Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Xinyu Hengdeli Holdings Limited ("the Company") is a company incorporated in the Cayman Islands as an exempted company with limited liability on 9 July 2004 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group"). The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 September 2005.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries and the Group's interest in a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for trading securities, which are stated at fair value as explained in the accounting policies 1(f).

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

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

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the 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 consolidated financial statements 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 consolidated financial statements. 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 the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the 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 the Company. Minority interests in the results of the 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 the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the 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 Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of jointly controlled entity for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entity recognised for the year (see notes 1(e) and 1(j)).

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity 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 jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

(e) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)). In respect of jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the 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 a jointly controlled entity is recognised immediately in profit or loss.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

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

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in the debt and equity securities, other than investments in subsidiaries and jointly controlled entities, are as follows:

Investments in debt and equity securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(j)).

Other investments in securities are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(j)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs(see note 1(u)).

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

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment on a straight-line basis over their estimated useful lives, to residual value, as follows:

Buildings	20-25 years
Leasehold improvements	1-3 years
Motor vehicles	8 years
Office equipment and other fixed assts	4-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged 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. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(h) Intangible assets (other than goodwill)

The intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

– EDOX agency rights	10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Operating lease charges

Where the 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. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

– For available-for-sale securities, the cumulative loss that has been recognized directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale 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. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Impairment of other asset

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

– property, plant and equipment;
– intangible assets;
– investments in subsidiaries and joint ventures; and
– goodwill.

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

– Calculation of recoverable amount

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

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other asset (Continued)

– 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

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

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

(k) Inventories

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

Cost is calculated using the first-in first-out method 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.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories *(Continued)*

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of sales, and the reasonable profit margin based on the effort required to complete and sell the inventory.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(j)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other financial institutions, cash on hand and demand deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalent for the purpose of the cash flow statements.

(p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans, including contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(q) 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.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

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

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

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

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

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 company or the 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 Company or the 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.

(r) Provisions and contingent liabilities

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

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

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

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 in profit or loss as follows:

i) Sale of goods

Revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax and is after deduction of any trade discounts.

ii) Dividends

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

iii) Interest income

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

iv) Government grants

An unconditional government grant is recognised in the consolidated income statement as other revenue and net income when the grant becomes receivable.

(t) 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 group companies which have a functional currency other than Renminbi ("RMB") are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Borrowing costs

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

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

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

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

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

(iv) the party is a member of key management personnel of the Group or the 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 Group or of any entity that is a related party of the 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.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses and minority interests.

The Group's business is mainly managed in two principal geographical areas, the PRC (other than Hong Kong) and Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

2. TURNOVER

The principal activities of the Group are retail and wholesales of watches and jewellery.

Notes to the Financial Statements

3. OTHER REVENUE AND NET INCOME

	2006 RMB'000	2005 RMB'000
Interest income	**6,171**	3,351
Government grants	**9,860**	8,750
Investment income	**10,024**	4,400
Changes in fair value on trading securities	**–**	887
Income from sales of trading securities	**6,449**	–
Others	**5,738**	1,040
	38,242	18,428

One of the Group's subsidiaries, Shanghai Xinyu Watch & Clock Group, Ltd. ("Shanghai Xinyu"), received unconditional grants totalling RMB8,750 thousands and RMB9,860 thousands for the years ended 31 December 2005 and 2006, respectively, from the local government in Shanghai, in support of Shanghai Xinyu's development.

4. OTHER OPERATING EXPENSES

	2006 RMB'000	2005 RMB'000
Write-down of inventories	**5,565**	1,811
Impairment losses for doubtful accounts	**407**	898
Loss on disposal of property, plant and equipment	**41**	39
	6,013	2,748

Notes to the Financial Statements

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

i) *Finance costs*

	2006 RMB'000	2005 RMB'000
Interest expense on bank loans and overdrafts	**23,193**	21,004
Bank charges	**3,855**	2,349
	27,048	23,353

ii) *Staff costs*

	2006 RMB'000	2005 RMB'000
Wages, salaries and other benefits	**76,165**	41,471
Contributions to defined contribution plans	**6,161**	3,591
	82,326	45,062

iii) *Other items*

	2006 RMB'000	2005 RMB'000
Cost of inventories#	**1,847,240**	1,034,060
Auditors' remuneration – audit services	**2,700**	1,500
Depreciation – property, plant and equipment	**15,970**	12,024
Amortisation of intangible assets	**120**	120
Operating leases charges in respect of properties		
– minimum lease payments	**16,610**	13,256
– contingent rents	**59,693**	35,726

Cost of inventories includes RMB5,565 thousands (2005: RMB1,811 thousands), relating to write-down of inventories for the year ended 31 December 2006, which amount is also disclosed separately in note 4.

Notes to the Financial Statements

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(i) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax		
Provision for Hong Kong profits tax for the year	**5,577**	84
Provision for PRC income tax for the year	**84,935**	71,351
(Over)/under-provision in respect of prior years	**(2,886)**	384
Deferred tax		
Origination of temporary differences	**(7,395)**	(6,933)
	80,231	64,886

Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, certain subsidiaries located in foreign jurisdictions are not subject to any income tax in these jurisdictions.

The provision for PRC income tax is based on a statutory rate of 33% of the assessable profits of subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC during the year, except for a subsidiary which is entitled to a preferential income tax rate of 15%.

Provision for Hong Kong profits tax during the year ended 31 December 2006 is calculated at 17.5% of the estimated assessable profits of subsidiaries in Hong Kong.

Notes to the Financial Statements

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(ii) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2006 **RMB'000**	2005 RMB'000
Profit before tax	**293,829**	196,663
Computed tax using the applicable tax rate to respective companies comprising the Group	**88,339**	64,829
Non-taxable income	**(6,562)**	(1,452)
Non-deductible expenses	**1,340**	1,125
(Over)/under-provision in respect of prior years	**(2,886)**	384
	80,231	64,886

Notes to the Financial Statements

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 27)*	Bonus RMB'000	Total RMB'000
Year ended 31 December 2005					
Executive Directors					
Mr. Zhang Yuping	–	1,296	–	–	1,296
Mr. Song Jianwen	–	276	32	–	308
Mr. Huang Yonghua	–	502	–	–	502
Non-executive Directors					
Mr. Li Jialin	26	–	–	–	26
Mr. Chen Sheng	13	–	–	–	13
Mr. Shen Zhiyuan	13	–	–	–	13
Independent Non-executive Directors					
Mr. Liu Huangsong	13	–	–	–	13
Mr. Cai Jianmin	13	–	–	–	13
Mr. Wong Kam Fai, William	26	–	–	–	26
Total	104	2,074	32	–	2,210

Notes to the Financial Statements

7. DIRECTORS' REMUNERATION *(Continued)*

	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit plans RMB'000 *(note 27)*	Bonus RMB'000	Total RMB'000
Year ended 31 December 2006					
Executive Directors					
Mr. Zhang Yuping	–	1,560	–	–	1,560
Mr. Song Jianwen	–	600	32	–	632
Mr. Huang Yonghua	–	660	–	–	660
Non-executive Directors					
Mr. Li Jialin (resigned on 15 February 2006)	13	–	–	–	13
Mr. Chen Sheng	50	–	–	–	50
Mr. Shen Zhiyuan	50	–	–	–	50
Mr. Shi Zhongyang (appointed on 15 February 2006)	88	–	–	–	88
Mr. Chuang Jian, George (appointed on 23 October 2006)	–	–	–	–	–
Independent Non-executive Directors					
Mr. Liu Huangsong	50	–	–	–	50
Mr. Cai Jianmin	50	–	–	–	50
Mr. Wong Kam Fai, William	100	–	–	–	100
Total	401	2,820	32	–	3,253

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group during the two years ended 31 December 2005 and 2006. There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 December 2005 and 2006.

Notes to the Financial Statements

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year ended 31 December 2006 include 3 (2005: 2) directors of the Company, whose remuneration are reflected in note 7. Details of remuneration paid to the remaining highest paid individuals of the Group are as follow:

	2006 **RMB'000**	2005 RMB'000
Basic salaries, allowances and other benefits	**1,299**	1,569
Contributions to retirement benefit plans	**12**	25
Bonus	**299**	–
	1,610	1,594

The emoluments of the two (2005: three) individuals with the highest emoluments are within the following bands:

RMB	**2006** **Number of individuals**	2005 Number of individuals
Nil-1,000,000	**1**	3
1,000,000-1,500,000	**1**	–

During the two years ended 31 December 2005 and 2006, no emoluments were 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.

Notes to the Financial Statements

9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,080 thousands (2005: loss of RMB897 thousands) which has been dealt with in the financial statements of the Company.

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

	2006 **RMB'000**	2005 RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**1,080**	(897)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**49,279**	–
Company's profit/(loss) for the year *(note 29(b))*	**50,359**	(897)

10. DIVIDENDS

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

	2006 **RMB'000**	2005 RMB'000
Final dividend proposed after the balance sheet date of RMB0.028 per share (2005: RMB0.048 per share)	**69,566**	49,800

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Notes to the Financial Statements

10. DIVIDENDS *(Continued)*

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.048 per share	**49,800**	92,150

Pursuant to the resolution passed at the board of directors' meeting of Shanghai Xinyu held on 23 February 2005, dividend (excluding share of dividends to minority shareholders) of RMB92,150 thousands was declared by Shanghai Xinyu to its then major shareholders. The final dividend per share and the number of shares ranking for dividend are not presented above as such information is not meaningful having regard to the consolidated financial statements.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB199,101 thousands (2005: RMB121,011 thousands) and the weighted average of 2,219,727,398 ordinary shares (2005: 1,652,191,780 ordinary shares) in issue during the year. The weighted average number of ordinary shares in issue for 2005 and 2006 has been retrospectively adjusted for the effect of the share split on 6 February 2007 (Note 34).

There were no dilutive potential ordinary shares for the years ended 31 December 2005 and 2006 and, therefore, diluted earnings per share are not presented.

Notes to the Financial Statements

12. SEGMENT INFORMATION

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

Business segments

The Group comprises two principal business segments which are retail and wholesale respectively.

	2006 RMB'000	2005 RMB'000
Turnover		
Retail	**1,362,863**	636,725
Wholesale	**1,024,507**	745,059
Unallocated	**17,329**	14,747
Total	**2,404,699**	1,396,531
Segment result		
Retail	**215,522**	138,089
Wholesale	**130,757**	106,041
Total	**346,279**	244,130
Unallocated operating income and expenses	**(25,322)**	(23,927)
Profit from operations	**320,957**	220,203
Finance costs	**(27,048)**	(23,353)
Share of losses of a jointly controlled entity	**(80)**	(187)
Income tax	**(80,231)**	(64,886)
Profit for the year	**213,598**	131,777

Notes to the Financial Statements

12. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	2006 RMB'000	2005 RMB'000
Segment assets		
Retail	**1,189,775**	492,999
Wholesale	**642,559**	411,137
Total	**1,832,334**	904,136
Unallocated assets	**631,292**	439,368
Total assets	**2,463,626**	1,343,504
Segment liabilities		
Retail	**267,013**	72,321
Wholesale	**83,648**	54,322
Total	**350,661**	126,643
Unallocated liabilities	**504,405**	422,710
Total liabilities	**855,066**	549,353
Capital expenditure		
Retail	**46,029**	7,251
Unallocated	**94,422**	19,970
Total	**140,451**	27,221
Depreciation and amortisation		
Retail	**7,158**	3,192
Unallocated	**8,932**	8,952
Total	**16,090**	12,144
Impairment losses for doubtful accounts		
Wholesale	**407**	898
Write-down of inventories		
Unallocated	**5,565**	1,811

Notes to the Financial Statements

12. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's business is mainly managed in two principal economic environment, the PRC (other than Hong Kong) and Hong Kong.

	2006 **RMB'000**	2005 RMB'000
Turnover		
The PRC (other than Hong Kong)	**1,982,710**	1,396,531
Hong Kong	**421,989**	–
Total	**2,404,699**	1,396,531
Segment assets		
The PRC (other than Hong Kong)	**1,847,415**	1,149,157
Hong Kong	**616,211**	194,347
Total	**2,463,626**	1,343,504
Capital expenditure		
The PRC (other than Hong Kong)	**137,641**	10,956
Hong Kong	**2,810**	16,265
Total	**140,451**	27,221

Notes to the Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment and other fixed assets RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Balance at 1 January 2005	94,740	15,556	5,553	12,454	285	128,588
Addition	6,443	1,014	382	2,952	201	10,992
Addition from acquisition of subsidiaries	–	–	–	248	–	248
Transfer from construction in progress	–	323	–	–	(323)	–
Disposals	–	(1,522)	–	(1,062)	–	(2,584)
Balance at 31 December 2005	101,183	15,371	5,935	14,592	163	137,244
Addition	125,488	5,668	2,456	5,856	983	140,451
Addition from acquisition of subsidiaries	25,276	5,140	963	3,679	–	35,058
Transfer from construction in progress	–	430	–	–	(430)	–
Disposals	–	(211)	(633)	(473)	–	(1,317)
Balance at 31 December 2006	**251,947**	**26,398**	**8,721**	**23,654**	**716**	**311,436**
Depreciation:						
Balance at 1 January 2005	(12,385)	(11,167)	(2,209)	(5,508)	–	(31,269)
Charge for the year	(5,521)	(3,006)	(713)	(2,784)	–	(12,024)
Addition from acquisition of subsidiaries	–	–	–	(214)	–	(214)
Written-back on disposals	–	1,522	–	949	–	2,471
Balance at 31 December 2005	(17,906)	(12,651)	(2,922)	(7,557)	–	(41,036)
Charge for the year	(5,616)	(5,806)	(948)	(3,600)	–	(15,970)
Addition from acquisition of subsidiaries	–	(2,087)	(555)	(1,852)	–	(4,494)
Written-back on disposals	–	207	625	333	–	1,165
Balance at 31 December 2006	**(23,522)**	**(20,337)**	**(3,800)**	**(12,676)**	**–**	**(60,335)**
Net book value:						
At 31 December 2006	**228,425**	**6,061**	**4,921**	**10,978**	**716**	**251,101**
At 31 December 2005	83,277	2,720	3,013	7,035	163	96,208

i) All of the buildings owned by the Group are located in the PRC.

ii) As at 31 December 2006, the buildings in Shanghai and Shenzhen with the carrying amount of RMB66,673 thousands (2005: RMB30,195 thousands) were pledged to banks against certain loans (see note 25).

iii) As at 31 December 2006, the Group was in the process of obtaining the property ownership certificates of its buildings in Beijing, Guangzhou, Shenzhen, Taiyuan and Zhengzhou with the carrying amount of approximately RMB148,772 thousands (2005: RMB9,191 thousands).

Notes to the Financial Statements

14. INTANGIBLE ASSETS

The Group

	Trade marks RMB'000	Edox agency rights RMB'000	Total RMB'000
Cost:			
At 1 January 2006 and 31 December 2006	32,149	1,200	33,349
Amortisation:			
At 1 January 2006	–	(240)	(240)
Charge for the year	–	(120)	(120)
At 31 December 2006	–	(360)	(360)
Net book value:			
At 31 December 2006	32,149	840	32,989
At 31 December 2005	32,149	960	33,109

The amortisation charge for the year is included in "Cost of sales" in the consolidated income statement.

The basis of impairment tests for cash-generating units containing trade marks with indefinite useful lives is as follows:

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on an estimated growth rate of 5% and a discount rate of 6%. The growth rate used does not exceed the average long-term growth rate for the relevant markets.

Notes to the Financial Statements

15. GOODWILL

	The Group RMB'000
Cost:	
At 1 January 2006	–
Addition	181,045
At 31 December 2006	181,045
Accumulated impairment losses:	
At 1 January 2006 and 31 December 2006	–
Carrying amount:	
At 31 December 2006	181,045
At 31 December 2005	–

Goodwill is allocated to the Group's cash-generating units identified according to country of operation and business segment as follows:

	2006 RMB'000	2005 RMB'000
Retail – PRC (other than Hong Kong)	**8,197**	–
Retail – Hong Kong	**171,163**	–
Wholesale – PRC (other than Hong Kong)	**1,685**	–
	181,045	–

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following eight years based on an estimated growth rate of 5% and a discount rate of 6%. The growth rate used does not exceed the average long-term growth rate for the relevant markets.

The goodwill is attributable to the significant synergies expected to arise after the Group's acquisition of subsidiaries disclosed in note 31.

Notes to the Financial Statements

16. INVESTMENT IN SUBSIDIARIES

The Company

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	**568,352**	199,352

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the consolidated financial statements.

Name of company	Place of incorporation and operation	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activities
Shanghai Xinyu	the PRC	–	95%	RMB360,000,000/ RMB360,000,000	Retail and wholesale of watches
北京市亨得利瑞士鐘錶有限責任公司 ("Beijing Hengdeli")	the PRC	–	55%	RMB156,800,000/ RMB156,800,000	Retail and wholesale of watches
哈爾濱北亨捷夫鐘錶有限公司 ("Harbin Jiefu")	the PRC	–	100%	RMB50,000,000/ RMB50,000,000	Retail of watches
遼寧寶瑞行鐘錶有限公司 ("Liaoning Bao Rui Hang")	the PRC	–	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
深圳市亨得利陽光鐘錶有限責任公司 ("Shenzhen Yangguang")	the PRC	–	100%	RMB15,000,000/ RMB15,000,000	Retail of watches
河南富豪表行有限公司 ("Henan Fuhao")	the PRC	–	70%	RMB30,000,000/ RMB30,000,000	Retail of watches

Notes to the Financial Statements

16. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation and operation	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Issued and fully paid-up/ registered capital	Principal activities
安徽三新鐘錶有限公司 ("Anhui Sanxin")	the PRC	–	70%	RMB20,000,000/ RMB20,000,000	Retail of watches
北京新宇亨瑞鐘錶有限責任公司 ("Beijing Hengrui")	the PRC	–	100%	RMB40,000,000/ RMB40,000,000	Retail of watches
廣州市雅迪裝飾包裝有限公司 ("Guangzhou Yadi")	the PRC	–	100%	HK$45,000,000/ HK$45,000,000	Decoration and packaging
新宇亨得利鐘錶(深圳)有限公司 ("Shenzhen Xinyu")	the PRC	–	100%	HK$50,000,000/ HK$50,000,000	Wholesale of watches
Elegant Jewellery Holding Limited	Hong Kong	–	100%	HK$5,000,000/ HK$5,000,000	Retail of watches and jewellery

Note: All the subsidiaries incorporated in the PRC are domestic enterprises, except for Shanghai Xinyu, Guangzhou Yadi and Shenzhen Xinyu, which are foreign investment enterprises.

Notes to the Financial Statements

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group

	2006 RMB'000	2005 RMB'000
Share of net assets	**4,733**	4,813

Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity: Held by the Company	Percentage of equity: Held by a subsidiary	Principal activity
北京亨聯達鐘錶有限責任公司 ("Beijing Henglianda")	Incorporated	People's Republic of China	Registered capital RMB 10,000,000	–	50%	Retail of watches

Summary financial information on jointly controlled entity – Group's effective interest:

	2006 RMB'000	2005 RMB'000
Non-current assets	**108**	134
Current assets	**11,670**	5,251
Non-current liabilities	**(5,000)**	–
Current liabilities	**(2,045)**	(572)
Net assets	**4,733**	4,813
Income	**9,253**	933
Expenses	**(9,333)**	(1,120)
Loss for the period	**(80)**	(187)

Notes to the Financial Statements

18. OTHER INVESTMENTS

The Group

	2006 **RMB'000**	2005 RMB'000
Unlisted investments	**250**	250

19. TRADING SECURITIES

The Group

	2006 **RMB'000**	2005 RMB'000
Trading securities, at market value		
Equity securities	–	25,429
Government bonds	–	17,363
	–	42,792

20. INVENTORIES

As at 31 December 2005 and 2006, all the Group's inventories were finished goods.

Notes to the Financial Statements

21. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	2006 RMB'000	2005 RMB'000
Trade receivables	**220,152**	159,241
Prepayments and other receivables	**100,856**	53,881
Receivables due from related parties *(note 32)*	**9,987**	988
	330,995	214,110

The Company

	2006 RMB'000	2005 RMB'000
Other receivables	**235**	228
Receivables due from subsidiaries *(note 32)*	**504,783**	240,033
	505,018	240,261

All of the trade and other receivables are expected to be recovered within one year.

Customers are normally granted credit terms of not more than 70 days depending on the credit worthiness of individual customers.

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) is as follows:

The Group

	2006 RMB'000	2005 RMB'000
Within 1 month	**154,458**	121,719
Over 1 month but less than 3 months	**57,581**	30,589
Over 3 months but less than 12 months	**8,113**	6,933
	220,152	159,241

Notes to the Financial Statements

22. PLEDGED BANK DEPOSITS

The Group and the Company

The amount mainly represents deposits pledged at banks to secure banking facilities granted to the Group. The pledged bank deposits will be released upon the termination of relevant banking facilities.

23. CASH AND CASH EQUIVALENTS

The Group

As at 31 December 2005 and 2006, all the Group's cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement represented cash at bank and other financial institutions and cash in hand.

	2006	2005
	RMB'000	RMB'000
Cash and cash equivalents in the balance sheet	**298,275**	142,502
Bank overdrafts *(note 25)*	**(3,602)**	–
Cash and cash equivalents in the consolidated cash flow statement	**294,673**	142,502

The Company

As at 31 December 2005 and 2006, all the Company's cash and cash equivalents in the balance sheet represented cash at bank and in hand.

Included in cash and cash equivalent in the balance sheet are the following amounts denominated in a currency other than RMB:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**114,726**	22,242	**66,184**	4,787

Notes to the Financial Statements

24. TRADE AND OTHER PAYABLES

The Group

	2006 RMB'000	2005 RMB'000
Trade payables	**262,954**	121,418
Other payables and accrued expenses	**87,581**	38,782
Payables due to related parties *(note 32)*	**20,163**	25,176
	370,698	185,376

The Company

	2006 RMB'000	2005 RMB'000
Other payables and accrued expenses	**439**	271
Payables due to subsidiaries *(note 32)*	**7,392**	7,443
	7,831	7,714

An ageing analysis of trade payables is as follows:

The Group

	2006 RMB'000	2005 RMB'000
Within 1 month	**195,622**	78,907
Over 1 month but less than 3 months	**66,742**	42,113
Over 3 months but less than 12 months	**525**	289
Over 1 year	**65**	109
	262,954	121,418

Notes to the Financial Statements

25. BANK LOANS AND OVERDRAFTS

The Group

	2006	2005
	RMB'000	RMB'000
Current		
– secured bank loans	**75,212**	20,000
– unsecured bank loans	**309,000**	294,000
– secured bank overdrafts	**3,602**	–
	387,814	314,000

The current secured bank loans as at 31 December 2005 and 2006 were secured by the Group's buildings with a carrying amount of RMB30,195 thousands and RMB28,148 thousands respectively. Certain secured bank loans as at 31 December 2006 were also secured by pledged deposits at banks. The current secured bank loans as at 31 December 2006 carried interest rates ranging from 4.9% to 6.12% (2005: 5.58%) per annum, and were all repayable within one year.

The current unsecured bank loans as at 31 December 2006 carried interest rates ranging from 5.30% to 6.30% (2005: 3.24% to 5.86%) per annum, and were all repayable within one year.

The secured bank overdrafts were secured by deposits pledged at bank.

	2006	2005
	RMB'000	RMB'000
Non-current secured bank loan	**22,070**	–

The non-current secured loan as at 31 December 2006 carried interest rate at 6.48% per annum. The loan was secured by the Group's building with a carrying amount of RMB38,525 thousands as at 31 December 2006.

Included in bank loans and overdrafts are the following amounts denominated in a currency other than RMB:

	2006	2005
	'000	'000
Hong Kong Dollars	**48,586**	–

Notes to the Financial Statements

26. NON-CURRENT OTHER PAYABLES

The Group's non-current other payables were repayable as follows:

The Group

	2006 **RMB'000**	2005 RMB'000
Within 1 year	**565**	1,696
Over 1 year but less than 2 years	**–**	565
Over 2 years but less than 5 years	**–**	–
	–	565
	565	2,261

The non-current other payables represent installment payables in respect of an office building acquired by the Group in March 2002.

27. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 9% to 25% for the year ended 31 December 2005 and 2006 of the eligible employees' salaries.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution plan as mentioned above. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than the contributions described above.

Notes to the Financial Statements

28. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

i) Current taxation in the consolidated balance sheet represents:

The Group

	2006 **RMB'000**	2005 RMB'000
Provision for income tax for the year	**90,512**	71,435
Addition from acquisition	**5,630**	–
Income tax paid	**(22,062)**	(26,647)
	74,080	44,788
Balance of income tax provision related to prior years	**404**	4,624
	74,484	49,412

ii) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the two years ended 31 December 2006 are as follows:

The Group

	Impairment for trade receivables RMB'000	**Write down for inventories** RMB'000	**Tax losses not utilised** RMB'000	**Unrealised profit** RMB'000	**Total** RMB'000
At 1 January 2005	2,042	1,251	831	6,496	10,620
Credited to consolidated income statement	160	597	55	6,121	6,933
At 31 December 2005	2,202	1,848	886	12,617	17,553
Credited to consolidated income statement	24	650	170	6,551	7,395
At 31 December 2006	2,226	2,498	1,056	19,168	24,948

Notes to the Financial Statements

29. CAPITAL AND RESERVES

(a) The Group

		Attributable to equity shareholders of the Company								
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006		10,828	552,777	(26,074)	–	51,948	105,161	694,640	99,511	794,151
Dividends approved in respect of the previous year	*10*	–	–	–	–	–	(49,800)	(49,800)	(6,385)	(56,185)
Transfer between reserves		–	–	–	–	21,659	(21,659)	–	–	–
Issuance of new shares	*29(c)(i)*	2,099	654,260	–	–	–	–	656,359	–	656,359
Shares issuance expenses		–	(17,253)	–	–	–	–	(17,253)	–	(17,253)
Exchange difference on translation into presentation currency		–	–	–	(10,961)	–	–	(10,961)	–	(10,961)
Acquisition of subsidiaries	*31*	–	–	–	–	–	–	–	1,416	1,416
Capital contribution from minority shareholders		–	–	–	–	–	–	–	27,435	27,435
Profit for the year		–	–	–	–	–	199,101	199,101	14,497	213,598
At 31 December 2006		**12,927**	**1,189,784**	**(26,074)**	**(10,961)**	**73,607**	**232,803**	**1,472,086**	**136,474**	**1,608,560**

(b) The Company

	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Retained losses RMB'000	Total RMB'000
At 1 January 2006		10,828	552,777	–	(897)	562,708
Issuance of new shares	*29(c)(i)*	2,099	654,260	–	–	656,359
Share issuance expenses		–	(17,253)	–	–	(17,253)
Dividends approved in respect of the previous year	*10*	–	–	–	(49,800)	(49,800)
Profit for the year		–	–	–	50,359	50,359
Exchange difference on translation into presentation currency		–	–	(16,951)	–	(16,951)
At 31 December 2006		**12,927**	**1,189,784**	**(16,951)**	**(338)**	**1,185,422**

Notes to the Financial Statements

29. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

	Note	2006 Number of shares	2006 Amount HK$	2005 Number of shares	2005 Amount HK$
Authorised:					
Ordinary shares of HK$0.01 each		**2,000,000,000**	**20,000,000**	2,000,000,000	20,000,000

Issued and fully paid:

	Note	2006 Number of shares	2006 Amount HK$	2005 Number of shares	2005 Amount HK$
At 1 January		**1,037,500,000**	**10,375,000.00**	1	0.01
Issuance of new shares	*(i)*	**204,750,000**	**2,047,500.00**	59,999,999	599,999.99
Capitalisation issue		–	–	690,000,000	6,900,000.00
Shares issued under the Offering and Placement		–	–	250,000,000	2,500,000.00
Shares issued under the over-allotment option related to the Placement		–	–	37,500,000	375,000.00
At 31 December		**1,242,250,000**	**12,422,500.00**	1,037,500,000	10,375,000.00
			equivalent RMB'000		equivalent RMB'000
			12,927		10,828

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes to the Financial Statements

29. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(i) Issuance of new shares

During 2006, the Company entered into an acquisition agreement with the equity shareholders of Elegant International Holdings Limited ("Elegant International") to acquire the entire interests of Elegant International ("the Acquisition"). The consideration payable by the Company included HK$180,000 thousands (equivalent to RMB184,500 thousands approximately) in cash and the issue of 56,250,000 new ordinary shares of HK$0.01 each at HK$3.2 (equivalent to RMB3.28 approximately) each by the Company. The Acquisition was completed on 24 August 2006.

On 24 August 2006, 148,500,000 new ordinary shares of HK$0.01 each in aggregate were issued to Dunearn Investments (Mauritius) Pte. Ltd., the Swatch Group Hong Kong Limited and United Capital Investment Group Limited at HK$3.1 (equivalent to RMB3.1775 approximately) for cash.

(ii) Share option scheme

The Company adopted a share option scheme pursuant to the resolutions of the shareholders of the Company passed on 27 August 2005. No option had been granted to the directors of the Company and employees of the Group during 2006.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) PRC statutory reserve

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

PRC statutory reserves include general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund.

In accordance with Accounting Regulations for Business Enterprises, foreign investment enterprises in the PRC are required to transfer at least 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to the general reserve until the balance of the general reserve is equal to 50% of their registered capital. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund.

Notes to the Financial Statements

29. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(ii) PRC statutory reserve (Continued)

The general reserve fund can only be used to make good of previous years' losses upon approval by the relevant authority. The enterprise expansion fund can only be used to increase their capital or to expand their operations upon approval by the relevant authority.

Statutory surplus reserve can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25% of the registered capital of the subsidiaries. Statutory public welfare fund can only be utilised on capital items for the collective benefits of the employees such as the construction of staff quarters and other staff welfare facilities. This reserve is non-distributable other than in liquidation.

30. COMMITMENTS

i) Operating lease commitments

Non-cancelable operating lease rentals are payable as follows:

	2006 **RMB'000**	2005 RMB'000
Less than one year	**33,329**	14,278
Between one and five years	**74,518**	19,449
More than five years	**46,889**	2,342
	154,736	36,069

The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum rental payments disclosed above, the Group has a commitment to pay rent of a proportion of turnover for certain leased properties. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

Notes to the Financial Statements

30. COMMITMENTS *(Continued)*

ii) Commitments of guaranteed profit

	2006 **RMB'000**	2005 RMB'000
Less than one year	**8,800**	3,500
Between one and five years	**33,200**	8,000
	42,000	11,500

Pursuant to a management agreement dated 30 December 2006 entered into between Shanghai Xinyu and Shanghai Yi Min Department Stores Company Limited ("Yi Min"), whereby Yi Min agreed to entrust to Shanghai Xinyu the operation and management of a shop located in Shanghai, and in return, Yi Min is entitled to receive an annual guaranteed profit of RMB6,800 thousands from the Group for the period from 1 January 2007 to 31 December 2011.

Pursuant to a management agreement dated 31 December 2005 entered into between Shanghai Xinyu and 青島亨得利有限公司 ("Qingdao Company"), whereby Qingdao Company agreed to entrust to Shanghai Xinyu the operation and management of its four retail shops for the period from 31 December 2005 to 31 December 2010, and in return, Qingdao Company is entitled to receive an annual guaranteed profits of RMB2,000 thousands from the Group.

31. ACQUISITION OF SUBSIDIARIES

During 2006, the Group acquired 70% equity interest in Henan Fuhao for a consideration of RMB11,500 thousands, satisfied in cash. For the year ended 31 December 2006, Henan Fuhao contributed a net profit of RMB3,185 thousands to the consolidated profit attributable to equity holders of the Company in 2006.

During 2006, the Group acquired 100% equity interests in Guangzhou Yadi for a consideration of RMB7,392 thousands, satisfied in cash. For the year ended 31 December 2006, Guangzhou Yadi contributed a net loss of RMB103 thousands to the consolidated profit attributable to equity holders of the Company in 2006.

During 2006, the Group acquired 100% equity interests in Elegant International for a consideration of HK$360,000 thousands. The consideration was satisfied in cash of HK$180,000,000, and in the issue and allotment of 56,250,000 new ordinary shares of the Company at HK$3.2 (equivalent to RMB3.28 approximately). For the year ended 31 December 2006, Elegant International contributed a net profit of RMB25,826 thousands to the consolidated profit attributable to equity holders of the Company in 2006.

Notes to the Financial Statements

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

Effect of acquisition

	Pre-acquisition carrying amounts					
	Acquisition of 70% equity interests of Henan Fuhao in 2006	Acquisition of 100% equity interests of Guangzhou Yadi in 2006	Acquisition of 100% equity interests of Elegant International in 2006	Subtotal	Fair value adjustment	Recognised values on acquisition
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	898	21,462	3,420	25,780	4,784	30,564
Inventories	31,020	1,088	312,206	344,314	4,126	348,440
Trade receivables, prepayments and other receivables	6,380	2,316	28,399	37,095	–	37,095
Cash and cash equivalents	76	1,945	29,334	31,355	–	31,355
Bank loans and overdrafts	(250)	(17,893)	(105,675)	(123,818)	–	(123,818)
Trade and other payables	(33,392)	(7,739)	(68,612)	(109,743)	–	(109,743)
Current taxation	(13)	(256)	(5,361)	(5,630)	–	(5,630)
Minority interests	(1,416)	–	–	(1,416)	–	(1,416)
Net identifiable assets and liabilities	3,303	923	193,711	197,937	8,910	206,847
Goodwill						181,045
						387,892
Representing:						
Consideration paid, satisfied in cash						203,392
Consideration paid, satisfied in issue of new shares						184,500
						387,892
Consideration paid, satisfied in cash						203,392
Cash acquired						(31,355)
Net cash outflow						172,037

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see note 1(g) and 1(k) for methods used in determining fair values).

Notes to the Financial Statements

32. RELATED PARTY TRANSACTIONS

The Group has transactions with the companies controlled by the ultimate shareholders ("Ultimate shareholders' companies"), minority shareholders of subsidiaries ("Minority shareholders") and a jointly controlled entity. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the two years ended 31 December 2006.

(a) Recurring

	2006 RMB'000	2005 RMB'000
Lease expenses to:		
Minority shareholders	**4,800**	4,800
Ultimate shareholders' companies	**1,478**	543
Guaranteed profit to:		
Minority shareholders	**3,500**	1,500
Sales of goods to:		
Jointly controlled entity	**14,514**	2,633
Advance to:		
Jointly controlled entity	**5,000**	–

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Notes to the Financial Statements

32. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Non-recurring

	2006 RMB'000	2005 RMB'000
Sales of goods to:		
Minority shareholders	–	6,222
Purchase of goods from:		
Minority shareholders	–	34,889
Acquisition of equity interests in subsidiaries from:		
Minority shareholders	–	1,545
Unsecured bank loans guaranteed by:		
Ultimate shareholders' companies	–	30,000

(c) Trade and other receivables due from:

The Group

	2006 RMB'000	2005 RMB'000
Jointly controlled entity	**9,987**	988

The Company

	2006 RMB'000	2005 RMB'000
Subsidiaries	**504,783**	240,033

Notes to the Financial Statements

32. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Trade and other payables due to:

The Group

	2006 **RMB'000**	2005 RMB'000
Minority shareholders	**20,163**	25,176

The Company

	2006 **RMB'000**	2005 RMB'000
Subsidiaries	**7,392**	7,443

(e) Key management personnel compensation and post-employment benefit plans

	2006 **RMB'000**	2005 RMB'000
Short-term employee benefits	**6,720**	4,785
Post-employment benefits	**165**	161
	6,885	4,946

Notes to the Financial Statements

33. FINANCIAL INSTRUMENTS

Major financial assets for the Group include cash and cash equivalents, pledged bank deposits, trade receivables, prepayments and other receivables and trading securities. Major financial liabilities of the Group include trade and other payables and bank loans and overdrafts. Details of these financial instruments are disclosed in respective notes. Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and trading securities. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Group does not obtain collateral from customers.

At the balance sheet dates the Group had no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) Interest rate risk

Cash and cash equivalents, trading government bonds and bank loans are the major types of the Group's financial instruments subject to interest rate risk.

Cash and cash equivalents comprise mainly bank deposits with fixed interest rates ranging from 0.72% to 3% per annum and the maturity dates of these bank deposits are within 1 year. The interest rates and terms of repayment of bank loans of the Group are disclosed in note 25 above.

(c) Currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they related. The currency giving rise to this risk is primarily Hong Kong dollars. Depreciation or appreciation of Renminbi against foreign currencies will affect the Group's financial position and results of operations.

The amounts of financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

Notes to the Financial Statements

33. FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

(e) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of each class of financial instruments.

(i) Cash and cash equivalents, pledged bank deposits, trade receivables, prepayments and other receivables, trade and other payables

The carrying values approximate fair value because of the short maturities of these instruments.

(ii) Trading securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(iii) Bank loans

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

34. NON-ADJUSTING POST BALANCE SHEET EVENTS

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

Pursuant to an ordinary resolution passed at the Extraordinary General Meeting held on 6 February 2007, the Company subdivided every issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company into two ordinary shares of HK$0.005 each.

After the balance sheet date, the directors proposed a final dividend on 10 April 2007. Further details are disclosed in note 10.

35. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2006 to be Best Growth International Limited, which is incorporated in British Virgin Islands.

Notes to the Financial Statements

36. ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 14,15 and 33 contain information about the assumptions and their risk factors relating to intangible assets impairment, goodwill impairment and financial instruments, other judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed below.

(a) Impairment of receivables

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers to make the required payments. The management bases the estimates on the ageing of the individual receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and the residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. Management will reassess the estimations by the balance sheet date.

Notes to the Financial Statements

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

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Company 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 company's results of operations and financial position.

The following developments may result in new or amended disclosures in the financial statements:

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