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HANNY HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 275

NATION FIELD LIMITED

(Incorporated in the British Virgin Islands with limited liability)

WELL ORIENT LIMITED

(Incorporated in Hong Kong with limited liability)



CHINA STRATEGIC HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock code: 235

GROUP DRAGON INVESTMENTS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Financial adviser to Nation Field Limited



KINGSTON CORPORATE FINANCE LIMITED

Financial adviser to Hanny Holdings Limited



SOMERLEY LIMITED

Financial adviser to China Strategic Holdings Limited and
Group Dragon Investments Limited



道亨證券有限公司

DaoHengSecurities Ltd.

Independent financial adviser to
China Strategic Holdings Limited and
Group Dragon Investments Limited

Hercules

Hercules Capital Limited

Independent financial adviser to
Hanny Holdings Limited



AMS Corporate Finance Limited

- (i) Group reorganisation, capital reorganisation and change of board lot size for China Strategic Holdings Limited;**
(ii) possible voluntary offer for the shares in Group Dragon Investments Limited;
(iii) possible mandatory offer for the shares in China Strategic Holdings Limited;
(iv) discloseable and connected transaction for Hanny Holdings Limited regarding the disposal of 15.3% interests in China Strategic Holdings Limited;
and
(v) possible very substantial acquisition and connected transaction for Hanny Holdings Limited regarding the acquisition of interests in Group Dragon Investments Limited

China Strategic Group Reorganisation

At the request of Hanny and Paul Y, the China Strategic Board proposes to place before the China Strategic Shareholders a proposal for the China Strategic Group Reorganisation which, if approved and implemented, will result in,

- (i) China Strategic continuing to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments;
- (ii) all other subsidiaries of the China Strategic Group carrying on property development and investment holding business, and all other associates of the China Strategic Group carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services being grouped under the GDI Group; and
- (iii) the GDI Shares, following the injection of the Distributing Business into GDI, being distributed in specie to the China Strategic Shareholders whose names appear on the register of members of China Strategic on the Record Date on the basis of one GDI Share for one Consolidated China Strategic Share.

It is intended that subject to the fulfilment of certain conditions precedent, general offers will be made for both the Consolidated China Strategic Shares and the GDI Shares as detailed below.

The distribution in specie of the GDI Shares will be effected by way of distribution from the special capital reserve account of China Strategic of an amount equivalent to the carrying value of GDI, which will be ascertained immediately prior to completion of the China Strategic Group Reorganisation. No application will be made for the listing of the GDI Shares on the Stock Exchange or any other stock exchange.

The China Strategic Group Reorganisation is conditional on, among other things, completion of the Capital Reorganisation and the approval by the Independent China Strategic Shareholders being obtained. It is, however, not subject to completion of the Share Sale Agreement having taken place.

Capital Reorganisation

The Capital Reorganisation involves the Capital Reduction, the Subdivision and the Share Consolidation. The Capital Reduction will involve cancellation of the paid-up capital of HK\$0.05 on each issued China Strategic Share and reduction in the nominal value of each issued China Strategic Share from HK\$0.10 to HK\$0.05. The Capital Reduction also involves the cancellation of the entire share premium account of China Strategic. The Subdivision involves the subdivision of each authorised but unissued China Strategic Share into two Reduced China Strategic Shares of HK\$0.05 each. The Share Consolidation will then be implemented to consolidate every two Reduced China Strategic Shares of HK\$0.05 each into one Consolidated China Strategic Share of HK\$0.10.

The Capital Reorganisation is subject to fulfilment of the conditions as detailed below.

Change of board lot size

The China Strategic Board also proposes to change the board lot size for trading from 2,500 China Strategic Shares to 5,000 Consolidated China Strategic Shares upon the Capital Reorganisation having become effective.

Possible voluntary offer for the GDI Shares

Subject to the approval by the Independent Hanny Shareholders of the GDI Offer and completion of the China Strategic Group Reorganisation, Somerley, on behalf of Well Orient (an indirect wholly-owned subsidiary of Hanny), will make a voluntary offer to the shareholders of GDI to acquire all the GDI Shares, other than those then owned or agreed to be acquired by Well Orient, its associates and parties acting in concert with it (but the GDI Offer will be extended to Paul Y), on the following basis:

Option 1:

For every five GDI Shares * one Hanny Share plus HK\$1.8 in cash

Option 2:

For every five GDI Shares * one Hanny Bond with face value of HK\$15.0

* *The GDI Shares will be issued based on the number of the Consolidated China Strategic Shares in issue on the Record Date.*

Independent China Strategic Shareholders and Paul Y can either accept Option 1 or Option 2, but not a combination of both, in respect of the GDI Offer.

Share Sale Agreement and possible mandatory offer for the China Strategic Shares

The China Strategic Board has been informed by Paul Y and Hanny that they have entered into the Share Sale Agreement with the Offeror on 10th March, 2005 pursuant to which and subject to, inter alia, the implementation of the China Strategic Group Reorganisation in full, the Offeror agreed to acquire 135,000,000 China Strategic Shares (equivalent to 67,500,000 Consolidated China Strategic Shares upon the Capital Reorganisation having become effective) from each of Paul Y and Hanny, which shares represent approximately an aggregate of approximately 30.6% of the issued share capital of China Strategic, for an aggregate consideration of HK\$52,110,000, equivalent to HK\$0.193 per China Strategic Share (or HK\$0.386 per Consolidated China Strategic Share).

Subject to completion of the Share Sale Agreement, Kingston will, on behalf of the Offeror, make a mandatory cash offer to all the China Strategic Shareholders to acquire all the Consolidated China Strategic Shares, other than those held by the Offeror and parties acting in concert with it, on the following basis:

**For each Consolidated China Strategic Share HK\$0.386 in cash
(equivalent to HK\$0.193 in cash
for each China Strategic Share)**

The China Strategic Offer will not be extended to Paul Y and Hanny.

WARNING: THE MAKING OF BOTH THE GDI OFFER AND THE CHINA STRATEGIC OFFER ARE SUBJECT TO A NUMBER OF CONDITIONS AND ARE POSSIBILITIES ONLY. AS SUCH OFFERS MAY OR MAY NOT PROCEED, INVESTORS, PAUL Y SHAREHOLDERS, HANNY SHAREHOLDERS AND CHINA STRATEGIC SHAREHOLDERS ARE URGED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES OF PAUL Y, HANNY AND CHINA STRATEGIC.

Suspension and resumption of trading

At the request of Hanny, trading in the Hanny Shares on the Stock Exchange was suspended with effect from 9:45 a.m. on 8th March, 2005 pending the release of this announcement. Trading in the Hanny Shares will continue to be suspended pending the release of an announcement in relation to, among others, a major transaction regarding a subscription of a convertible note.

At the request of China Strategic, trading in the China Strategic Shares on the Stock Exchange was suspended with effect from 9:45 a.m. on 8th March, 2005 pending the release of this announcement. Application has been made by China Strategic to the Stock Exchange for resumption of trading in the China Strategic Shares with effect from 9:30 a.m. on 20th April, 2005.

THE CHINA STRATEGIC GROUP REORGANISATION

As at the date of this announcement, Hanny and Paul Y are interested in 258,819,794 China Strategic Shares (representing approximately 29.4% of China Strategic's entire issued share capital) and 258,819,795 China Strategic Shares (representing approximately 29.4% of China Strategic's entire issued share capital) respectively. At the request of Hanny and Paul Y, the China Strategic Board proposes to place before the China Strategic Shareholders a proposal for the China Strategic Group Reorganisation. Pursuant to the China Strategic Group Reorganisation, China Strategic will continue to be a public listed company with its subsidiaries concentrating on the business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments (being the Remaining Business). All other subsidiaries of the China Strategic Group carrying on property development and investment holding business, and all other associates of the China Strategic Group carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services (being the Distributed Business) will be grouped under the GDI Group and will continue to be run by the existing management of China Strategic. The GDI Shares will, following the injection of the Distributed Business into GDI, be distributed in specie to the China Strategic Shareholders whose names appear on the register of members of China Strategic on the Record Date on the basis of one GDI Share for one Consolidated China Strategic Share.

Mechanics of the China Strategic Group Reorganisation

The China Strategic Group Reorganisation will be implemented upon the Capital Reorganisation (as detailed below) having taken effect. The China Strategic Group Reorganisation will be effected by GDI acquiring a number of subsidiaries and associated companies from China Strategic and the assignment of various intragroup loans between members of the China Strategic Group (excluding the GDI Group) and the GDI Group. The various intragroup loans to be assigned shall be determined with reference to the relevant amounts of such balances in the management accounts of the relevant investment holding subsidiaries of China Strategic as at the date of completion of the China Strategic Group Reorganisation, which loans amounted to approximately HK\$734.9 million as at 30th June, 2004, the date to which the latest unaudited interim results of the China Strategic Group were made up.

GDI will pay for such acquisition and loan assignment by issuing such number of GDI Shares to China Strategic, which will result in the number of GDI Shares to be in issue equal to the number of Consolidated China Strategic Shares in issue on the Record Date. China Strategic will then distribute the received GDI Shares in specie to the China Strategic Shareholders whose names appear on the register of members of China Strategic on the Record Date on the following basis:

For each Consolidated China Strategic Share held one GDI Share

The distribution in specie of the GDI Shares will be effected by distribution from the special capital reserve account of China Strategic of an amount equivalent to the carrying value of GDI, which will be ascertained immediately prior to completion of the China Strategic Group Reorganisation. Further information in this regard will be included in the China Strategic Circular.

Pursuant to the China Strategic Group Reorganisation, all the GDI Shares to be in issue on the Record Date will be distributed to the China Strategic Shareholders whose names appear on the register of members of China Strategic on the Record Date. The GDI Shares will be allotted and issued to the China Strategic Shareholders upon completion of the China Strategic Group Reorganisation. However, if the GDI Offer proceeds, the share certificates of GDI will only be posted to the China Strategic Shareholders who do not accept the GDI Offer after the close of the GDI Offer, such that the despatch of the share certificates to the shareholders of GDI could be managed efficiently. Details of the possible GDI Offer are set out under the section headed “Possible Voluntary Offer for the GDI Shares” below. Details of the procedures of acceptance of the GDI Offer will be set out in the composite offer and response document to be issued in relation to the GDI Offer.

The GDI Shares will rank pari passu in all respects with each other. No application will be made for the listing of the GDI Shares on the Stock Exchange or any other stock exchange.

Conditions of the China Strategic Group Reorganisation

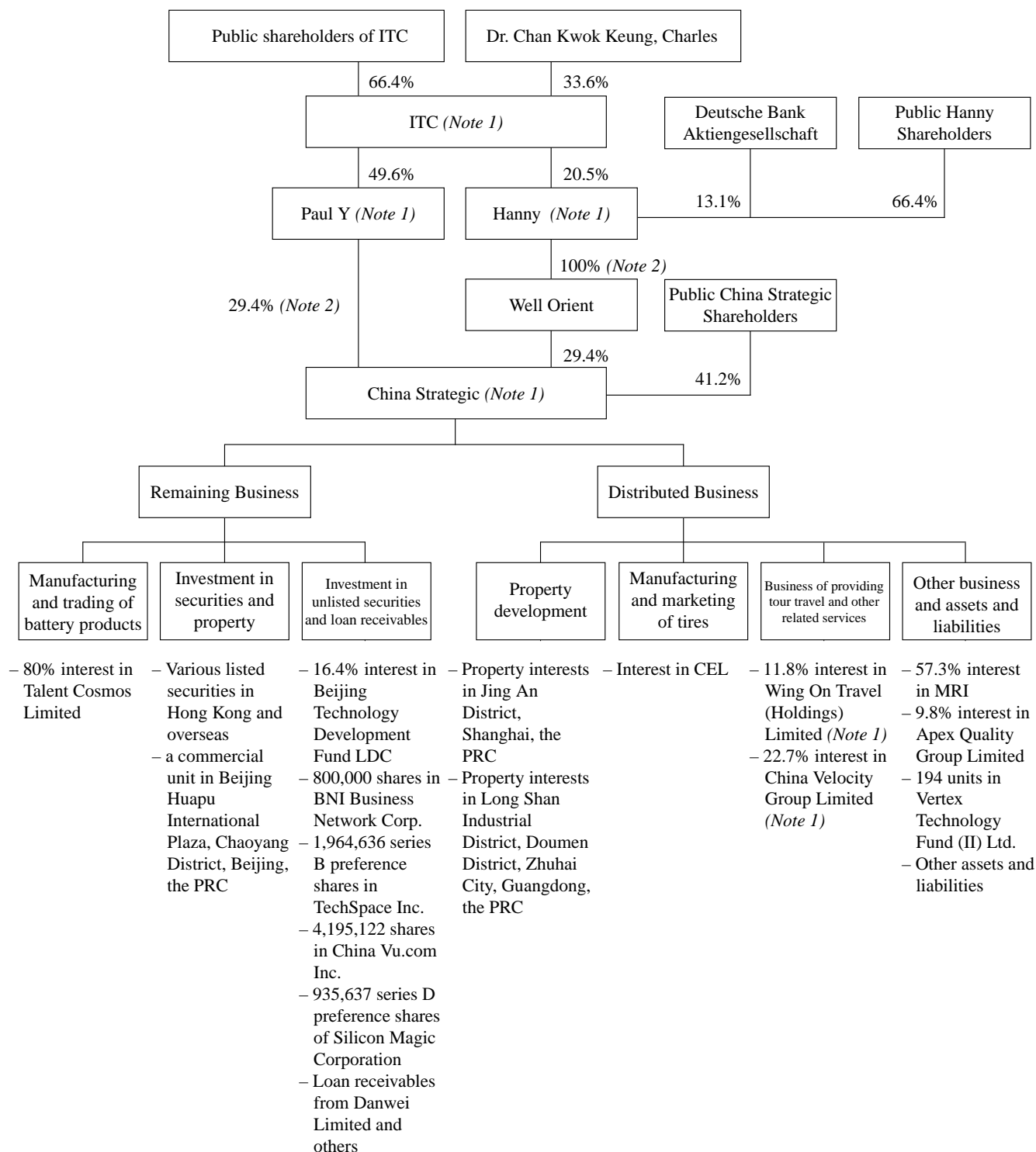
The China Strategic Group Reorganisation will be conditional upon:

- (i) the passing of the necessary resolution(s) approving the China Strategic Group Reorganisation by the Independent China Strategic Shareholders;
- (ii) the Capital Reorganisation having become effective;
- (iii) the agreement of the China Strategic Group’s bankers and other creditors, if required, to the release of guarantees by China Strategic and any of its retained subsidiaries on the obligations of GDI or its subsidiaries following the implementation of the China Strategic Group Reorganisation; and
- (iv) the obtaining of any other third party consents or approvals, including all regulatory consents, required to give effect to the China Strategic Group Reorganisation.

Hanny, Paul Y, their respective associates and parties acting in concert with them, will abstain from voting on the resolution(s) approving the China Strategic Group Reorganisation. Save for condition (iv) above, none of the above conditions is capable of being waived. The resolution(s) to consider and approve the China Strategic Group Reorganisation will be taken by poll.

Group structure before and after the China Strategic Group Reorganisation

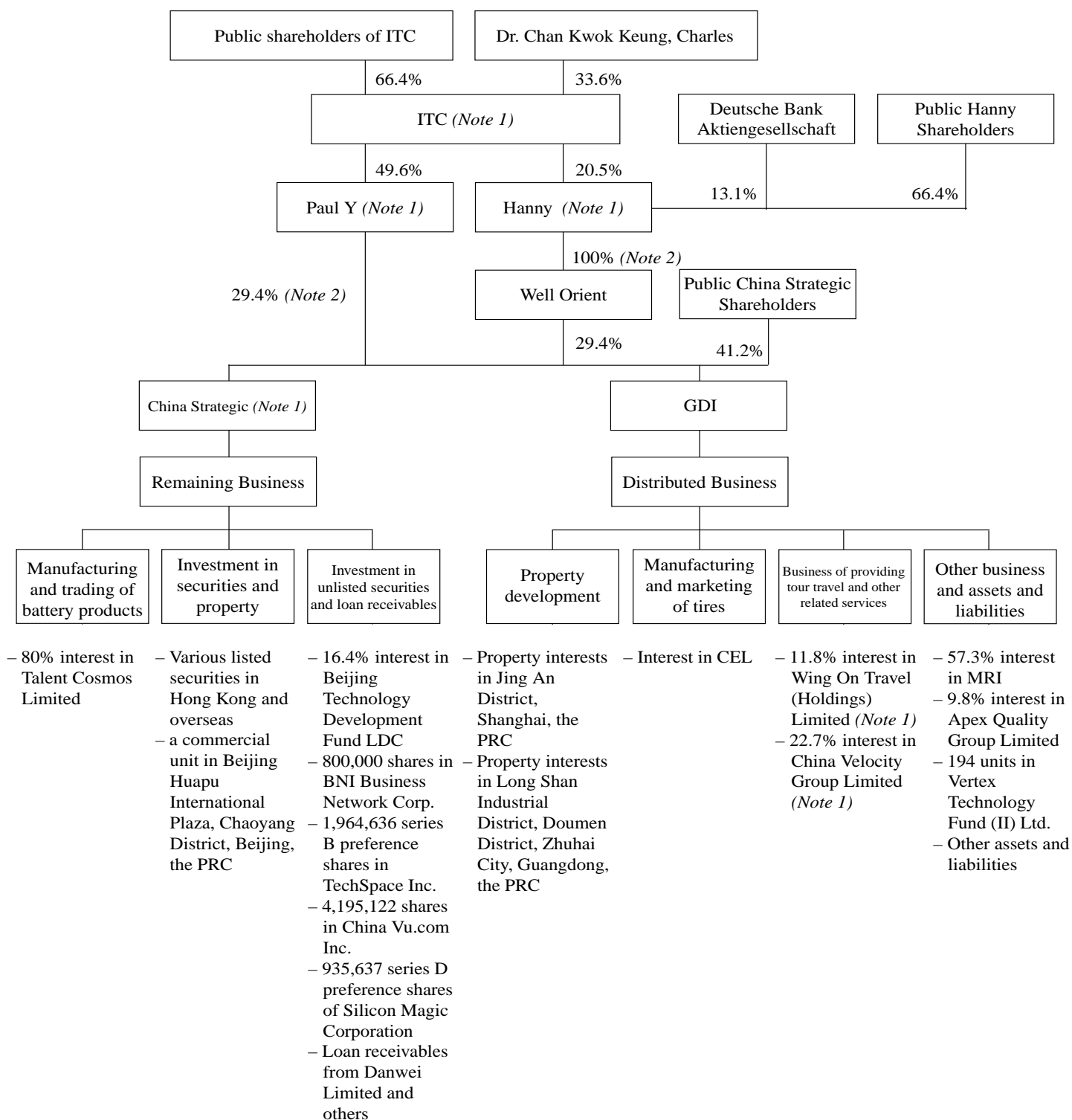
The chart below shows in summary the group and shareholding structure of China Strategic as at the date of this announcement and immediately before the implementation of the China Strategic Group Reorganisation (assuming no other changes since then):—



Notes:

1. Listed on the main board of the Stock Exchange
2. Indirect interests held by wholly-owned subsidiaries

The chart below shows in summary the group and shareholding structure of China Strategic and GDI immediately after the implementation of the China Strategic Group Reorganisation (assuming no other changes since then):—



Notes:

1. Listed on the main board of the Stock Exchange
2. Indirect interests held by wholly-owned subsidiaries

Financial information of the China Strategic Group

The following information is extracted from China Strategic's audited consolidated income statements for the two years ended 31st December, 2002 and 2003 and the unaudited condensed consolidated income statement for the six months ended 30th June, 2004:

	For the six months ended 30th June, 2004	For the year ended 31st December,	
	<i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	106,571	2,884,493	3,601,735
(Loss)/profit from operations	(64,308)	94,111	(527,705)
Finance costs	(9,298)	(50,712)	(109,460)
(Loss)/gain on disposal/dilution of interests in subsidiaries	(5,266)	12,344	64,193
Gain/(loss) on disposal/liquidation of interests in associates	27,881	(36,481)	14,980
Share of results of associates	(29,060)	(175,734)	(137,574)
Allowance on receivables advanced to an associate	—	(12,712)	—
Loss before taxation	(80,051)	(169,184)	(695,566)
Taxation	(761)	(10,935)	(12,250)
Minority interests	(13,734)	(9,409)	233,682
Net loss for the year	(94,546)	(189,528)	(474,134)
Loss per China Strategic Share — Basic	<u>HK\$(0.108)</u>	<u>HK\$(0.23)</u>	<u>HK\$(0.76)</u>

The following information is extracted from the audited consolidated balance sheet of China Strategic as at 31st December, 2003 and the unaudited consolidated balance sheet of China Strategic as at 30th June, 2004:

	30th June, 2004 <i>HK\$'000</i>	31st December, 2003 <i>HK\$'000</i>
Non-current assets:		
Property, plant and equipment	35,936	43,156
Goodwill	21,960	9,325
Interests in associates	614,841	823,147
Receivables — due after one year	183,345	31,286
Investments in securities	167,024	217,683
Deposit paid for acquisition of a property	46,685	—
	<u>1,069,791</u>	<u>1,124,597</u>
Current assets	917,471	1,064,647
Current liabilities	<u>(286,514)</u>	<u>(161,090)</u>
Net current assets	630,957	903,557
Minority interests	(262,535)	(250,160)
Non-current liabilities	<u>—</u>	<u>(244,614)</u>
Net assets	<u><u>1,438,213</u></u>	<u><u>1,533,380</u></u>

The unaudited consolidated net asset value of the China Strategic Group as at 30th June, 2004 was approximately HK\$1,438.2 million, representing approximately HK\$1.63 per China Strategic Share based on 881,595,087 China Strategic Shares in issue.

The China Strategic Board expects that the annual results of the China Strategic Group for the year ended 31st December, 2004 will be announced on 26th April 2005.

Reasons for the China Strategic Group Reorganisation

After arm's length negotiations, the Offeror has conditionally agreed to acquire the controlling stake in China Strategic upon completion of the China Strategic Group Reorganisation, which results in China Strategic and its subsidiaries concentrating on the business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments. In order to facilitate the Share Sale Agreement, Hanny and Paul Y have requested the China Strategic Board to place before the China Strategic Shareholders a proposal for the China Strategic Group Reorganisation. The China Strategic Board considers that the China Strategic Group Reorganisation offers the China Strategic Shareholders an opportunity to realise a reasonable gain on their present investment in China Strategic and also gives them flexibility to retain part of their investment in the Remaining Business if they so wish. Completion of the China Strategic Group Reorganisation is one of the conditions precedent to each of (i) the Share Sale Agreement (and, as a result, the making of the China Strategic Offer); and (ii) the GDI Offer.

China Strategic has not attempted to locate such potential buyers for the Distributed Business as it expects that it will take a long time to locate a ready buyer and negotiate the terms and conditions for such disposal in view of the significant net asset value of over HK\$1,000 million of the Distributed Business as at 30th June, 2004, by which time the Offeror may have lost interest in acquiring the controlling stake of China Strategic and the China Strategic Shareholders would miss the opportunity to realise the China Strategic Shares at a premium over market price. The GDI Offer, which will be made subject to the completion of the China Strategic Group Reorganisation and approval by the Independent Hanny Shareholders, will provide an alternative to the Independent China Strategic Shareholders to invest in Hanny Shares (plus a cash element) or in the Hanny Bond. In such event, if the China Strategic Shareholders accept the GDI Offer, they will receive either one Hanny Share plus HK\$1.8 in cash or one Hanny Bond for every five GDI Shares, while retaining their interests in the Remaining Business through their existing holdings in the China Strategic Shares. Where the Independent China Strategic Shareholders wish to continue to invest in the Distributed Business of the GDI Group upon completion of the China Strategic Group Reorganisation, they could choose not to accept the GDI Offer and continue to hold the GDI Shares. If the Distributed Business were disposed of to Hanny, the Independent China Strategic Shareholders will not be given the flexibility in realising or retaining their investments in the Distributed Business of the GDI Group.

The China Strategic Group Reorganisation and the GDI Offer are not conditional on completion of the Share Sale Agreement and the China Strategic Offer. Hanny has confirmed that in the event that the Share Sale Agreement is not completed and the China Strategic Offer is not extended, it will still proceed with the GDI Offer and China Strategic will therefore still proceed with the China Strategic Group Reorganisation subject to fulfilment of all the conditions precedent as set out under the section headed “Conditions of the China Strategic Group Reorganisation” above and approval by the Independent Hanny Shareholders. Hanny may seek to sell its interests in China Strategic to another purchaser which purchase may or may not lead to an offer being extended to all China Strategic Shareholders or a waiver from the general offer obligation being sought and obtained from the Executive pursuant to the Takeovers Code.

The China Strategic Board (including independent non-executive directors of China Strategic) considers that the China Strategic Group Reorganisation, the GDI Offer and the China Strategic Offer together provide alternatives for the China Strategic Shareholders either to divest all their investments in China Strategic at a premium over the market price of China Strategic Shares or to retain some or all of their investments through holding interests in China Strategic, GDI or both companies.

Save for the proposed distribution in specie of the GDI Shares pursuant to the China Strategic Group Reorganisation, China Strategic has not formulated any future dividend policy.

The China Strategic Circular containing, among other things, details of the China Strategic Group Reorganisation, the pro forma financial information on the China Strategic Group and the GDI Group after the China Strategic Group Reorganisation, a notice convening a general meeting of China Strategic, the letter of recommendation from the independent board committee of China Strategic to the Independent China Strategic Shareholders and the letter of advice from Hercules, the independent financial adviser, to the independent board committee of China Strategic and the Independent China Strategic Shareholders, will be sent to the China Strategic Shareholders as soon as practicable.

CAPITAL REORGANISATION

The China Strategic Board also proposes the Capital Reorganisation, which involves the Capital Reduction, the Subdivision and the Share Consolidation.

Capital Reduction and Subdivision

The Capital Reduction will involve the cancellation of the paid-up capital of HK\$0.05 on each issued China Strategic Share and reduction in the nominal value of each issued China Strategic Share from HK\$0.10 to HK\$0.05. The Capital Reduction also involves the cancellation of the entire share premium account of China Strategic. The Subdivision involves the subdivision of each authorised but unissued China Strategic Share into two Reduced China Strategic Shares of HK\$0.05 each.

As at the date of this announcement, the authorised share capital of China Strategic is HK\$800,000,000 divided into 8,000,000,000 China Strategic Shares of HK\$0.10 each, of which 881,595,087 China Strategic Shares are in issue and fully paid or credited as fully paid. On the assumption that no further China Strategic Shares will be issued after the release of this announcement and up to the effective date of the Capital Reorganisation, a credit of approximately HK\$44,079,754 will arise in the books of China Strategic as a result of the cancellation of the paid-up capital of HK\$0.05 on each issued China Strategic Share. Based on the unaudited accounts of China Strategic as at 30th June, 2004, a credit of approximately HK\$1,900,916,000 will arise as a result of the cancellation of the entire share premium account of China Strategic. A total credit of approximately HK\$1,944,995,754 will arise from the Capital Reduction and will be transferred to the special capital reserve account of China Strategic. China Strategic had an unaudited special capital reserve of approximately HK\$414,881,000 as at 30th June, 2004, which amount will be increased to approximately HK\$2,359,876,754 upon completion of the Capital Reduction. Such special capital reserve will then be set off against the accumulated deficit of China Strategic, which amounted to approximately HK\$1,081,825,000 as at 30th June, 2004. The balance of special capital reserve account will become approximately HK\$1,278,051,754 after setting off in full the accumulated deficit of China Strategic.

The distribution in specie of the GDI Shares will then be made out of the special capital reserve account of China Strategic. The exact amount of the distribution will be determined as soon as the pro forma net asset value of GDI is ascertained immediately prior to completion of the China Strategic Group Reorganisation. Further announcement will be made by China Strategic in accordance with the Listing Rules as and when appropriate in this regard.

Set out below is the issued share capital, share premium, special capital reserve and deficit position of China Strategic before and after the Capital Reorganisation:

	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special capital reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>
As at 30th June, 2004	88,160	1,900,916	414,881	1,081,825
Balance upon completion of the Capital Reorganisation	<u>44,080</u>	<u>—</u>	<u>1,278,052</u>	<u>—</u>

Share Consolidation

Immediately upon the Capital Reduction and the Subdivision having become effective, the Share Consolidation will be implemented to consolidate every two Reduced China Strategic Shares of HK\$0.05 each into one Consolidated China Strategic Share of HK\$0.10. Fractions of Consolidated China Strategic Shares will not be issued to the China Strategic Shareholders but will be aggregated, and if possible, sold for the benefit of China Strategic.

Effect of the Capital Reorganisation

Based on China Strategic's authorised share capital of HK\$800,000,000 as at the date of this announcement as represented by 8,000,000,000 China Strategic Shares, and the issued share capital of HK\$88,159,508.7 as represented by 881,595,087 China Strategic Shares, upon completion of the Capital Reorganisation, the authorised share capital of China Strategic will remain at HK\$800,000,000 as represented by 8,000,000,000 Consolidated China Strategic Shares, and the issued share capital will be HK\$44,079,754.35 as represented by 440,797,543 Consolidated China Strategic Shares.

The Consolidated China Strategic Shares will rank pari passu in all respects with each other. Other than the expenses of approximately HK\$1.8 million to be incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of China Strategic or the interests or rights of the China Strategic Shareholders, save that any fractional Consolidated China Strategic Shares will not be issued to the China Strategic Shareholders but will be aggregated and sold for the benefit of China Strategic. The Capital Reorganisation itself will not have any material adverse effect on the financial position of the China Strategic Group.

Conditions of the Capital Reorganisation

The Capital Reorganisation will be conditional upon:—

- (i) the passing of the necessary resolution(s) by the China Strategic Shareholders to approve the Capital Reorganisation at a general meeting of China Strategic;
- (ii) the confirmation of the Capital Reduction by the Court and the registration by the Registrar of Companies in Hong Kong of an office copy of the Court order and the minute containing the particulars required under section 61 of the Companies Ordinance; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated China Strategic Shares (including the Consolidated China Strategic Shares which may be issued pursuant to the exercise of options which may be granted under the share option scheme of China Strategic adopted on 4th June, 2002).

An application will be made by China Strategic to the Stock Exchange for the granting of the listing of, and permission to deal in, the Consolidated China Strategic Shares. All necessary arrangements will be made for the Consolidated China Strategic Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

Reasons for the Capital Reorganisation

China Strategic had an unaudited accumulated deficit of approximately HK\$1,081.8 million as at 30th June, 2004. China Strategic is not allowed to make any distribution while the accumulated deficit remains. Based on the accumulated deficit as at 30th June, 2004, the number of China Strategic Shares in issue as at the date of this announcement and the balance of the share premium and special capital reserve as at 30th June, 2004, the accumulated deficit of China Strategic will be fully eliminated upon the Capital Reorganisation having become effective. Implementation of the Capital Reorganisation will therefore facilitate distribution in specie of the GDI Shares pursuant to the China Strategic Group Reorganisation.

The Share Consolidation will increase the market value per China Strategic Share and reduce the transaction costs for dealing in the China Strategic Shares, including charges by reference to the number of share certificates issued.

Further announcements will be made as soon as practicable in respect of the timetable for the Capital Reorganisation.

CHANGE OF BOARD LOT SIZE

At present, the China Strategic Shares are traded in board lots of 2,500. The China Strategic Board also proposes a change in the board lot for trading to 5,000 Consolidated China Strategic Shares upon the Capital Reorganisation having become effective. Based on the closing price of the China Strategic Shares of HK\$0.54 on the Last Trading Day and the existing board lot size of 2,500 China Strategic Shares, the prevailing board lot value is HK\$1,350. On the basis of the aforesaid closing price and the new board lot size of 5,000 Consolidated China Strategic Shares, the new board lot value will be HK\$5,400. The change in board lot size will result in the Consolidated China Strategic Shares being traded in a more reasonable board lot size and value.

Further announcements will be made as soon as practicable in respect of the details of arrangements of the free exchange of share certificates of China Strategic once the Capital Reorganisation and change of board lot size have become effective.

POSSIBLE VOLUNTARY OFFER FOR THE GDI SHARES

Assuming no China Strategic Shares will be issued after the date of this announcement, upon completion of the China Strategic Group Reorganisation, China Strategic will have 440,797,543 Consolidated China Strategic Shares in issue and on this basis, 440,797,543 GDI Shares will be distributed to the China Strategic Shareholders whose names appear on the register of members of China Strategic on the Record Date. Based on the shareholding structure of China Strategic as at the date of this announcement, Paul Y and Hanny will each be indirectly interested in a total of 129,409,897 GDI Shares, which will represent approximately 29.4% of the expected issued share capital of GDI. As such, the aggregate GDI Shares which will be indirectly owned by Hanny, Paul Y and their concert parties will amount to 258,819,794 GDI Shares, representing approximately 58.8% of the issued share capital of GDI upon completion of China Strategic Group Reorganisation.

As at the date of this announcement, ITC is interested in approximately 20.5% of the issued share capital of Hanny and is a substantial shareholder of Hanny. As at the date of this announcement, ITC is interested in approximately 49.6% of the issued share capital of Paul Y and is the controlling shareholder of Paul Y. Accordingly, Paul Y, an associate of ITC, is a connected person of Hanny. Given ITC's interests in Hanny and Paul Y, the GDI Offer constitutes a connected transaction for Hanny under the Listing Rules and is therefore subject to the approval of the Independent Hanny Shareholders. Depending on the pro forma financial information of the GDI Group after completion of the China Strategic Group Reorganisation, the GDI Offer may also constitute a very substantial acquisition for Hanny.

Given that the GDI Shares will not be listed on the Stock Exchange upon completion of the China Strategic Group Reorganisation, the directors of Hanny consider that it is appropriate to provide the Independent China Strategic Shareholders with an opportunity to realise their investments in GDI by making the GDI Offer. Subject to the approval by the Independent Hanny Shareholders of the GDI Offer and completion of the China Strategic Group Reorganisation, Somerley will, on behalf of Well Orient (an indirect wholly-owned subsidiary of Hanny), make a voluntary offer to the shareholders of GDI to acquire all the GDI Shares, other than those then owned or agreed to be acquired by Well Orient, its associates and parties acting in concert with it (but the GDI Offer will be extended to Paul Y), on the terms to be set out in the composite offer and response document in relation to the GDI Offer and the accompanying form of acceptance and transfer on the following basis:

Option 1:

For every five GDI Shares* one Hanny Share plus HK\$1.8 in cash

Option 2:

For every five GDI Shares* one Hanny Bond with face value of HK\$15.0

* *The GDI Shares will be issued based on the number of the Consolidated China Strategic Shares in issue on the Record Date.*

Independent China Strategic Shareholders and Paul Y can either accept Option 1 or Option 2, but not a combination of both, in respect of the GDI Offer.

The making of the GDI Offer is a possibility only and may or may not proceed. In the event that the GDI Offer is made, it will be an unconditional offer.

As at the date of this announcement, Hanny has not received any indication or irrevocable commitment from either Paul Y or any Independent China Strategic Shareholders to accept or reject the GDI Offer, or as regards their choice of accepting Option 1 or Option 2.

Option 1

The new Hanny Shares under Option 1 will be issued by Hanny subject to Independent Hanny Shareholders' approval being obtained. Such new Hanny Shares, when fully paid or credited as fully paid and issued, will rank pari passu in all respects among themselves and with the existing Hanny Shares in issue and be entitled to receive all dividends and other distributions thereafter declared, made or paid.

On the Last Trading Day, the closing price of the Hanny Shares as quoted on the Stock Exchange was HK\$3.7. On the basis of five GDI Shares for one Hanny Share plus HK\$1.8 in cash and the aforesaid closing price of Hanny Shares, the implied value attaching to one GDI Share subject to the GDI Offer would be approximately HK\$1.1.

During the six-month period up to and including the date of this announcement, the highest closing price of Hanny Shares as quoted on the Stock Exchange was HK\$4.25 on 1st February, 2005 and the lowest closing price of Hanny Shares as quoted on the Stock Exchange was HK\$2.575 on 13th October, 2004, whereas the average of the closing prices of the Hanny Shares as quoted on the Stock Exchange during such six-month period was HK\$3.194.

Option 2

Set out below are the principal terms of the Hanny Bond to be issued under Option 2:

Principal amount	The Hanny Bond will be issued in denominations of HK\$15.0 each. The aggregate number and value of Hanny Bond that will ultimately be issued by Hanny under the GDI Offer will be ascertained upon the close of the GDI Offer.
Maturity Date	<p>On the fifth anniversary from the date of issue. Save with the prior approval of the holders of Hanny Bonds holding 75% or more of the principal amount of the Hanny Bonds then outstanding, Hanny may not redeem any part of the Hanny Bond prior to the Maturity Date.</p> <p>Unless previously converted, the Hanny Bond will be redeemed on the Maturity Date at the principal amount of the Hanny Bond with all accrued interest which has not been paid previously.</p>
Transferability	The Hanny Bond shall be transferable at all times in integral multiples of HK\$30,000.
Listing	No application will be made for the listing of, or permission to deal in, the Hanny Bond on the Stock Exchange or any other stock exchange, but listing application will be made for the Hanny Conversion Shares to be allotted and issued pursuant to the Conversion.
Voting	The holder of the Hanny Bond will not be entitled to attend or vote at any general meetings of Hanny by reason only of it being a holder of the Hanny Bond.
Interest	The Hanny Bond will bear interest from the date of the issue at the rate of 2% per annum on the outstanding principal amount of the Hanny Bond. The interest will be payable by Hanny annually in arrears on the day immediately preceding each anniversary of the date of the issue. The first payment of interest shall be made on the date falling on the day immediately preceding the first anniversary after the date of issue.

Conversion period After the date of the issue, the holder of the Hanny Bond has the right to convert the whole or part of the principal amount of the Hanny Bond into Hanny Conversion Shares at any time up to and including the date falling 14 days prior to the Maturity Date.

Conversion price The Hanny Bond can be converted into Hanny Conversion Shares at the initial conversion price of HK\$9.0 per Hanny Conversion Share (subject to adjustments in accordance with the terms of the Hanny Bond) during the conversion period as stated above.

The conversion price of HK\$9.0 per Hanny Conversion Share represents:

- a premium of 143.2% over the closing price of HK\$3.7 per Hanny Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of 136.2% over the average closing price of HK\$3.810 per Hanny Share for the last ten consecutive trading days up to and including the Last Trading Day;
- a premium of 129.4% over the average closing price of HK\$3.923 per Hanny Share for the last thirty consecutive trading days up to and including the Last Trading Day;
- a discount of 8.2% to the unaudited consolidated net asset value of the Hanny Group of HK\$9.8 per Hanny Share as at 30th September, 2004 based on the unaudited consolidated net asset value of approximately HK\$1,827.2 million and 186,533,202 issued Hanny Shares as at 30th September, 2004; and
- a premium of 3.4% over the adjusted unaudited consolidated net asset value of HK\$8.7 per Hanny Share on the basis of the 223,628,412 Hanny Shares in issue as at the date of this announcement and taking into account (i) the unaudited consolidated net asset value of Hanny of HK\$1,827.2 million as at 30th September, 2004; and (ii) the placing of Hanny Shares completed in December 2004 (details of which were set out in the announcement of Hanny dated 23rd November, 2004).

The conversion price is subject to adjustments from time to time in accordance with the provisions set out in the Hanny Bond instrument including, among other things, (i) Hanny Shares having become of a different nominal amount by reason of any consolidation or subdivision; (ii) issue of new Hanny Shares by capitalisation of profit or reserves; (iii) capital distribution; (iv) rights issue; (v) grant of option or warrants to subscribe for new Hanny Shares and (vi) such other events which may have a dilutive effect on the interest of the holder of Hanny Bond.

Hanny Conversion Shares The Hanny Conversion Shares to be issued upon Conversion will, when issued and allotted, rank *pari passu* in all respects with all the Hanny Shares then in issue and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice.

Certificates

Every China Strategic Shareholder accepting the GDI Offer under Option 2 will receive one certificate representing his aggregate holding of the Hanny Bond to which he is entitled.

The detailed terms of the Hanny Bond will be included in the composite offer and response document in relation to the GDI Offer to be despatched to China Strategic Shareholders. Further announcement will be made by Hanny regarding the aggregate number and value of Hanny Bond and the relevant number of the Hanny Conversion Shares that will be issued by Hanny under the GDI Offer upon the close of the GDI Offer.

On the basis of five GDI Shares for one Hanny Bond with face value of HK\$15.0, the implied value of the Hanny Bond attaching to one GDI Shares subject to the GDI Offer would be HK\$3.0.

The GDI Shares subject to the GDI Offer will be acquired by Hanny with the right to receive all dividends and distributions declared, paid or made on or after the date of the issue of the GDI Shares and free from all third party rights.

As at the date of this announcement, GDI has no outstanding securities, options or warrants which are convertible into or which confers rights to require the issue of GDI Shares.

Since GDI is a company incorporated in the BVI and its register of members is located there, no transfer duty is payable on any transfer of the GDI Shares.

The offer price for the GDI Shares under Option 1 has been determined after taking into account the estimated consolidated net tangible asset value of GDI upon completion of the China Strategic Group Reorganisation and the market performance of the China Strategic Shares and Hanny Shares prior to suspension in trading of such shares on 8th March, 2005.

The offer price for the GDI Shares under Option 2 has been determined after taking into account the estimated consolidated net tangible assets of GDI upon completion of the China Strategic Group Reorganisation.

On the basis that 440,797,543 GDI Shares are expected to be in issue upon completion of the China Strategic Group Reorganisation, the GDI Offer values the entire issued share capital of GDI at approximately HK\$484.9 million for Option 1 and at approximately HK\$1,322.4 million for Option 2, respectively. Assuming completion of the China Strategic Group Reorganisation and based on 129,409,897 GDI Shares to be beneficially owned by Well Orient, 311,387,646 GDI Shares (representing approximately 70.6% of the share capital of GDI expected to be in issue) will be subject to the GDI Offer and such GDI Shares are valued at approximately HK\$342.5 million under Option 1 and HK\$934.2 million under Option 2, respectively.

Hanny will finance the cash consideration in the aggregate amount of approximately HK\$112.1 million under Option 1 by facilities granted by two securities houses, each of which is a third party independent of Hanny and its connected persons (as defined in the Listing Rules). Somerley, the financial adviser to Hanny, is satisfied that sufficient financial resources are available to Well Orient to satisfy full acceptance of the GDI Offer.

As at the date of this announcement, none of the China Strategic Shareholders has undertaken or notified Well Orient of an intention to accept or reject the GDI Offer.

Well Orient does not intend to avail itself of any compulsory acquisition or redemption provisions under the applicable laws in BVI, but reserves the right to do so. Further announcement will be made in the event that Well Orient decides to avail itself to such compulsory acquisition or redemption provisions.

GDI is a wholly-owned subsidiary of China Strategic. As at the date of this announcement, the board of directors of GDI comprises all the executive and alternate directors of China Strategic. The directors of Well Orient are Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard.

Save for its entitlements to receive GDI Shares pursuant to the China Strategic Group Reorganisation, neither Well Orient nor any parties acting in concert with it holds any securities of GDI. Neither Well Orient nor any parties acting in concert with it had dealt in the securities of GDI during the six-month period immediately preceding 15th October, 2004, being the date of commencement of the offer period as defined in the Takeovers Code. Neither the Offeror nor any parties acting in concert with it held any securities of GDI or had dealt in the securities of GDI during the six-month period immediately preceding 15th October, 2004.

As all the four executive directors of Hanny are also executive directors (or alternates to executive directors) of China Strategic and GDI, the directors of Hanny may be faced with a conflict of interest in considering the making of the GDI Offer and the terms thereof. For the purpose of Rule 2.4 of the Takeovers Code, the board of Hanny has obtained independent advice from AMS, an independent financial adviser, who in principle is of the view that the making of the GDI Offer is in the interests of the Hanny Shareholders as a whole. The final form of AMS's opinion, including the basis of the opinion and factors considered, will be provided in writing and included in the Hanny Circular.

Information on Hanny

The Hanny Group is principally engaged in the trading of computer related products, consumer electronic products which comprise the manufacturing, distribution and marketing of data storage media (primarily floppy disks, CD-R, CD-RW and DVD), the distribution and marketing of computer accessories and storage media drives, scanners, audio and video cassettes, minidiscs, household electronic products and telecommunication accessories and securities trading. The Hanny Group also made strategic investments in information technology, supply of household consumer products and other businesses. Hanny itself is an investment holding company.

The following table sets out a summary of the audited consolidated results of the Hanny Group for the two years ended 31st March, 2003 and 2004 and unaudited consolidated results for the six months ended 30th September, 2004:

	For the six months ended 30th September, 2004	For the year ended 31st March,	
	2004	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2,722,355	5,009,930	4,162,804
Gross profit	564,584	1,088,088	914,035
Profit (loss) before income tax	53,820	121,639	(570,474)
Profit (loss) for the period/year	<u>(25,032)</u>	<u>13,300</u>	<u>(648,620)</u>

The following table sets out a summary of the audited consolidated balance sheet of the Hanny Group as at 31st March, 2003 and 2004 and unaudited consolidated balance sheet as at 30th September, 2004:

	As at 30th September, 2004	As at 31st March,	
	2004	2004	2003
	<i>HK'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	1,526,718	1,643,529	1,604,463
Current assets	1,966,390	2,299,707	1,663,268
Current liabilities	<u>(1,242,140)</u>	<u>(1,653,951)</u>	<u>(1,185,858)</u>
Net current assets	724,250	645,756	477,410
Non-current liabilities	(10,456)	(10,947)	(177,708)
Minority interests	<u>(413,290)</u>	<u>(405,157)</u>	<u>(174,598)</u>
Capital and reserves	<u><u>1,827,222</u></u>	<u><u>1,873,181</u></u>	<u><u>1,729,567</u></u>

On the basis of 223,628,412 Hanny Shares in issue as at the date of this announcement and taking into account (i) the unaudited consolidated net asset value of the Hanny Group of HK\$1,827.2 million as at 30th September, 2004 and; (ii) the placing of Hanny Shares completed in December 2004 (details of which were set out in the announcement of Hanny dated 23rd November, 2004), the adjusted unaudited consolidated net asset value is approximately HK\$8.7 per Hanny Share.

As at the date of this announcement, Hanny has outstanding options to subscribe for an aggregate of 21,800,000 Hanny Shares granted to its directors and employees of which (i) outstanding options to subscribe for 9,000,000 Hanny Shares were granted under the old share option scheme adopted on 21st August, 2001 and terminated on 17th March, 2003; and (ii) outstanding options to subscribe for 12,800,000 Hanny Shares were granted under the new share option scheme adopted on 17th March, 2003. Apart from these and the Hanny Bond that may be issued under the GDI Offer, Hanny does not have any other outstanding options, warrants or other convertible securities which carry rights to subscribe for Hanny Shares.

Financial effect of the GDI Offer on Hanny

Details of the financial information of GDI including, among other things, the accountant's report of GDI containing the combined income statement and the combined cash flow statement for the three years ended 31st December, 2002, 2003 and 2004, the combined balance sheet as at 31st December, 2002, 2003 and 2004, together with the respective notes following the injection of the Distributed Business by China Strategic will be disclosed in detail in the Hanny Circular.

Accordingly, the financial effect of the GDI Offer on Hanny could not be ascertained as at the date of this announcement and such information will be included in the Hanny Circular and the composite offer and response document in relation to the GDI Offer.

Intentions of Hanny regarding GDI

GDI was incorporated in the BVI with limited liability. Upon completion of the China Strategic Group Reorganisation, GDI's principal activity will be investment holding and its subsidiaries will be principally engaged in the Distributed Business. It is the intention of Hanny that the GDI Group will not conduct any business other than the Distributed Business or hold any other assets other than those assets related to the Distributed Business which would be inherited from the China Strategic Group Reorganisation, unless prior approval from its shareholders has been obtained. The board of directors of GDI intends not to dispose of any assets of the GDI Group upon completion of the GDI Offer. It is the intention of Hanny that it will not inject any asset into GDI or propose the board of directors of GDI to authorise the disposal of any assets or make changes to the principal business of the GDI Group. Interests of the shareholders of GDI will be safeguarded by the articles of association of GDI, which will contain provisions comparable to the rules governing connected transactions and notifiable transactions contained in the Listing Rules, so that certain transactions will be subject to independent shareholders' approval and independent advice. In particular, (a) no material related party transactions may be entered into by the GDI Group unless they are subject to the approval of the disinterested shareholders of GDI by way of ordinary resolution in general meeting, the notice convening which is accompanied by a circular containing the advice of independent financial adviser, or are transactions on normal commercial terms in the ordinary and usual course of business of GDI Group; and (b) any transaction involving disposal or acquisition of assets with an aggregate value of more than 25% of the value of the total assets of the GDI Group as shown in the latest audited accounts may not be entered into unless approved by the shareholders of GDI by way of ordinary resolution in general meeting. In addition, no GDI Shares will be issued for cash unless they are first offered to all shareholders in proportion to their respective shareholdings in GDI. Detailed information on the articles of association of GDI will be included in the Hanny Circular and China Strategic Circular. The board of directors of GDI currently comprises all the executive and alternate directors of China Strategic, but none of the independent non-executive directors of China Strategic have been appointed as director of GDI. Upon the close of the GDI Offer, the composition of the board of directors of GDI may change. If GDI remains a public company upon the close of the GDI Offer, it will appoint three independent non-executive directors and it will still be subject to the provisions of the Takeovers Code. Further announcement will be made in this regard as and when appropriate.

No new listing application will be made for the GDI Shares on the Stock Exchange or any other stock exchange.

Details of the financial information of GDI including, among other things, the accountant's report of GDI containing the combined income statement and the combined cash flow statement for the three years ended 31st December, 2002, 2003 and 2004, the combined balance sheet as at 31st December, 2002, 2003 and 2004, together with the respective notes following the injection of the Distributed Business by China Strategic will be disclosed in detail in the China Strategic Circular, the Hanny Circular and in the composite offer and response document in respect of the GDI Offer to be despatched in accordance with the requirements of the Takeovers Code.

SHARE SALE AGREEMENT

Hanny and Paul Y entered into the Share Sale Agreement with the Offeror on 10th March, 2005, the principal terms of which are as follows:—

Vendors: Paul Y and Hanny

Purchaser: Offeror

Subject matter of the sale and purchase:

- (i) Paul Y Sale Shares, being 135,000,000 China Strategic Shares (equivalent to 67,500,000 Consolidated China Strategic Shares upon the Capital Reorganisation having become effective) held by a wholly-owned subsidiary of Paul Y, representing approximately 15.3% of the issued share capital of China Strategic or Paul Y's 52.2% equity interest in China Strategic as at the date of the Share Sale Agreement; and
- (ii) Hanny Sale Shares, being 135,000,000 China Strategic Shares (equivalent to 67,500,000 Consolidated China Strategic Shares upon the Capital Reorganisation having become effective) held by Well Orient, representing approximately 15.3% of the issued share capital of China Strategic or Hanny's 52.2% equity interest in China Strategic as at the date of the Share Sale Agreement.

Given ITC is a substantial shareholder of Hanny and Paul Y is an associate of ITC, Paul Y is a connected person of Hanny. Accordingly, the Share Sale Agreement constitutes a connected transaction of Hanny under the Listing Rules and is therefore subject to the approval of the Independent Hanny Shareholders at the Hanny SGM. The Share Sale Agreement also constitutes a discloseable transaction for Hanny under the Listing Rules. The Hanny SGM will be convened by Hanny at which an ordinary resolution will be proposed to seek approval of, among other things, the Share Sale Agreement and the transactions contemplated thereunder (including but not limited to the share mortgage in the paragraph headed "Share mortgage" below). At the Hanny SGM, the votes of the Independent Hanny Shareholders in relation to the Share Sale Agreement will be taken by poll where ITC and its associates will abstain from voting.

Consideration:

Aggregate cash amount of HK\$52,110,000 (HK\$26,055,000 each for the Paul Y Sale Shares and Hanny Sale Shares), equivalent to approximately HK\$0.193 per China Strategic Share (equivalent to HK\$0.386 per Consolidated China Strategic Share). The consideration is payable as follows:—

- (i) HK\$5,200,000 has been paid to Paul Y and Hanny (HK\$2,600,000 each) as deposits upon the signing of the Share Sale Agreement;
- (ii) HK\$31,277,000 will be paid to Paul Y and Hanny (HK\$15,638,500 each) upon Completion; and
- (iii) the remaining balance of HK\$15,633,000 will be paid to Paul Y and Hanny (HK\$7,816,500 each) within six calendar months after Completion.

The consideration under the Share Sale Agreement has been arrived at after arm's length negotiations, having taken into account the estimated net asset value of the China Strategic Group (before and after the China Strategic Group Reorganisation) and the market performance of the China Strategic Shares prior to suspension of trading in the China Strategic Shares on 8th March, 2005. The proceeds of HK\$26,055,000 (before expenses) from the Hanny Sale Shares will be used as general working capital for the Hanny Group.

In the event that any of the conditions of the Share Sale Agreement (as detailed below) shall not have been fulfilled or waived (as the case may be) on or before 31st December, 2005 or Completion shall not have taken place in accordance with the terms of the Share Sale Agreement for any reasons (other than by reason of a breach of the Share Sale Agreement by the Offeror), the HK\$2,600,000 deposit respectively received by Paul Y and Hanny will be returned to the Offeror without interest.

Share mortgage:

The Offeror has agreed to enter into a share mortgage upon Completion in favour of Paul Y and Hanny pledging the 20,250,000 Consolidated China Strategic Shares to each of Paul Y and Hanny as security for payment of the balance of the consideration of HK\$7,816,500 referred to in sub-paragraph (iii) under the section headed “Consideration” above. The charged shares, being 40,500,000 Consolidated China Strategic Shares to be acquired by the Offeror pursuant to Share Sale Agreement (representing approximately 9.2% of the issued share capital of China Strategic after the Capital Reorganisation has become effective), represent a continuing security for the due and punctual payment of the final balance of the consideration of HK\$15,633,000. The share mortgage arrangement is a commercial arrangement between the Offeror, Paul Y and Hanny and has been agreed after arm’s length negotiations between them. Both of the boards of Paul Y and Hanny consider the pledge by the Offeror of an aggregate of 40,500,000 Consolidated China Strategic Shares with value of HK\$15,633,000 based on the selling price per China Strategic Share under the Share Sale Agreement to be sufficient as a security for the punctual payment of the balance of the consideration of HK\$15,633,000 by the Offeror. As a result of the aforesaid share mortgage arrangement, Paul Y and Hanny are presumed to be parties acting in concert with the Offeror in respect of China Strategic for the purpose of the Takeovers Code unless they rebut the presumption.

Conditions:

Completion of the Share Sale Agreement is subject to:

- (a) if necessary, approval by the shareholders of each of the Vendors (other than those who are required to abstain from voting under the Listing Rules) of the transactions contemplated under the Share Sale Agreement in accordance with the Listing Rules and/or Takeovers Code;
- (b) completion of the due diligence review (including but not limited to legal, financial and business aspects) on China Strategic to the reasonable satisfaction of the Offeror within 15 business days from the date of the Share Sale Agreement;
- (c) the China Strategic Shares (or the Consolidated China Strategic Shares) remaining listed on the Stock Exchange at all times prior to and on Completion and the current listing of the China Strategic Shares (or the Consolidated China Strategic Shares) not having been withdrawn or the trading of the China Strategic Shares (or the Consolidated China Strategic Shares) not having been suspended for a consecutive period of more than 7 trading days (other than any suspension due to the clearance of the announcement in respect of the transactions contemplated under the Share Sale Agreement) and no indication having been received on or before the Completion Date from the Stock Exchange or the SFC to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of Completion or being deemed as new listing pursuant to the Listing Rules (save and except for the application for listing and permission to deal in the Consolidated China Strategic Shares);
- (d) the obtaining of such other consent, approval, authorisation, permission, waiver or exemption which may be required from governmental or regulatory authorities or other third parties which are necessary or desirable in connection with the performance of the Share Sale Agreement and any of the transactions contemplated thereunder;

- (e) completion of the Capital Reorganisation and the China Strategic Group Reorganisation to the reasonable satisfaction of the Offeror;
- (f) there being no material breach of warranties given by the Vendors under the Share Sale Agreement before Completion; and
- (g) the Executive not having indicated to the Offeror that the China Strategic Offer price should be more than HK\$0.193 (otherwise than due to the Offeror and its concert parties having acquired voting rights at a higher price or having voluntarily increased the offer price).

The Offeror may waive any of the conditions (b), (f) and (g) above at any time before Completion by notice in writing. If any of the above conditions shall not have been fulfilled or waived (as the case may be) on or before 31st December, 2005, the Share Sale Agreement shall be void and of no effect and no party shall have any rights or claims whether for loss or damages or other reliefs whatsoever against any of the other parties on any ground save for antecedent breaches.

As set out in the condition (e) above, completion of the China Strategic Group Reorganisation to the reasonable satisfaction of the Offeror is a condition precedent to Completion. It has been stipulated in the Share Sale Agreement that as a term of the China Strategic Group Reorganisation, the combined net asset value of the China Strategic Group should be no less than HK\$110 million and the aggregate liabilities of the China Strategic Group should be no more than HK\$70 million upon Completion.

Completion:

Completion is to take place on the third business day after fulfilment or waiver (as the case may be) of the conditions referred to above.

Financial effects of the disposal of Hanny Sale Shares on Hanny:

Details of the financial information of GDI and China Strategic including, among other things, the accountant's report on GDI and the pro forma financial information on the China Strategic Group after the China Strategic Group Reorganisation will be disclosed in detail in the Hanny Circular.

Accordingly, the financial effect of the disposal of Hanny Sale Shares could not be ascertained as at the date of this announcement and such information will be included in the Hanny Circular.

Reasons for the Share Sale Agreement:

As set out in the paragraph headed "Financial information of the China Strategic Group" above, the China Strategic Group had made audited net loss of approximately HK\$474.1 million and HK\$189.5 million for each of the two years ended 31st December, 2002 and 2003, and unaudited net loss of approximately HK\$94.5 million for the six months ended 30th June, 2004. Interests in China Strategic held by Hanny are treated as associates in the accounts of Hanny. For the year ended 31st March, 2004 and six months ended 30th September, 2004, Hanny recorded a loss from the results of China Strategic of approximately HK\$39.6 million and HK\$27.8 million, respectively.

Given that the China Strategic Group Reorganisation is one of the conditions precedent to Completion, Hanny would upon Completion have effectively realised part of its investments in the China Strategic Group but could retain its interest in the GDI Group. Upon Completion, the interests in China Strategic held by Hanny will be reduced from approximately 29.4% to 14.0%. China Strategic will no longer be an associated company of Hanny and accordingly, Hanny will treat China Strategic as an investment in its accounts and will not equity account for China Strategic's assets, liabilities and results. In view of the loss-making history of China Strategic, the directors of Hanny consider it prudent to reduce its interests in China Strategic at this stage. However, given the Offeror's background and business connection in the PRC and the Republic of Austria as mentioned in the section headed "Background of the Offeror and its intentions regarding China Strategic" below, the directors of Hanny consider that retaining some interest in China Strategic would enable Hanny to take advantage of the future prospects of the China Strategic Group following completion of the Share Sale Agreement and the China Strategic Offer.

Upon completion of the China Strategic Group Reorganisation, two overseas listed companies, namely CEL and MRI, will become non wholly-owned subsidiaries of GDI. By making the GDI Offer, Hanny may increase its stake in GDI to the extent that GDI may become a subsidiary of Hanny. If this happens, Hanny will be in control of two overseas listed companies engaged in part of the Distributed Business. By partial disposal of interests in China Strategic as mentioned above together with the making of the GDI Offer, Hanny will be able to streamline its existing listed group structure in a way that Hanny could manage the operation of the Distributed Business in a more efficient way. The directors of Hanny believe that such streamlined group structure could allow Hanny's management to enhance the potential of the Distributed Business.

Based on the above, the directors of Hanny (including independent non-executive directors) consider that the terms of the Share Sale Agreement are on arm's length basis, fair and reasonable and are in the interests of Hanny and its shareholders as a whole.

Since the China Strategic Group Reorganisation is one of the conditions precedent to Completion, Hanny considers that it is beneficial for it and its shareholders to put forward the proposal in respect of the China Strategic Group Reorganisation to the China Strategic Board.

POSSIBLE MANDATORY OFFER FOR THE CHINA STRATEGIC SHARES

Upon Completion, the Offeror will be interested in 270,000,000 China Strategic Shares (equivalent to 135,000,000 Consolidated China Strategic Shares), representing approximately 30.63% of the entire issued share capital of China Strategic. Pursuant to the Takeovers Code, the Offeror will be obliged to make a mandatory cash offer to the China Strategic Shareholders to acquire all the Consolidated China Strategic Shares (other than those already held or agreed to be acquired by the Offeror and parties acting in concert with it). Upon Completion, (i) Paul Y will be interested in 123,819,795 China Strategic Shares (equivalent to 61,909,897 Consolidated China Strategic Shares), representing approximately 14.04% of the entire issued share capital of China Strategic; and (ii) Hanny will be interested in 123,819,794 China Strategic Shares (equivalent to 61,909,897 Consolidated China Strategic Shares), representing approximately 14.04% of the entire issued share capital of China Strategic. Upon Completion, the Offeror together with the parties acting in concert with it (including Paul Y and Hanny) will be interested in an aggregate of 517,639,589 China Strategic Shares (equivalent to 258,819,794 Consolidated China Strategic Shares), representing approximately 58.8% of the entire issued share capital of China Strategic. Save for Paul Y and Hanny (being presumed concert parties of the Offeror), as at the date of this announcement, neither the Offeror nor any parties acting in concert with it holds any securities of China Strategic. Neither the Offeror nor any parties acting in concert with it has dealt in the securities of China Strategic during the six-month period immediately preceding 15th October, 2004 being the commencement of the offer period as defined in the Takeovers Code.

Subject to Completion, Kingston will, on behalf of the Offeror, make a mandatory cash offer to all China Strategic Shareholders to acquire all the Consolidated China Strategic Shares, other than those held or agreed to be acquired by the Offeror and parties acting in concert with it, on terms to be set out in the composite offer and response document and the accompanying form of acceptance and transfer on the following basis:

**For each Consolidated China Strategic Share HK\$0.386 in cash
(equivalent to HK\$0.193 in cash
for each China Strategic Share)**

The China Strategic Offer will not be extended to Paul Y and Hanny. The China Strategic Offer price is the same as the price per China Strategic Share (adjusted for the China Strategic Group Reorganisation) under the Share Sale Agreement, which price was fixed after taking into consideration the estimated net asset value of the China Strategic Group (before and after the China Strategic Group Reorganisation) and the market performance of the China Strategic Shares prior to suspension of trading in the China Strategic Shares on 8th March, 2005. Based on China Strategic's expected issued share capital of 440,797,543 Consolidated China Strategic Shares upon completion of the China Strategic Group Reorganisation, the China Strategic Offer values the entire issued share capital of China Strategic at approximately HK\$170.1 million. Excluding the 258,819,794 Consolidated China Strategic Shares which will be held by the Offeror and parties acting in concert with it (including Paul Y and Hanny), representing approximately 58.8% of the total number of Consolidated China Strategic Shares expected to be in issue, 181,977,749 Consolidated China Strategic Shares will be subject to the China Strategic Offer and the value for the China Strategic Offer will amount to approximately HK\$70.2 million. Kingston is satisfied that the Offeror has sufficient financial resources available to it to satisfy full acceptance of the China Strategic Offer.

The Consolidated China Strategic Shares subject to the China Strategic Offer will be acquired ex entitlement to the dividend distribution in specie of the GDI Shares but cum the right to receive all dividends or distributions declared, paid or made on or after completion of the China Strategic Group Reorganisation and free from all third party rights attaching thereto on or after that date.

Seller's ad valorem stamp duty in connection with the acceptance of the China Strategic Offer amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration will be payable by the accepting China Strategic Shareholders and will be deducted by the Offeror from the consideration payable on acceptance of the China Strategic Offer. The Offeror will then pay the stamp duty on behalf of the accepting China Strategic Shareholders.

As at the date of this announcement, China Strategic has no outstanding convertible securities, options or warrants. The Offeror and its concert parties have not entered into any agreements in relation to the issue of any convertible securities, options, warrants or derivatives of China Strategic.

The making of the China Strategic Offer is a possibility only and may or may not proceed. In the event that the China Strategic Offer is made, it will be an unconditional offer.

Background of the Offeror and its intentions regarding China Strategic

The Offeror is a company incorporated in the BVI. It is principally engaged in investment holding. The entire issued share capital of the Offeror is beneficially owned by Mr. Gao Yang, who is also the sole director of the Offeror. Save for entering into the Share Sale Agreement, the Offeror has not conducted any business since its incorporation. Mr. Gao Yang, aged 38, who is currently residing in Shanghai, the PRC, has been engaged in trading business between the PRC and the Republic of Austria, which mainly focused on acting as trading agents for Euro-American machine manufacturing and engineering companies in the PRC since 1990s. Currently, Mr. Gao is also managing a company with registered capital of RMB100,000,000 and with an unaudited net asset value of approximately RMB700,000,000 in 2003. Mr. Gao does not have any shareholding in this company. Such company is engaged in property development (including the development of commercial residential buildings and complex in Beijing, the PRC), investment in high technology (including hydro-electric technology) and industrial enterprises (including investment in a joint venture with a renowned Korean car manufacturer) as well as investment management in the PRC.

Hanny confirms that to the best of the knowledge, information and belief of the Hanny Directors and having made all reasonable enquiries, the Offeror and its ultimate beneficial owner are third parties independent of Hanny and its connected persons (as defined in the Listing Rules). Paul Y and Hanny are presumed to be parties acting in concert with the Offeror for the purpose of the Takeovers Code.

The Offeror intends that China Strategic will continue with the Remaining Business. The Offeror will review the financial position and business operations of China Strategic with a view to strengthening the operations and future development of China Strategic. The Offeror will also adopt the business strategy of making investments with good earnings potential that can complement the business of China Strategic. The Offeror will also explore other business opportunities and consider whether any asset disposals, asset acquisitions, business diversification will be appropriate in order to enhance the long term growth of China Strategic. In the event that any of disposal and/or acquisition materialises, further announcement will be made as and when required by the Listing Rules.

Proposed new directors of China Strategic

The China Strategic Board is currently made up of ten directors, comprising five executive directors, two alternate directors and three independent non-executive directors. All the existing directors of China Strategic will resign on the earliest date permitted under the Takeovers Code. As at the date of this announcement, the number of new directors to be nominated has not been determined. Further announcement will be made as and when there is a change in the composition of the China Strategic Board.

Maintenance of the listing status of China Strategic

The Stock Exchange has stated that if, at the close of the China Strategic Offer, less than the minimum prescribed percentage applicable to China Strategic, being 25% of the Consolidated China Strategic Shares are held by the public, or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the Consolidated China Strategic Shares; or**
- **there are insufficient Consolidated China Strategic Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend dealings in the Consolidated China Strategic Shares.

The Offeror intends China Strategic to remain listed on the Stock Exchange. The director of the Offeror and the new directors to be appointed to the China Strategic Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in China Strategic's shares.

COMPARISON OF THE COMBINED OFFER PRICE UNDER THE GDI OFFER AND THE CHINA STRATEGIC OFFER WITH MARKET PERFORMANCE

Option 1 of GDI Offer and the China Strategic Offer:

On the basis of the closing price of HK\$3.7 per Hanny Share as quoted on the Stock Exchange on the Last Trading Day, the combined consideration under Option 1 of the GDI Offer and the China Strategic Offer, adjusted for the Capital Reorganisation, is equivalent to HK\$0.743 per existing China Strategic Share and represents:

- a discount of approximately 54.4% to the unaudited consolidated net asset value of China Strategic of approximately HK\$1.63 per China Strategic Share as at 30th June, 2004;
- a premium of approximately 37.6% over the closing price of HK\$0.54 per China Strategic Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 29.9% over the average closing price of approximately HK\$0.572 per China Strategic Share for the ten consecutive trading days up to and including the Last Trading Day;
- a premium of approximately 28.5% over the average closing price of approximately HK\$0.578 per China Strategic Share for the thirty consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 33.4% over the average closing price of approximately HK\$0.557 per China Strategic Share for the sixty consecutive trading days up to and including the Last Trading Day.

Option 2 of GDI Offer and the China Strategic Offer:

On the basis of the face value of the Hanny Bond to be issued under Option 2 of the GDI Offer, the combined consideration under Option 2 of the GDI Offer and the China Strategic Offer, adjusted for the Capital Reorganisation, is equivalent to HK\$1.693 per existing China Strategic Share and represents:

- a premium of approximately 3.9% over the unaudited consolidated net asset value of China Strategic of approximately HK\$1.63 per China Strategic Share as at 30th June, 2004;
- a premium of approximately 213.5% over the closing price of HK\$0.54 per China Strategic Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 196.0% over the average closing price of approximately HK\$0.572 per China Strategic Share for the ten consecutive trading days up to and including the Last Trading Day;

- a premium of approximately 192.9% over the average closing price of approximately HK\$0.578 per China Strategic Share for the thirty consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 203.9% over the average closing price of approximately HK\$0.557 per China Strategic Share for the sixty consecutive trading days up to and including the Last Trading Day.

In the China Strategic Circular, the China Strategic Offer price of HK\$0.386 per Consolidated China Strategic Share will be compared to the pro forma net asset value per Consolidated China Strategic Share upon completion of the China Strategic Group Reorganisation.

In the Hanny Circular, (i) the consideration under the Share Sale Agreement (which is equivalent to the China Strategic Offer price of HK\$0.386 per Consolidated China Strategic Share) will be compared to the pro forma net asset value per Consolidated China Strategic Share upon completion of the China Strategic Group Reorganisation; and (ii) the GDI Offer price per GDI Share under Option 1 and Option 2 will be compared to the pro forma net asset value per GDI Share.

GENERAL

An independent board committee of China Strategic will be formed to make recommendation to the Independent China Strategic Shareholders on the China Strategic Group Reorganisation, the China Strategic Offer and the GDI Offer. Hercules has been appointed as the independent financial adviser to advise the independent board committee of China Strategic and the Independent China Strategic Shareholders in connection therewith.

The China Strategic Circular containing, among other things, details of the China Strategic Group Reorganisation, the Capital Reorganisation, change of board lot size, a notice convening a general meeting of China Strategic, the letter of recommendation from the independent board committee of China Strategic and the letter of advice from Hercules will be sent to the China Strategic Shareholders as soon as practicable.

An independent board committee of Hanny will be formed to make recommendation to the Independent Hanny Shareholders on the making of the GDI Offer by Well Orient and the Share Sale Agreement. AMS has been appointed as the independent financial adviser to advise the independent board committee of Hanny and Independent Hanny Shareholders in connection therewith. The Hanny Circular containing, among other things, details of the Share Sale Agreement, GDI Offer, the accountant's report of GDI, a notice convening the Hanny SGM, the letter of recommendation from the independent board committee of Hanny and the letter of advice from AMS will be sent to the Hanny Shareholders as soon as practicable.

Rule 8.2 of the Takeovers Code provides that an offer document should normally be posted by or on behalf of the offeror within 21 days of the date of announcement of the offer (or, in the case of a securities exchange offer, 35 days). Accordingly, the offer document in relation to the China Strategic Offer should be posted within 21 days of the date of this announcement whereas the offer document in relation to the GDI Offer should be posted within 35 days of the date of this announcement. Pursuant to Note 2 to Rule 8.2 of the Takeovers Code, the Executive's consent is required if the making of an offer is subject to the prior fulfilment of a pre-condition and the pre-condition cannot be fulfilled within the time period contemplated by Rule 8.2 of the Takeovers Code. Application will be made by each of Well Orient and the Offeror for the Executive's consent under Rule 8.2 of the Takeovers Code to extend the deadline for the despatch of the relevant offer documents to within seven days of fulfilment of the conditions precedent of Share Sale Agreement.

A composite offer and response document of China Strategic setting out details of the China Strategic Offer (accompanied by the acceptance and transfer form) and incorporating the letter of recommendation from the independent board committee of China Strategic and the letter of advice from Hercules on the China Strategic Offer will be sent to the China Strategic Shareholders in accordance with the Takeovers Code.

Another composite offer and response document of GDI setting out details of the GDI Offer (accompanied by the acceptance and transfer form), information on Hanny and incorporating the letter of recommendation from the independent board committee of GDI and the letter of advice from Hercules on the GDI Offer will be sent to the shareholders of GDI in accordance with the Takeovers Code.

WARNING: THE MAKING OF BOTH THE GDI OFFER AND THE CHINA STRATEGIC OFFER ARE SUBJECT TO A NUMBER OF CONDITIONS AND ARE POSSIBILITIES ONLY. AS THE OFFERS MAY OR MAY NOT PROCEED, INVESTORS, PAUL Y SHAREHOLDERS, HANNY SHAREHOLDERS AND CHINA STRATEGIC SHAREHOLDERS ARE URGED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES OF PAUL Y, HANNY AND CHINA STRATEGIC.

SUSPENSION AND RESUMPTION OF TRADING

At the request of Hanny, trading in its shares on the Stock Exchange was suspended with effect from 9:45 a.m. on 8th March, 2005 pending the release of this announcement. Trading in the Hanny Shares will continue to be suspended pending the release of an announcement in relation to, among others, a major transaction regarding a subscription of a convertible note.

At the request of China Strategic, trading in its shares on the Stock Exchange was suspended with effect from 9:45 a.m. on 8th March, 2005 pending the release of this announcement. Application has been made by China Strategic to the Stock Exchange for resumption of trading in the China Strategic Shares with effect from 9:30 a.m. on 20th April, 2005.

As at the date of this announcement, the directors of Hanny are as follows:

Executive Directors:

Dr. Chan Kwok Keung, Charles

Dr. Yap, Allan

Mr. Lui Siu Tsuen, Richard

Mr. Chan Kwok Hung

Non-executive Directors:

Mr. Fok Kin-ning, Canning

Mr. Ip Tak Chuen, Edmond

Mr. Cheung Hon Kit

Ms. Shih, Edith

(Alternate to Mr. Fok Kin-ning, Canning)

Independent Non-executive Directors:

Mr. Yuen Tin Fan, Francis

Mr. Kwok Ka Lap, Alva

Mr. Wong King Lam, Joseph

As at the date of this announcement, the directors of China Strategic are as follows:

Executive Directors:

Dr. Chan Kwok Keung, Charles

Dr. Yap, Allan

Ms. Chau Mei Wah, Rosanna

Ms. Chan Ling, Eva

Mr. Li Bo

Mr. Chan Kwok Hung

(Alternate to Dr. Chan Kwok Keung, Charles)

Mr. Lui Siu Tsuen, Richard

(Alternate to Dr. Yap, Allan)

Independent Non-executive Directors:

Mr. David Edwin Bussmann

Mr. Wong King Lam, Joseph

Mr. Sin Chi Fai

DEFINITIONS

In this announcement, the following terms have the following meanings: -

“AMS”	AMS Corporate Finance Limited, a licensed corporation under the SFO permitted to carry out types 4, 6 and 9 of the regulated activities for the purposes of the SFO and the independent financial adviser to the independent board committee of Hanny and Independent Hanny Shareholders
“associate”	has the meaning as defined in the Listing Rules
“BVI”	the British Virgin Islands
“Capital Reduction”	the proposed cancellation of the paid-up capital of HK\$0.05 on each issued China Strategic Share and the reduction of the nominal value of each of the issued China Strategic Share from HK\$0.10 to HK\$0.05 and the cancellation of the entire share premium account of China Strategic
“Capital Reorganisation”	the proposed capital reorganisation of China Strategic involving the Capital Reduction, the Subdivision and the Share Consolidation
“CEL”	China Enterprises Limited, a company incorporated in Bermuda with limited liability, the shares of which are traded on the OTC (over-the-counter) Bulletin Board in the United States of America and is owned as to 55.22% effective equity interest and 88.8% effective interest of voting right by China Strategic
“China Strategic”	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
“China Strategic Board”	board of directors of China Strategic

“China Strategic Circular”	a circular of China Strategic containing, among other things, details of the China Strategic Group Reorganisation, the Capital Reorganisation, change of board lot size, a notice convening a general meeting of China Strategic and the letter of recommendation from the independent board committee of China Strategic and the letter of advice from Hercules to be despatched to China Strategic Shareholders
“China Strategic Group”	China Strategic and its subsidiaries
“China Strategic Group Reorganisation”	the proposed internal group reorganisation of China Strategic which, if approved and implemented, will result in (i) China Strategic continuing as a public listed company concentrating on the Remaining Business; (ii) GDI concentrating on the Distributed Business; and (iii) the China Strategic Shareholders receiving by way of distribution in specie of the GDI Shares on the basis of one GDI Share for one Consolidated China Strategic Share
“China Strategic Offer”	the possible mandatory cash offer to acquire all the Consolidated China Strategic Shares not already held or agreed to be acquired by the Offeror and parties acting in concert with it at a price of HK\$0.386 per Consolidated China Strategic Share (equivalent to HK\$0.193 per China Strategic Share) in cash, ex entitlement to the distribution in specie of the GDI Shares pursuant to the China Strategic Group Reorganisation
“China Strategic Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of China Strategic
“China Strategic Shareholder(s)”	holder(s) of the China Strategic Shares or Consolidated China Strategic Shares, as the case may be
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Completion”	completion of the Share Sale Agreement
“Completion Date”	the date of Completion
“Consolidated China Strategic Share(s)”	issued and unissued ordinary share(s) of HK\$0.10 each in the share capital of China Strategic upon the Capital Reorganisation having become effective
“Conversion”	conversion of the Hanny Bond by its holder in accordance with the terms of the Hanny Bond
“Distributed Business”	all business other than the Remaining Business which will be carried on by the GDI Group upon completion of the China Strategic Group Reorganisation, including property development, manufacturing and marketing of tires, business of providing package tour, travel and other related services and other investment holding business

“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
“GDI”	Group Dragon Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of China Strategic as at the date of this announcement
“GDI Group”	GDI and its subsidiaries upon completion of the China Strategic Group Reorganisation
“GDI Offer”	the possible voluntary offer to acquire all the GDI Shares not already held by Well Orient and parties acting in concert with it, the terms of which are set out herein
“GDI Share(s)”	ordinary share(s) currently of US\$1.00 each in the issued share capital of GDI
“Hanny”	Hanny Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Hanny Bond”	the convertible bond to be issued by Hanny in denominations of HK\$15.0 each under Option 2, which will be convertible into new Hanny Shares at an initial conversion price of HK\$9.0 per Hanny Share at any time after its issue and up to the Maturity Date
“Hanny Circular”	a circular of Hanny containing, among other things, details of the Share Sale Agreement and the making of the GDI Offer and the letter of recommendation from the independent board committee of Hanny and the letter of advice from AMS to be despatched to the Hanny Shareholders
“Hanny Conversion Shares”	new Hanny Shares to be allotted and issued by Hanny upon Conversion
“Hanny Group”	Hanny and its subsidiaries
“Hanny Sale Shares”	135,000,000 China Strategic Shares (equivalent to 67,500,000 Consolidated China Strategic Shares upon the Capital Reorganisation having become effective) held by Well Orient, representing approximately 15.3% of the issued share capital of China Strategic
“Hanny Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of Hanny
“Hanny SGM”	a special general meeting to be held by Hanny to approve, among other things, the Share Sale Agreement and the GDI Offer (including the allotment and issue of the new Hanny Shares under Option 1 and Hanny Conversion Shares)
“Hanny Shareholders”	shareholders of Hanny

“Hercules”	Hercules Capital Limited, a licensed corporation under the SFO permitted to carry out type 6 of the regulated activities for the purposes of the SFO and the independent financial adviser to the independent board committee of China Strategic and the Independent China Strategic Shareholders and independent shareholders of GDI
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Hanny Shareholders”	Hanny Shareholders other than ITC and its associates and parties acting in concert with any of them
“Independent China Strategic Shareholders”	China Strategic Shareholders other than Paul Y and Hanny and their respective associates and parties acting in concert with any of them
“ITC”	ITC Corporation Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Kingston”	Kingston Securities Limited, a corporation licensed under the transitional arrangements to carry out Types 1,4,6,7 and 9 regulated activities for the purposes of the SFO, which will make the China Strategic Offer on behalf of the Offeror
“Last Trading Day”	7th March, 2005, being the last day on which China Strategic Shares and Hanny Shares were traded on the Stock Exchange prior to the suspension in trading of China Strategic Shares and Hanny Shares pending the publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the fifth anniversary from the date of issue of the Hanny Bond
“MRI”	MRI Holdings Limited, a 57.3% owned subsidiary of China Strategic and the shares of which are listed on the Australian Stock Exchange
“Offeror”	Nation Field Limited, a company incorporated in the BVI with limited liability and beneficially and wholly owned by Mr. Gao Yang
“Option 1”	the option offered to the China Strategic Shareholders under the GDI Offer in the form of one Hanny Share plus HK\$1.8 cash for every five GDI Shares
“Option 2”	the option offered to the China Strategic Shareholders under the GDI Offer in the form of one Hanny Bond for every five GDI Shares
“Paul Y”	Paul Y. - ITC Construction Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange

“Paul Y Sale Shares”	135,000,000 China Strategic Shares (equivalent to 67,500,000 Consolidated China Strategic Shares upon the Capital Reorganisation having become effective) held by a wholly-owned subsidiary of Paul Y, representing approximately 15.3% of the issued share capital of China Strategic
“Paul Y Shareholders”	shareholders of Paul Y
“PRC”	the People’s Republic of China
“Record Date”	the record date, to be fixed, to determine entitlements to the distribution in specie of the GDI Shares by China Strategic
“Reduced China Strategic Share(s)”	issued and unissued share(s) of HK\$0.05 each in the share capital of China Strategic created from the Capital Reduction and Subdivision but prior to the implementation of the Share Consolidation
“Remaining Business”	the business to be remained in the China Strategic Group upon completion of the China Strategic Group Reorganisation, including manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Consolidation”	the proposed consolidation of every two Reduced China Strategic Shares into one Consolidated China Strategic Share
“Share Sale Agreement”	the sale and purchase agreement dated 10th March, 2005 entered into between, inter alia, the Offeror, Paul Y and Hanny for the acquisition by the Offeror of an aggregate of 270,000,000 China Strategic Shares from Paul Y and Hanny, which shares represent approximately 30.6% of the issued share capital of China Strategic as at the date of the Share Sale Agreement
“Sommerley”	Sommerley Limited, a deemed licensed corporation under the SFO permitted to carry out types 1, 4, 6 and 9 of the regulated activities for the purposes of the SFO and the financial adviser to Hanny, which will make the GDI Offer on behalf of Well Orient
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subdivision”	the subdivision of each authorised but unissued China Strategic Share into two Reduced China Strategic Shares
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Vendors”	Paul Y and Hanny, being the vendors of the Paul Y Sale Shares and the Hanny Sale Shares respectively

“Well Orient”	Well Orient Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Hanny
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

Note: Amounts expressed in US\$ have been translated into HK\$ at the rate of HK\$7.8=US\$1.0 in this announcement for illustrative purpose.

By order of the board
HANNY HOLDINGS LIMITED
Cheng Wai Chu, Judy
Company Secretary

By order of the board
NATION FIELD LIMITED
Gao Yang
Director

By order of the board
WELL ORIENT LIMITED
Lui Siu Tsuen, Richard
Director

By order of the board
CHINA STRATEGIC HOLDINGS LIMITED
Chan Yan Yan, Jenny
Company Secretary

By order of the board
GROUP DRAGON INVESTMENTS LIMITED
Chan Ling, Eva
Director

Hong Kong, 19th April, 2005

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this announcement other than that relating to the Hanny Group and China Strategic Group and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this announcement other than those relating to the Hanny Group and China Strategic Group have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

The directors of Hanny jointly and severally accept full responsibility for the accuracy of the information contained in this announcement other than that relating to the Offeror and the China Strategic Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement other than those relating to Offeror and the China Strategic Group have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

The directors of China Strategic jointly and severally accept full responsibility for the accuracy of the information contained in this announcement other than that relating to the Offeror and the Hanny Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement other than those relating to the Offeror and the Hanny Group have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.