amount due from subsidiaries of the joint venturer included in other receivables are approximately HK\$5,117,000 (31 December 2007: HK\$5,117,000).
- (c) At 30 June 2008, amounts due to a subsidiary of the joint venturer included in other payables are approximately HK\$5,114,000 (31 December 2007: HK\$4,787,000).
- (d) At 30 June 2008, amount due to a related company of HK\$204,545,000 (31 December 2007: HK\$209,311,000) are unsecured, interest-free and repayable on demand. This related company has agreed not to demand repayment of the amount of HK\$ 204,545,000 due to it from the Group until such time when repayment will not affect the Remaining Group's ability to repay other creditors.

24.2 Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	3,764	3,764
Post-employment benefits	48	42
	<u>3,812</u>	<u>3,806</u>

25. POST BALANCE SHEET EVENTS

On 20 August 2008, the Company entered into a conditional agreement in respect of the acquisition of the entire issued share capital of Jia Cheng Investment Limited (“Jia Cheng”) at a consideration of HK\$525,000,000, which will be satisfied by allotment and issue of 1,750 million consideration shares of the Company at HK\$0.3 each to Full Day Limited (the “Vendor”). The Vendor is ultimately beneficially wholly-owned by Mr. Hon Kwok Lung, an executive director and major shareholder of the Company. Upon completion of the transaction, the Company will indirectly hold 91% interest in Zhuhai Rossini Watch Industry Ltd. (“Rossini”) through Jia Cheng. Rossini is principally engaged in manufacture and sale of watches mainly in the PRC. Details of this transaction have been set out in the Company’s announcement dated 25 August 2008 and the Company’s circular dated 12 September 2008. This transaction has not yet been completed up to the date of this report and, among other things, is subject to the approval of the shareholders.

26. APPROVAL OF THE INTERIM FINANCIAL REPORT

The Interim Financial Statements were approved and authorised for issue by the board of directors on 25 September 2008.

4. INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$385 million which comprised the Group's secured bank overdraft of approximately HK\$7 million, the Group's secured bank loans of approximately HK\$173 million and the Group's unsecured unguaranteed amounts due to related companies of approximately HK\$205 million. The bank loans, which comprised current bank borrowings of approximately HK\$143 million and non-current borrowings of HK\$30 million, were secured by a legal charge over certain of the Group's investment properties situated in Hong Kong and buildings and prepaid land lease payments situated in the PRC; and guarantees granted by a Director, a related company and certain independent third parties.

Contingent liabilities

As at close of business on 31 October 2008, the Group had total contingent liabilities of approximately HK\$28,409,090, representing maximum amount of the Group's jointly controlled entity's guarantees given to banks for the bank loans granted to a related company.

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

Subsequent change of indebtedness

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

5. WORKING CAPITAL

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

6. MATERIAL CHANGES

The Group had available-for-sale financial assets in the amount of approximately HK\$853.4 million as at 31 December 2007, which comprised shares of Citychamp. As a result of the substantial decrease in the market price of the shares, the value of the available-for-sale financial assets held by the Group has a material decrease subsequent to 31 December 2007. As disclosed in the interim report of the Company for the six months ended 30 June 2008 as set out under section (3) of this appendix, the value of the available-for-sale financial assets was approximately HK\$553 million as at 30 June 2008. Save as the aforesaid, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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

The compensation to be received from the Land Resumption is intended be applied for the acquisition of the Auction PRC Land, and the expansion and development of the Group's watch business and enamelled copper wires business.

Fuzhou Dartong and Jiangsu Dartong improved the quality of their products and decreased return rates during the first half of 2008. The introduction of new flat enamelled copper wires during 2008 is expected to contribute to higher revenue and margins in the future.

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

The management of the Company are optimistic that the continued economic growth of the PRC will benefit the long term steady growth of the Group's watches and timepieces business and enamelled copper wires business.

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
OF THE GROUP FROM THE CIRCULAR
OF THE COMPANY DATED 12 SEPTEMBER 2008**

The following are the texts of (i) the accountants' report on Jia Cheng and Actor Investments; (ii) the accountants' report on the Rossini Group; and (iii) unaudited pro forma financial information of the Group prepared for the purpose of incorporation in the circular of the Company dated 12 September 2008. The financial information is reproduced for reference purpose only.

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

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

Rooms 501, 502 and 508
Mirror Tower, 61 Mody Road
Tsimshatsui East, Kowloon
Hong Kong
Tel: 2314 7999
Fax: 2110 9498

12 September 2008

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

Dear Sirs,

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

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

APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION OF THE GROUP FROM THE CIRCULAR OF THE COMPANY DATED 12 SEPTEMBER 2008

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

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

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

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

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

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

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

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

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

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

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
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A. FINANCIAL INFORMATION

Income statement

(Expressed in Hong Kong dollars)

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

The accompanying notes form part of the Financial Information.

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
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Balance sheet

(Expressed in Hong Kong dollars)

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

The accompanying notes form part of the Financial Information.

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
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Statement of changes in equity

(Expressed in Hong Kong dollars)

(Consolidated)

Jia Cheng Group

	Share capital <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 31 December 2007	8	(20,580)	(20,572)
Loss for the period	—	(32,120)	(32,120)
	<u>8</u>	<u>(32,120)</u>	<u>(32,120)</u>
At 30 June 2008	<u>8</u>	<u>(52,700)</u>	<u>(52,692)</u>

Jia Cheng

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

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
OF THE GROUP FROM THE CIRCULAR
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Cash flow statement

(Expressed in Hong Kong dollars)

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

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
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Notes to the Financial Information

1. GENERAL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

(b) Basis of preparation and measurement

(i) Basis of preparation

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

(ii) Basis of measurement

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

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

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

(c) Subsidiary

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

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

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

(d) Impairment of assets

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

- interest in a subsidiary

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

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(e) Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control Jia Cheng Group or exercise significant influence over Jia Cheng Group in making financial and operating policy decisions, or has joint control over Jia Cheng Group;
- (ii) the Jia Cheng Group and the party are subject to common control;
- (iii) the party is an associate of the Jia Cheng Group or a joint venture in which the Jia Cheng Group is a venturer;
- (iv) the party is a member of key management personnel of the Jia Cheng Group or the Jia Cheng Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Jia Cheng Group or of any entity that is a related party of the Jia Cheng Group.

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

(f) Trade and other receivables

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

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

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

(g) Trade and other payables

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

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(h) Cash and cash equivalents

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

(i) Income tax

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

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

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

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

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

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

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

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

- in the case of current tax assets and liabilities, the Jia Cheng Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. TURNOVER

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

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

4. AUDITORS' REMUNERATION

No auditors' remuneration was paid during the Relevant Period.

5. INCOME TAX IN THE INCOME STATEMENT

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

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

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

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

6. DIRECTORS' EMOLUMENTS AND EMPLOYEE BENEFITS EXPENSES

(a) Directors' emoluments

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

(b) Employee's emolument

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

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

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

7. EARNINGS PER SHARE

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

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8. INTEREST IN A SUBSIDIARY

	Jia Cheng		
	As at	As at 31 December	
	30 June	2007	2006
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	10,000	–	–
Amount due from a subsidiary	18,050	–	–

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

Details of the subsidiary are as follows:

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

9. CASH AND CASH EQUIVALENTS

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

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

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

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

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11. SHARE CAPITAL

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

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

12. SUBSEQUENT EVENT

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

13. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

(b) Liquidity risk

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

(c) Fair value

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

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14. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

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

B. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully
JYC & Co.
Certified Public Accountants
Hong Kong

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
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**(2) ACCOUNTANTS' REPORT ON THE ROSSINI GROUP FOR THE THREE YEARS
ENDED 31 DECEMBER 2007 AND THE SIX MONTHS ENDED 30 JUNE 2008**

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

Rooms 501, 502 and 508
Mirror Tower, 61 Mody Road
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Hong Kong
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12 September 2008

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

Dear Sirs,

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

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

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

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

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

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

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

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

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

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

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

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A. FINANCIAL INFORMATION

Consolidated income statement

(Expressed in Renminbi)

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

The accompanying notes form part of the Financial Information.

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
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OF THE COMPANY DATED 12 SEPTEMBER 2008**

Consolidated balance sheet

(Expressed in Renminbi)

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

The accompanying notes form part of the Financial Information.

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
OF THE GROUP FROM THE CIRCULAR
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Balance sheet

(Expressed in Renminbi)

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

The accompanying notes form part of the Financial Information.

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
OF THE GROUP FROM THE CIRCULAR
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Consolidated statement of changes in equity

(Expressed in Renminbi)

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

**APPENDIX II REPRODUCTION OF FINANCIAL INFORMATION
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Consolidated cash flow statement

(Expressed in Renminbi)

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

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

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Notes to the Financial Information

1. GENERAL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

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

(b) Basis of preparation and measurement

(i) Basis of preparation

The Financial Information set out in this report comprises Rossini and its subsidiary (together referred to as the “Rossini Group”) and the Rossini Group’s interest in an associate.

(ii) Basis of measurement

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

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

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

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

(c) **Subsidiaries**

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

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

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

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

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

(d) **Associates**

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

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

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

(e) Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Rossini Group or exercise significant influence over the Rossini Group in making financial and operating policy decisions, or has joint control over the Rossini Group;
- (ii) the Rossini Group and the party are subject to common control;
- (iii) the party is an associate of the Rossini Group or a joint venture in which the Rossini Group is a venturer;
- (iv) the party is a member of key management personnel of the Rossini Group or the Rossini Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Rossini Group or of any entity that is a related party of the Rossini Group.

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

(f) Property, plant and equipment

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

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

Buildings	2%
Others	33.33%

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

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

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

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(g) Leased assets

(i) Classification of leased assets

Assets that are held by the Rossini Group under leases which transfer to the Rossini Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Rossini Group are classified as operating leases.

(ii) Operating lease charges

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

(h) Impairment of assets

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

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

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

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(i) Available-for-sale financial assets

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

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

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

(j) Inventories

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

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

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

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

(k) Trade and other receivables

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

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

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

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

(n) Employee benefits

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

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

(o) Income tax

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

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

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

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

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temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

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

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

- in the case of current tax assets and liabilities, the Rossini Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Dividend income

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

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(q) Translation of foreign currencies

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

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

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

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

(r) Borrowing costs

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

(s) Dividends

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

3. TURNOVER

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

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

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4. OTHER REVENUE AND NET (EXPENSES)/INCOME

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

5. FINANCE COSTS

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

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6. PROFIT BEFORE TAXATION

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

	Six months		Year ended 31 December		
	ended 30 June		2007	2006	2005
	2008	2007	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Staff costs:					
Contributions to defined contribution retirement plan (<i>Note</i>)	470	498	1,017	1,336	1,418
Salaries, wages and other benefits	5,815	7,773	23,394	14,784	11,957
	<u>6,285</u>	<u>8,271</u>	<u>24,411</u>	<u>16,120</u>	<u>13,375</u>
Depreciation	562	745	1,423	1,656	1,620
Auditors' remuneration	-	-	25	25	25
Operating lease charges:					
minimum lease payments	153	122	268	281	254
Cost of inventories sold (<i>note 17(b)</i>)	30,071	36,710	75,565	70,406	51,085
Bad debts written-off/(recovery)	255	-	(87)	(482)	828
	<u>36,723</u>	<u>45,518</u>	<u>104,654</u>	<u>87,274</u>	<u>68,605</u>

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

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

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7. **INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT**

(a) Taxation in the consolidated income statement represents:

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

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

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

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

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

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

(c) Deferred tax assets not recognised:

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

8. DIRECTORS' EMOLUMENTS

Name of directors	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefit scheme	Total RMB'000
			RMB'000	
Year ended 31 December 2005				
Mr. Lin Jia Hai	299	273	11	583
Ms. Du Jiang (Note 1)	–	–	–	–
Mr. Xu Rong (Note 2)	–	–	–	–
Mr. Cheng Ji Hong	–	–	–	–
Mr. Lu Bo (Note 2)	–	–	–	–
Mr. Chen Yuan He (Note 3)	–	–	–	–
Mr. Zhang Fan (Note 2)	46	53	6	105
Mr. Li Ji Jun (Note 2)	82	142	11	235
	<u>427</u>	<u>468</u>	<u>28</u>	<u>923</u>
Year ended 31 December 2006				
Mr. Lin Jia Hai	298	309	14	621
Mr. Cheng Ji Hong	–	–	–	–
Mr. Chen Yuan He	–	–	–	–
Mr. Zhang Fan	55	58	6	119
Mr. Li Ji Jun	99	170	14	283
	<u>452</u>	<u>537</u>	<u>34</u>	<u>1,023</u>

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

Notes:

- Ms. Du Jiang acted as the vice president of Rossini until 31 March 2005 and Mr. Chen Yuan He was appointed to succeed this position.
- Mr. Xu Rong and Mr. Lu Bo resigned on 31 March 2005 and Mr. Zhang Fan and Mr. Li Ji Jun had been appointed on the same date.
- Mr. Chen Yuan He resigned on 15 March 2007 and Mr. Dong Tai Jin was appointed to succeed the position of vice president on the same date.
- Mr. Cheng Ji Hong and Mr. Zhang Fan resigned on 15 March 2007 and Mr. Wang Gang and Mr. Liu Xu Lin had been appointed on the same date.
- Mr. Lin Jia Hai acted as the president of Rossini until 11 March 2008 and Mr. Hon Kwok Lung was appointed to succeed this position.
- Mr. Li Ji Jun, Mr. Dong Tai Jin, Mr. Wang Gang and Mr. Liu Xu Lin resigned on 11 March 2008 and Mr. Shang Jian Guang and Mr. Tao Li had been appointed on the same date.

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9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

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

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

	Six months ended 30 June		Year ended 31 December		
	2008	2007	2007	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Nil to RMB1,000,000	5	5	5	5	5
RMB1,000,001 to RMB1,500,000	-	-	-	-	-
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

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

10. SEGMENT REPORTING

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

11. EARNINGS PER SHARE

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

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12. PROPERTY, PLANT AND EQUIPMENT

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

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13. INTEREST IN A SUBSIDIARY

	Rossini			
	As at 30 June 2008	As at 31 December		
	2007	2006	2005	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	571	571	571	571
Less: Impairment loss	(571)	(571)	(571)	(571)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Details of the subsidiary are as follows:

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

14. INTEREST IN AN ASSOCIATE

	The Rossini Group and Rossini			
	As at 30 June 2008	As at 31 December		
	2007	2006	2005	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	200	200	200	200
Share of accumulated losses	(66)	(66)	(66)	(63)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

Details of the associate are as follows:

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

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

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale equity security:

	The Rossini Group and Rossini			
	As at 30 June 2008	As at 31 December		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted, at cost	<u>65</u>	<u>65</u>	<u>21,065</u>	<u>21,065</u>

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

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16. TRADE AND OTHER RECEIVABLES

(i)

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

(a) *Impairment of trade receivables*

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

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

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

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(b) *Trade receivables that are not impaired*

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

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

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

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

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

(ii)

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

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(a) *Impairment of trade receivables*

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

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

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

(b) *Trade receivables that are not impaired*

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

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

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

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

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

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17. INVENTORIES

(a) Inventories in the balance sheets comprise:

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

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

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

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

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

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

The Rossini Group and Rossini				
Name of related company	Relationship with Rossini			
Zuhai Geli Group Company	Former significant shareholder			
	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2006 RMB'000	2005 RMB'000
Amount due from a related company	-	-	-	28,659
	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2006 RMB'000	2005 RMB'000
Maximum amount outstanding during the period	-	-	-	28,659
	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2006 RMB'000	2005 RMB'000
Amount due to a related company	-	-	(21,507)	(25,000)
Weighted average effective interest rates	-	2.21%	2.21%	2.21%

19. CASH AND CASH EQUIVALENTS

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

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

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

Rossini

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

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

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

20. TRADE AND OTHER PAYABLES

The Rossini Group

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

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

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Included in trade payables are within the following ageing analysis:

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

Rossini

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

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

Included in trade payables are within the following ageing analysis:

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

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21. SHORT-TERM BORROWINGS

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

Notes:

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

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

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

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

	As at	As at 31 December		
	30 June	2007	2006	2005
	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	-	-	6.14%	5.95%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

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22. CAPITAL AND RESERVES

(a) Capital and reserves

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

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

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(b) Statutory reserves

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

(c) Capital paid

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

(d) Capital management

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

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

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

23. DIVIDENDS

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

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

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

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24. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

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

(b) Transactions with other related parties

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

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

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

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

25. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

(b) Liquidity risk

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

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

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

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

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

(c) Currency risk

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

(d) Interest rate risk

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

(e) Fair values

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

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26. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

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

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

27. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimation uncertainty

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

Impairment losses for bad and doubtful debts

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

Impairment losses of inventories

The Rossini Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventory analyses, projections of expected future salability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. Due to changes in market conditions, actual salability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

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Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Rossini Group reviews annually the useful life of an asset and its residual value, if any.

Taxation

The Rossini Group assesses the tax effect of all transactions and make provision for tax obligations. The Rossini Group reviews the tax treatment of these transactions, considering all amendments of tax laws and regulations.

B. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully
JYC & Co.
Certified Public Accountants
Hong Kong

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(3) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The unaudited pro forma financial information of China Haidian Holdings Limited and its subsidiaries (hereafter collectively referred to as the “Group”) and Jia Cheng Investment Limited (“Jia Cheng”) and its subsidiary (hereafter collectively referred to as the “Jia Cheng Group”) and Zhuhai Rossini Watch Industry Limited (“Rossini”) and its subsidiary (hereafter collectively referred to as the “Rossini Group”) (together with the Group, hereinafter collectively referred to as the “Enlarged Group”) has been prepared to illustrate the effect of the Group’s proposed acquisition of the 100% interest in the Jia Cheng Group and 91% indirect interest in the Rossini Group at a share consideration of HK\$525 million by allotment and issue of 1,750 million shares (the “Acquisition”).

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on (i) the audited consolidated balance sheet of the Group as at 31 December 2007, which has been extracted from the Company’s published annual report for the year then ended as set out in Appendix I to this circular; and (ii) the audited consolidated balance sheet of the Jia Cheng Group and the Rossini Group as at 30 June 2008 as extracted from the accountants’ report thereon set out in Appendix II and Appendix III respectively to this circular, after making pro forma adjustments relating to the acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2008.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition. As it is prepared for illustrative purposes only, it does not purport to represent what the financial position of the Enlarged Group will be on completion of the Acquisition.

For the purpose of the pro forma balance sheet, the balances denominated in Renminbi (“RMB”) have been translated into Hong Kong dollars (“HK\$”) at RMB100=HK\$114 which is the prevailing exchange rate as at 30 June 2008.

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Unaudited pro forma statement of assets and liabilities of the Enlarged Group

	The Group as at 31 December 2007 (audited) <i>HK\$'000</i>	The Jia Cheng Group as at 30 June 2008 (audited) <i>HK\$'000</i>	The Rossini Group 30 June 2008 (audited) <i>HK\$'000</i>	Pro forma adjustments (unaudited) <i>HK\$'000</i> <i>(Note 1)</i>	Unaudited pro forma consolidated balance sheet of the Enlarged Group <i>HK\$'000</i>
Non-current assets					
Property, plant and equipment	125,394	–	8,426		133,820
Goodwill				474,129	474,182
				53	
Investment properties	60,258	–	–		60,258
Prepaid land lease payments	10,227	–	–		10,227
Interest in associate	31,484	–	153		31,637
Available-for-sale financial assets	853,380	–	74		853,454
Prepayments and deposits	2,394	–	–		2,394
Deferred tax assets	1,130	–	–		1,130
	<u>1,084,267</u>	<u>–</u>	<u>8,653</u>		<u>1,567,102</u>
Current assets					
Inventories	142,026	–	73,241		215,267
Trade and bills receivables	44,052	–	10,447		54,499
Prepaid land lease payments	210	–	–		210
Prepayments, deposits and other receivables	87,277	–	3,193		90,470
Financial assets at fair value through profit or loss	44,178	–	–		44,178
Pledged bank deposit	–	–	209		209
Cash and cash equivalents	82,362	8,455	13,038		103,855
	<u>400,105</u>	<u>8,455</u>	<u>100,128</u>		<u>508,688</u>
Non-current assets held for sale	200,989	–	–		200,989
	<u>601,094</u>	<u>8,455</u>	<u>100,128</u>		<u>709,677</u>

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	The Group as at 31 December 2007 (audited) <i>HK\$'000</i>	The Jia Cheng Group as at 30 June 2008 (audited) <i>HK\$'000</i>	The Rossini Group 30 June 2008 (audited) <i>HK\$'000</i>	Pro forma adjustments (unaudited) <i>HK\$'000</i> <i>(Note 1)</i>	Unaudited pro forma consolidated balance sheet of the Enlarged Group <i>HK\$'000</i>
Current liabilities					
Trade payables	(33,497)	-	(35,816)		(69,313)
Other payables and accruals	(95,767)	(8,508)	(13,592)		(117,867)
Tax payables	(13,188)	-	(3,471)		(16,659)
Derivative financial instruments	(5,017)	-	-		(5,017)
Borrowings	(112,815)	-	-		(112,815)
Due to related companies	(209,311)	-	-		(209,311)
	<u>(469,595)</u>	<u>(8,508)</u>	<u>(52,879)</u>		<u>(530,982)</u>
Net current assets	<u>131,499</u>	<u>(53)</u>	<u>47,249</u>		<u>178,695</u>
Net assets	<u>1,215,766</u>	<u>(53)</u>	<u>55,902</u>		<u>1,745,797</u>
Equity					
Equity attributable to equity holders of the Company					
Share capital	179,203	-	8,892	175,000 (8,892)	354,203
Share premium and other reserves	1,034,171	(53)	47,010	350,000 53 (47,010)	1,384,171
Minority interests	<u>2,392</u>	<u>-</u>	<u>-</u>	5,031	<u>7,423</u>
Total equity	<u>1,215,766</u>	<u>(53)</u>	<u>55,902</u>		<u>1,745,797</u>

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Notes to the pro forma adjustment

1. The adjustments represent the allotment and issue of 1,750 million consideration shares at HK\$0.3 each for the acquisition of the entire equity interest in Jia Cheng which indirectly held 91% of equity interest in the Rossini Group.

The consideration eliminates the share capital and pre-acquisition reserves of the Jia Cheng Group and the Rossini Group and recognition of goodwill of HK\$474,182,000 arising from the acquisition, being excess of the consideration of HK\$525,000,000 over the interest in the fair value of the net identifiable liabilities of the Jia Cheng Group of HK\$53,000 and net identifiable assets of the Rossini Group of HK\$50,871,000 (91% of the net assets HK\$55,902,000). Minority Interest of HK\$5,031,000 represents the remaining 9% of equity interest in the Rossini Group.

2. Since the fair value of the net identifiable liabilities of the Jia Cheng Group and net identifiable assets of the Rossini Group at the date of completion of the acquisition may be substantially different from the fair value used in the preparation of this unaudited pro forma statement of assets and liabilities of the Enlarged Group, the final amount of the excess over the cost of business combination to be recognised in connection with the acquisition will be different from the estimated excess over the cost of business combination stated herein.

The following is the text of the letter and valuation certificate prepared for the purpose of incorporation in this circular, received from Greater China Appraisal Limited, an independent property valuer, in connection with its valuation of the Auction PRC Land as at 30 November 2008.

GREATER CHINA APPRAISAL LIMITED

漢華評值有限公司

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

19 December 2008

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

Dear Sirs,

In accordance with the instructions from China Haidian Holdings Limited (“the Company”) for us to value the land parcel Lot No. T101-0047 (“the Auction PRC Land”) located at the junction of Yueliangwan Main Road and Mianshan Road, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China (“the PRC”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the market value of the property as at 30 November 2008 (referred to as the “valuation date”).

It is our understanding that this valuation is for acquisition purpose.

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

Basis of Valuation

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

Valuation Methodology

Comparison method is applied to valuation of land for development where land comparables were analysed and adjusted for application in the valuation. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital value. Moreover, the residual method of valuation was used as a counter-check of the results derived from direct comparison method. In principle, the residual method is to estimate the present capital value of the future development (the gross development value) and to deduct therefrom the cost of all the works and other expenses necessary to put the property into the state to command such value and an allowance for developer's risks.

The gross development value is the capital value of the proposed development when completed which is arrived at by valuing the completed development based on sales prices realized or market prices of comparable properties.

Assumptions

Our valuation has been made on the assumption that the owner sells the property on the open market in its existing state without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the property.

Although the land premium for the Auction PRC Land has not been settled yet, we have valued the Auction PRC Land on the basis that the purchaser will settle any outstanding sums in accordance with the auction particulars so as to secure valid interests in the Auction PRC Land.

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

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

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

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

Titleship Investigation

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

In our valuation, we have relied on the legal opinions prepared by 廣東景達律師事務所 (Guangdong Jingda Law Firm) (“the PRC Legal Advisers”) regarding the Company’s legal title to the property.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property set out in this report.

Limiting Conditions

We have carried out inspection for the Auction PRC Land. However, no structural survey has been made and we are therefore unable to report as to whether the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

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

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Company and have accepted advice given to us by it on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, construction costs, rentals, site and permissible floor areas and in the identification of the Auction PRC Land. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

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

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

Opinion of Value

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

Remarks

Our valuation has been prepared in accordance with generally accepted valuation procedures. In valuing the property, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

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

The valuation certificate is enclosed herewith.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED
K. K. Ip *BLE, LLD*
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip is a chartered valuation surveyor and a registered professional surveyor who has substantial experience in valuation of properties in the PRC since 1992.

VALUATION CERTIFICATE

PROPERTY TO BE ACQUIRED FOR DEVELOPMENT

Property	Description and tenure	Particulars of Occupancy	Market Value as at 30 November 2008
<p>A parcel of land (Lot No. T101-0047) located at the junction of Yueliangwan Main Road and Mianshan Road Nanshan District Shenzhen Guangdong Province The PRC</p>	<p>The property comprises a parcel of land (the "Auction PRC Land") with a site area of approximately 49,581.66 square metres.</p> <p>The Auction PRC Land is situated at the southwest side of town centre of Nanshan District, about 2 kilometers south to the proposed Qianhai Station of Shenzhen Metro Line 1. The Shekou Port is about 6 kilometres south to the Auction PRC Land.</p>	<p>Buildings on the Auction PRC Land are due to be demolished.</p>	<p>RMB780,000,000</p>
	<p>According to the auction particulars, the Auction PRC Land will be developed as a composite development for residential, commercial, office, hotel and ancillary public uses. The maximum permissible gross floor area of the completed development is 205,693 square metres. The land use rights of the Auction PRC Land to be granted are 70 years for residential use and 50 years for apartment, office and hotel uses.</p>		

Notes:

- (i) The People's Government of Nanshan District of Shenzhen, the Shenzhen Municipal Bureau of Land Resources and Housing Management, 深圳市森帝貿易發展有限公司 (Shenzhen Seti Trading Development Company Limited, "Seti Trading", a wholly-owned subsidiary of the Company) and 蘇州冠城宏業房地產有限公司 (Suzhou Citychamp Hongye Property Development Company Limited, "Suzhou Citychamp") have signed a Confirmation Letter on 26 November 2008 which confirms winning of the bid of the Auction PRC Land jointly by Seti Trading and Suzhou Citychamp with a bidding price of RMB800,000,000.
- (ii) Pursuant to the Project Agreement dated 26 November 2008 entered into between the People's Government of Nanshan District of the Shenzhen Municipal, Seti Trading and Suzhou Citychamp which sets out the terms of the acquisition of the Auction PRC Land, Seti Trading and Suzhou Citychamp will have to sign a land use rights transfer agreement with the Shenzhen Municipal Bureau of Land Resources and Housing Management after demolition and relocation works on the Auction PRC Land finished and cancellation of existing property title completed. The bidding price of RMB800,000,000 will be converted into the consideration of the land use rights transfer agreement.

The land use conditions of the Auction PRC Land contain the followings:

- | | | |
|-----|-------------------------------------|--|
| (a) | Use: | residential, commercial and office |
| (b) | Land use right term: | 70 years for residential use;
50 years for apartment, office and hotel uses |
| (c) | Maximum permitted gross floor area: | 205,693 square metres including:
(i) residential – 91,419 square metres;
(ii) apartment – 11,427 square metres;
(iii) office – 51,240 square metres;
(iv) hotel – 51,287 square metres;
(v) post office – 150 square metres;
(vi) refuse station – 50 square metres;
(vii) recycle refuse collection station – 50 square metres
(viii) public toilet – 60 square metres; and
(ix) public area cleaner's room – 10 square metres |
| (d) | Building density: | not more than 30% |
| (e) | Plot ratio: | less than 4.15 (3.2 for residential use and 5.43 for apartment, office and hotel uses) |
| (f) | Green area: | more than or equal to 30% |
| (g) | Height restriction: | not more than 100 metres |
| (h) | Set-back from lot boundary: | not less than 9 metres on the eastern and western sides and not less than 12 metres on the southern and northern sides |
| (i) | Other conditions: | (i) number of car parking spaces should be in compliance with the relevant requirement set out in Shenzhen Town Planning Requirement and Standards;
(ii) the hotel should be of 4-star rating or above;
(iii) The total gross floor area of residential units less than 90 square metres should not be less than 70% of the total gross floor area of the residential development. |
- (iii) As no governmental construction planning approval has been obtained, we have assumed that the property will be developed in accordance with the land use conditions mentioned above.
- (iv) Pursuant to the Joint Venture Agreement dated 26 November 2008, Seti Trading and Suzhou Citychamp will procure to establish a joint venture company ("JV Company") for holding and development of the Auction PRC Land. The profits available for distribution of the JV Company will be distributed to Seti Trading and Suzhou Citychamp in proportion to the respective interests in the JV Company, which shall be 30% and 70% respectively.

- (v) We have assumed that the Auction PRC Land will be held for 70 years for residential part and 50 years for apartment, office and hotel parts commencing from the date of the Land Use Rights Certificate to be issued.
- (vi) Opinions of the PRC Legal Advisers are summarized as follows:
 - (a) The auction procedures of the Auction PRC Land have been completed and the Confirmation Letter has been entered into among the People's Government of Nanshan District of Shenzhen, the Shenzhen Municipal Bureau of Land Resources and Housing Management, Seti Trading and Suzhou Citychamp which confirms the winning of the bid by Seti Trading and Suzhou Citychamp.
 - (b) According to the Confirmation Letter and the auction particulars, the land use rights transfer agreement will be entered into between the JV Company and the grantor.
 - (c) The Confirmation Letter is legally binding between the parties.
 - (d) There will be no legal impediments for the signing of the land use rights transfer agreement between the JV Company and the grantor and the obtaining of the Land Use Rights Certificate by the JV 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. DISCLOSURE OF INTERESTS

(a) Interests of the directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of Director	Nature of interest	Number of Shares held	
		Long position	Percentage of shareholding
Mr. Hon	Corporate (<i>Note</i>)	2,433,441,515	68.70%

Note: 683,441,515 Shares were held by Sincere View, which is owned as to 80% by Mr. Hon and 20% by Ms. Lam Suk Ying, the wife of Mr. Hon. 1,750,000,000 Shares were held by Full Day, which is wholly-owned by Mr. Hon.

Save as disclosed above, as at the Latest Practicable Date, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) Interests of substantial shareholders

As at the Latest Practicable Date, so far as was known to the directors and chief executive of the Company, the following entity or person had, or was taken or deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Number of Shares held	
	Long position	Percentage of shareholding
Full Day	1,750,000,000	49.41%
Sincere View	683,441,515	19.29%
Mr. Hon (<i>Note</i>)	2,433,441,515	68.70%
Ms. Lam Suk Ying (<i>Note</i>)	2,433,441,515	68.70%

Note: As Mr. Hon owns 100% and 80% of Full Day and Sincere View respectively, he is deemed to be interested in the total 2,433,441,515 Shares held by Full Day and Sincere View under Part XV of the SFO. Ms. Lam Suk Ying, being Mr. Hon's spouse, is also deemed to be interested in the total 2,433,441,515 Shares held by Full Day and Sincere View under Part XV of the SFO. Mr. Hon is a director of both Full Day and Sincere View.

Save as disclosed above, the directors and chief executive of the Company were not aware of any entities or persons who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at the Latest Practicable Date.

3. COMPETING BUSINESS

None of the Directors and their respective associates has any interests in a business, which competes or is likely to compete with the business of the Group.

4. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, were entered into by the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

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

- (b) the Land Resumption Agreement;
- (c) the Joint Arrangement Agreement;
- (d) the agreement dated 20 August 2008 entered into among the Company, Full Day and Mr. Hon in relation to the acquisition of Jia Cheng and its subsidiaries by the Company at a consideration of HK\$525 million;
- (e) the Confirmation Letter;
- (f) the Project Agreement; and
- (g) the Joint Venture Agreement.

5. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

7. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

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

Ms. Sit is a non-executive Director. As at the Latest Practicable Date, save as Ms. Sit's interest in the Rossini Group, none of the Directors had, or has had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Company were made up.

8. EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has given opinion, which is contained or referred to in this circular:

Name	Qualification
Greater China Appraisal Limited	Professional property valuer

- (b) As at the Latest Practicable Date, Greater China Appraisal Limited did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Greater China Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which it appears.
- (d) Greater China Appraisal Limited does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Company were made up.

9. GENERAL

- (a) The company secretary and qualified accountant of the Company is Mr. Fong Chi Wah, who is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of Certified Practising Accountant (Australia) and a Chartered Financial Analyst.
- (b) The registered office of the Company is at P.O. Box 309, Uglan House, South Church Street, Grand Cayman, the Cayman Islands and the principal place of business of the Company in Hong Kong is at Units 1902-04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.
- (c) The share registrar and transfer office of the Company is Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office of the Company at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong during normal office hours on any weekday, except Saturdays, Sundays and public holidays, from the date of this circular up to and including 2 January 2009:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the section headed “Material contracts” in this appendix;
- (c) the annual reports of the Company for each of the three years ended 31 December 2007;
- (d) the interim report of the Company for the six months ended 30 June 2008;
- (e) the accountants’ report on Jia Cheng and Actor Investments, the text of which is set out in Appendix II to this circular;
- (f) the accountants’ report on the Rossini Group, the text of which is set out in Appendix II to this circular;
- (g) the valuation report of the Auction PRC Land prepared by Greater China Appraisal Limited, the text of which is set out in Appendix III to this circular;
- (h) the written consent referred to in the section headed “Expert and consent” in this appendix; and
- (i) all the circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company, being 31 December 2007.