



**CHINA STRATEGIC HOLDINGS LIMITED**  
**中策集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

Stock code: 235

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2005**

The directors of China Strategic Holdings Limited (the “Company”) announce that the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2005 together with comparative figures for the same period in 2004 are as follows:—

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30TH JUNE, 2005**

	<i>NOTES</i>	<b>Six months ended 30th June,</b> <b>2005</b> <i>HK\$'000</i> <i>(unaudited)</i>	<b>2004</b> <i>HK\$'000</i> <i>(unaudited)</i>
Turnover		<b>17,267</b>	10,309
Cost of sales		<b>(12,388)</b>	(7,747)
Gross profit		<b>4,879</b>	2,562
Other operating income	4	<b>65,870</b>	44,525
Distribution costs		<b>(2,038)</b>	(307)
Administrative expenses		<b>(29,201)</b>	(15,280)
Other expenses	5	<b>(91,833)</b>	(102,585)
Change in fair value of conversion option of unlisted convertible note		<b>(39,743)</b>	—
(Loss) gain on dilution of interests in associates		<b>(2,754)</b>	27,881
Share of results of associates		<b>12,172</b>	(29,060)
Finance costs		<b>(8,480)</b>	(9,298)
Loss before taxation	6	<b>(91,128)</b>	(81,562)
Income tax expense	7	<b>(433)</b>	(761)
Net loss for the period from continuing operations		<b>(91,561)</b>	(82,323)
Net profit for the period from discontinued operations		<b>—</b>	1,511
Net loss for the period		<b>(91,561)</b>	(80,812)

Attributable to:		
Equity holders of the parent	(79,327)	(94,546)
Minority interests	(12,234)	13,734
	<u>(91,561)</u>	<u>(80,812)</u>

**Loss per share** 8

**From continuing and discontinued operations:**

— Basic	<u>HK (8.9) cents</u>	<u>HK (10.8) cents</u>
— Diluted	<u>N/A</u>	<u>N/A</u>

**From continuing operations:**

— Basic	<u>HK (8.9) cents</u>	<u>HK (11.0) cents</u>
— Diluted	<u>N/A</u>	<u>N/A</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<b>30.6.2005</b>	31.12.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Non-current Assets</b>		
Property, plant and equipment	148,531	35,238
Deposit paid for acquisition of subsidiaries	—	40,000
Goodwill	34,930	25,807
Interests in associates	606,820	425,808
Receivables - due after one year	—	37,044
Other investments	—	194,050
Investments in securities	165,042	—
Deposit paid for acquisition of properties interest	54,524	47,012
	<u>1,009,847</u>	<u>804,959</u>
<b>Current Assets</b>		
Other asset	229,288	227,167
Inventories	13,816	13,708
Trade debtors	7,103	6,980
Receivables due from associates	68,237	57,163
Receivables - due within one year	350,865	563,666
Other receivables, deposits and prepayments	36,932	86,464
Other investments	—	19,849
Investments in securities held for trading	50,039	—
Pledged bank deposits	1,012	1,012
Bank balances and cash	269,514	118,388

	<u>1,026,806</u>	<u>1,094,397</u>
<b>Current Liabilities</b>		
Creditors, other payables and accrued charges	22,014	46,075
Payables - due within one year	203,136	8,637
Payables due to associates	23,876	3,737
Amounts due to former shareholders of subsidiaries	49,770	—
Income and other tax payable	9,661	9,185
Bank loans and other borrowings - due within one year	<u>43,255</u>	<u>42,622</u>
	<u>351,712</u>	<u>110,256</u>
<b>Net Current Assets</b>	<u>675,094</u>	<u>984,141</u>
<b>Total Assets less Current Liabilities</b>	<u>1,684,941</u>	<u>1,789,100</u>
	<b>30.6.2005</b>	31.12.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Non-current Liabilities</b>		
Bank loans and other borrowings - due after one year	—	3
Payables - due after one year	—	184,943
Deferred tax liabilities	<u>20,796</u>	<u>—</u>
	<u>20,796</u>	<u>184,946</u>
<b>Total Assets and Liabilities</b>	<u><u>1,664,145</u></u>	<u><u>1,604,154</u></u>
<b>Capital and Reserves</b>		
Share capital	88,160	88,160
Reserves	<u>1,252,897</u>	<u>1,220,385</u>
Equity attributable to equity holders of the parent	1,341,057	1,308,545
Minority interests	<u>323,088</u>	<u>295,609</u>
<b>Total Equity</b>	<u><u>1,664,145</u></u>	<u><u>1,604,154</u></u>

Notes:

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”)

## 2. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group’s accounting policies in the following areas:

- (i) HKFRS 3 “Business Combinations”
- (ii) HKAS 32 “Financial Instruments: Disclosure and Presentation”
- (iii) HKAS 39 “Financial Instruments: Recognition and Measurement”
- (iv) HKAS 17 “Leases”
- (v) HK Interpretation 2 “ The Appropriate Accounting Policies for Hotel Properties” and HKAS 16, “Property, Plant and Equipment”

### Summary of the effects of the changes in accounting policies

The effects of the changes in accounting policies described above on the results are as follows:

#### (i) *On results*

	<b>Six months ended 30th June,</b>	
	<b>2005</b>	2004
	<i>HK\$’000</i>	<i>HK\$’000</i>
Goodwill no longer amortised	<b>670</b>	—
Interest income on unlisted convertible note	<b>72</b>	—
Changes in fair value of conversion option of unlisted convertible note	<b>(39,743)</b>	—
Share of results of associates		
— Release of negative goodwill	<b>(5,299)</b>	—
— Depreciation for hotel properties	<b>(4,126)</b>	—
	<hr/>	<hr/>
Decrease in net profit for the period	<b>(48,426)</b>	—
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(ii) *On income statement line items*

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Decrease in administrative expenses	670	—
Increase in other operating income	72	—
Change in fair value of conversion option of unlisted convertible note	(39,743)	—
Decrease in share of results of associates	(9,425)	—
	<u>(48,426)</u>	<u>—</u>

(iii) *On balance sheet items*

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at	Adjustment	As at	Adjustments		As at
	31st December, 2004 (originally stated) HK\$'000		HK Interpretation 2 HK\$'000	31st December, 2004 (restated) HK\$'000	HKFRS 3 HK\$'000	HKAS 39 HK\$'000
Interests in associates						
— Share of net assets	337,212	(3,192)	334,020	—	16,961	350,981
— Goodwill	2,006	—	2,006	—	—	2,006
— Negative goodwill	(47,058)	—	(47,058)	47,058	—	—
— Unlisted convertible note	55,000	—	55,000	—	(13,283)	41,717
— Derivative instrument	—	—	—	—	64,410	64,410
— Loan receivable due from an associate	81,840	—	81,840	—	—	81,840
	<u>429,000</u>	<u>(3,192)</u>	<u>425,808</u>	<u>47,058</u>	<u>68,088</u>	<u>540,954</u>
Other investments — non-current	194,050	—	194,050	—	(194,050)	—
Other investments — current	19,849	—	19,849	—	(19,849)	—
Investments in securities	—	—	—	—	194,050	194,050
Investments in securities held for trading	—	—	—	—	19,849	19,849
	<u>642,899</u>	<u>(3,192)</u>	<u>639,707</u>	<u>47,058</u>	<u>68,088</u>	<u>754,853</u>
Goodwill on consolidation	(62,247)	—	(62,247)	62,247	—	—
Other non-distributable reserves	(18,598)	—	(18,598)	—	3,791	(14,807)
Deficit	1,163,331	3,192	1,166,523	(47,058)	(112,184)	1,007,281
Total effect on equity	1,082,486	3,192	1,085,678	15,189	(108,393)	992,474
Minority interests	(295,609)	—	(295,609)	—	(21,942)	(317,551)
Net effect on equity	<u>786,877</u>	<u>3,192</u>	<u>790,069</u>	<u>15,189</u>	<u>(130,335)</u>	<u>674,923</u>

### 3. SEGMENT INFORMATION

#### Business segments

The Group's primary format for reporting segment information is business segments.

An analysis of the Group's turnover and contribution to operating results by business segments is as follows:

	<b>Investment in securities</b>	<b>Manufacturing and trading of battery products</b>	<b>Others</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>For the six months ended 30th June, 2005</i>				
<b>TURNOVER</b>				
External	<u>—</u>	<u>17,267</u>	<u>—</u>	<u>17,267</u>
<b>RESULT</b>				
Segment result	<u>35,531</u>	<u>(209)</u>	<u>(2,200)</u>	33,122
Unallocated corporate expenses				(23,969)
Allowance for receivables				(73,283)
Allowance for other receivables				(18,550)
Net exchange gain				868
Interest income				29,489
Change in fair value of conversion option of unlisted convertible note				(39,743)
Loss on dilution of interests in associates				(2,754)
Share of results of associates				12,172
Finance costs				<u>(8,480)</u>
Loss before taxation				(91,128)
Income tax expense				<u>(433)</u>
<b>Net loss for the period</b>				<u><u>(91,561)</u></u>

	Continuing operations		Discontinuing operations		Consolidated HK\$'000
	Investment in securities HK\$'000	Manufacturing and trading of battery products HK\$'000	Sub-total HK\$'000	Manufacturing and trading of pharmaceutical products HK\$'000	
<i>For the six months ended 30th June, 2004</i>					
<b>TURNOVER</b>					
External	<u>—</u>	<u>10,309</u>	<u>10,309</u>	<u>96,262</u>	<u>106,571</u>
<b>RESULT</b>					
Segment result	<u>(19,630)</u>	<u>102</u>	<u>(19,528)</u>	6,777	(12,751)
Unallocated corporate expenses			(19,659)	—	(19,659)
Allowance for receivables			(56,000)	—	(56,000)
Net exchange gain			2,430	—	2,430
Interest income			21,672	—	21,672
Loss on disposal of interests in a subsidiary			—	(5,266)	(5,266)
Gain on dilution of interests in associates			27,881	—	27,881
Share results of associates			(29,060)	—	(29,060)
Finance costs			<u>(9,298)</u>	<u>—</u>	<u>(9,298)</u>
Loss before taxation			(81,562)	1,511	(80,051)
Income tax expense			<u>(761)</u>	<u>—</u>	<u>(761)</u>
Net loss for the period			<u>(82,323)</u>	<u>1,511</u>	<u>(80,812)</u>

### Geographical segments

The following provides an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/services:

	Turnover	
	Six months ended 30th June, 2005 HK\$'000	2004 HK\$'000
The PRC, other than Hong Kong	<b>16,134</b>	10,309
Hong Kong	<b>1,133</b>	96,262
	<u><b>17,267</b></u>	<u>106,571</u>

#### 4. OTHER OPERATING INCOME

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Interest income	29,489	21,672
Fair value changes on investments held for trading	20,768	—
Gain on disposal of investments held for trading	9,303	—
Gain on disposal of investments in securities	—	19,006
Net exchange gain	868	2,430
Dividend income from listed investments	519	1,185
Others	4,923	232
	<u>65,870</u>	<u>44,525</u>

#### 5. OTHER EXPENSES

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Allowance for bad and doubtful debts	—	9,460
Allowance for receivables	73,283	56,000
Allowance for other receivables	18,550	—
Unrealised holding loss on investments in securities	—	36,462
Allowance for amounts due from associates	—	499
Amortisation of goodwill arising on acquisition of subsidiaries	—	155
Others	—	9
	<u>91,833</u>	<u>102,585</u>

#### 6. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	<u>1,268</u>	<u>2,602</u>





## From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the ordinary equity holders of the parent for the period is based on the following data:

	<b>Six months ended 30th June,</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss:		
Net loss for the period attributable to equity holders of the parent	<b>79,327</b>	94,546
Add: Net profit for the period from discontinued operation	<u>—</u>	<u>1,511</u>
Net loss for the purpose of basic and diluted loss per share from continuing operations	<u><b>79,327</b></u>	<u>96,057</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	<u><b>891,595,087</b></u>	<u>873,325,856</u>

The computation of diluted loss per share for both periods did not assume the exercise of the share options as their exercise would result in a decrease in loss per share.

## 9. COMPARATIVE INFORMATION

Certain income statement items have been regrouped under discontinued operations for the six months ended 30th June, 2004.

## INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2005 (2004: Nil).

## ANALYSIS OF THE GROUP'S PERFORMANCE

For the six months ended 30th June, 2005, the Group recorded a consolidated turnover of approximately HK\$17.3 million, an increase of approximately 67.5% as compared to the same period in 2004 of approximately HK\$10.3 million. The turnover for the first half-year was generated from the manufacturing and trading of batteries products. During the period under review, the operating environment of manufactory industry in the People's Republic of China ("PRC") remains difficult due to competitive economy and sluggish battery market. Keen competition in the battery industry also exerted downward pressure on prices of battery products. Despite the unfavorable environment in the battery market, the Group's business in the PRC still manages to progress well.

The unaudited consolidated net loss attributable to the Company for the six months ended 30th June, 2005 decreased from approximately HK\$94.5 million for the last corresponding period to approximately HK\$79.3 million in the current period. The net loss incurred for the current period was mainly attributable to the allowance for receivables and the change in fair value of the conversion right attached to the unlisted convertible note issued by Wing On Travel (Holdings) Limited (“Wing On”), of which the Group owns an effective interest of approximately 15.32%, under adoption of Hong Kong Financial Reporting Standards.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2005, the Group had net current assets of approximately HK\$675.1 million (31st December, 2004: net current assets of approximately HK\$984.1 million) and a current ratio of 2.92 (31st December, 2004: 9.93). During the first half of 2005, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and proceeds from disposal of investments in securities.

The Group’s short-term bank loans and other borrowings increased from approximately HK\$42.6 million as at 31st December, 2004 to approximately HK\$43.3 million as at 30th June, 2005, representing an increase of 1.5%. There was no long-term bank loans and other borrowings at 30th June, 2005 under review compared with approximately HK\$3,000 at 31st December, 2004. Gearing ratio which is expressed as a ratio of total long-term liabilities and other borrowings to the shareholders’ funds, remains nil as at 30th June, 2005 (31st December, 2004: 0.000002). As at 30th June, 2005, the Group’s total borrowings of approximately HK\$43.3 million were mainly denominated in Hong Kong dollar, the maturity profile were all within one year, and bear interest at floating rates.

Capital expenditure aggregated to approximately HK\$1.3 million for the six months ended 30th June, 2005 was mainly used primarily for purchasing of property, plant and equipment. The Group’s capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK\$270.5 million, and is mainly denominated in Hong Kong dollars, Renminbi and Australian dollars. During the period, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

## **SIGNIFICANT INVESTMENTS**

### **China Enterprises Limited (carried on business in Hong Kong as China Tire Holdings Limited)**

For the period under review, China Enterprises Limited (“China Enterprises”) has no turnover recorded from its subsidiaries as its business was mainly operated under its associated companies. Wing On is a travel business related affiliate which continues to benefit from the upward rebound to the travel business of Hong Kong after the negative impacts brought by the local economic downturn. And with the gradual easing of restrictions on the individual mainland visitors traveling to Hong Kong, we expect a great increase in arrivals once more parts of the PRC are opened up to individual travelers, that directly benefit the local economy. After disposing of its significant interest of investment in manufacturing and trading of tires products in the PRC and other countries aboard in 2003, China Enterprises maintains minimal involvement in the manufacturing and trading of tires products through its 26% held interest in Hangzhou Zhongce Rubber Company Limited (“Hangzhou Zhongce”). Throughout the financial year 2005, China Enterprises continued to look at strategic investment opportunities with a view of the positive outlooks on PRC in the coming future to expanding business portfolios.

## **MRI Holdings Limited**

During the six months ended 30th June, 2005, the directors of MRI Holdings Limited continued to assess possible investment opportunities. None of the investments considered was sufficiently attractive to warrant investment, and the directors continue to seek appropriate investment opportunities.

## **Super Energy Group Limited**

Super Energy Group Limited (“Super Energy”) is a principally engaged in the production and sales of batteries and battery-related accessories. Its major products are the primary battery and the re-chargeable battery. Super Energy is also actively engaged in new product development by introducing the latest technology into its products. The invention of “No Mercury Button Cell Battery” has obtained the patent in Beijing, the PRC; moreover, an International Organisation for Standardisation quality control system had been adopted in all aspect of products, which Super Energy has achieved reputation for premium quality as result of continuous research and development.

With a view to improve its financial position, Super Energy has implemented a series of measures to enhance cost competitiveness and operational efficiency. During the period, Super Energy has not only divested its non-profitable products and adopted stringent cost control, it has also been exploring new products opportunities to generated revenue and cash flow stream. As the battery industry in the PRC is under active growth, the Directors believed that investment in the battery market in the PRC is an excellent opportunity to bring in high quality and sustainable income for the Group.

## **PROSPECTS**

During the period under review, the board of Directors (the “Board”) has focused on seeking new directions and new wisdom for the development of the Group. As economies in the region has, in general, already regained its dynamics, it was high time for the Group to take actions and to invest in new projects with great potentials.

On the other hand, the existing major shareholders of the Company have taken an active posture to look for new investors with new ideas and new wisdoms to join the existing team. To be in line with the market position of the Group, it is believed more exposure to markets in China would bring both strategic and tactical meanings to the Group as a whole. As of April 2005, the Board has proposed to introduce a new investor to join the Group while certain reorganization in the capital structure of the Company were also proposed to cater for the development needs.

Given the pace of improvement in economies in the region would be maintained at a constant level, the Company believes the proposed changes would have positive effect to the future of the Group. However, having considered the potential negative effect that may bring about by the upsurge in oil prices and interest rates, the Group would consistently exercise conservative and cautious attitude in the operations of the Group.

## **CORPORATE DEVELOPMENTS**

In October, 2004, the Group entered into an agreement with two independent third parties in respect of the acquisition of the entire interest in 廣州耀陽實業有限公司 (Guangzhou Yao Yang Industrial Company Limited), a company incorporated in the PRC, which holds a vessel for sand mining for a consideration of approximately Rmb27,300,000. This transaction has been completed in June, 2005.

In October, 2004, the Group entered into an agreement with an independent third party in respect of the acquisition of 88% interest in 東莞市江海貿易有限公司(Dongguan Shi Jiang Hai Trading Company Limited), a company incorporated in the PRC, which holds a vessel for sand mining for a consideration of approximately Rmb25,700,000. This transaction has been completed in June, 2005.

On 4th February, 2005, the Group entered into a placing and subscription agreement with Wing On and the placing agent pursuant to which the placing agent agreed to place, on a best efforts basis, up to 6,400 million shares of Wing On at a price of HK\$0.022 per Wing On share and the Group would subscribe for up to 6,400 million new shares of Wing On at the price of HK\$0.022 per share. The above transactions were completed in February, 2005. The Group's interest in Wing On was decreased to 21.11%.

The Company had been informed by Paul Y. – ITC Construction Holdings Limited (“Paul Y.”) and Hanny Holdings Limited (“Hanny”) that they have entered into the share sale agreement on 10th March, 2005 pursuant to which and subject to, inter alia, the implementation of the Group Reorganisation as stated below in full each of Paul Y. and Hanny agreed to dispose 135,000,000 shares (equivalent to 67,500,000 consolidated shares of the Company upon the Capital Reorganisation as stated below having become effective) which shares represent approximately an aggregate of 30.6% of the issued share capital of the Company, for an aggregate consideration of HK\$52,110,000, equivalent to about HK\$0.193 per share (or HK\$0.386 per consolidated share).

As stated in the joint announcement of the Company dated 19th April, 2005, the Company announced the following proposals, if approved and implemented, will result in below.

#### Group Reorganisation

- (i) the Company 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 China Strategic carrying on property development, vessels for sand mining and investment holding business, and all other associates of China Strategic carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services being grouped under Group Dragon Investments Limited (“GDI”), a wholly-owned subsidiary of the Company, and its subsidiaries; and
- (iii) the distribution in specie of the GDI share to the shareholders of the Company whose names appear on the register of members of the Company on the record date on the basis of one GDI share for one consolidated share of the Company.

#### Capital Reorganisation

- (i) the cancellation of the paid-up capital of HK\$0.05 on each issued share of the Company and reduction in the nominal value of each issued share of the Company from HK\$0.10 to HK\$0.05;
- (ii) the cancellation of the entire share premium account of the Company;
- (iii) the subdivision of each authorised but unissued shares of the Company into two reduced shares of the Company of HK\$0.05 each; and

- (iv) consolidate every two reduced shares of the Company of HK\$0.05 each into one consolidated share of the Company of HK\$0.10.

In April, 2005, the Group converted approximately HK\$55 million convertible note of Wing On into ordinary shares of HK\$1.00 each of Wing On at conversion price of HK\$1.97 per share. The interest of Wing On held by the Group was accordingly increased to 27.74% upon conversion of the convertible note into shares of HK\$1.00 each in Wing On by the Group.

#### **NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME**

As at 30th June, 2005 the Group employed approximately 429 staff. Remuneration packages comprised of salary and year-end bonuses based on individual merits.

No share options were granted or exercised during the period ended 30th June, 2005.

#### **COMMITMENTS**

At 30th June, 2005, the Group has commitments of approximately HK\$378 million (31st December, 2004: HK\$378 million) and HK\$92 million (31st December, 2004: HK\$92 million) which are contracted for but not provided in the interim financial report in respect of acquisition of properties interests and other asset respectively.

#### **CONTINGENT LIABILITIES**

At 30th June 2005, the Group had contingent liabilities in respect of guarantees in favour of banks for facilities granted to independent third parties of approximately HK\$30,780,000 and an associate of approximately HK\$8,000,000 and counter guarantee of approximately HK\$377,500,000 in respect of application of an injunction order to a PRC court given to an institution which provided a guarantee of the same amount to the PRC court on behalf of the Group.

#### **PLEDGE OF ASSETS**

At 30th June, 2005, investment in securities with a carrying value of HK\$82,098,000 (31st December, 2004: HK\$72,186,000) were pledged to secure margin credit facilities and banking facilities granted to the Group.

At 30th June, 2005, bank deposits of HK\$1,012,000 (31st December, 2004: HK\$1,012,000) were also pledged to secure credit facilities granted to the Group.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption of the listed securities of the Company by the Company or its subsidiaries during the period.

#### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors have complied with the required standard set out in the Model Code as approved in Appendix 10 of the Listing Rules.



## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2005, except for the following deviations:

1. Code Provision A.2.1. stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Dr. Chan Kwok Keung, Charles currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies.
2. Code Provision A.4.1. stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment as subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.
3. Code Provision E.1.2. stipulates that the chairman of the board should attend the annual general meeting. The Chairman was unable to attend the annual general meeting held on 29th June, 2005 as he had another engagement that was important to the business of the Company.

## **AUDIT COMMITTEE**

The audit committee of the Company comprises Mr. David Edwin Bussmann, Mr. Wong King Lam, Joseph and Mr. Sin Chi Fai who are Independent Non-Executive Directors. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial report for the six months ended 30th June, 2005.

## **REMUNERATION COMMITTEE**

A remuneration committee was established by the Company on 23rd April, 2005, in accordance with the requirement of the Code. The Remuneration Committee, comprising one executive director and two independent non-executive directors, namely Dr. Yap, Allan, Mr. Wong King Lam, Joseph and Mr. Sin Chi Fai which meets once a year. The principal responsibilities of the remuneration committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive directors and members of the senior management. Remuneration and the employment contracts of new appointing directors have to be reviewed and approved by the remuneration committee. Compensation of removal or dismissal of directors has to be reviewed and approved by the remuneration committee in accordance with relevant contractual terms and any compensation payment is otherwise reasonable and appropriate.

## **PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE**

A detailed interim results announcement containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

## OPINION OF INDEPENDENT FINANCIAL ADVISER

Hercules Capital Limited, the independent financial adviser in respect of the proposed Group Reorganisation (details of which are stated in the circular of the Company dated 10th September 2005 (the “Circular”)), confirmed that having taken into account the unaudited results of the Company for the six months ended 30th June 2005 as appeared in this announcement, they maintain their advice to the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution which will be proposed at the EGM to approve the Group Reorganisation. Terms appeared in the preceding statement have the same meanings as defined in the Circular.

By Order of the Board  
**Dr. Chan Kwok Keung, Charles**  
*Chairman*

Hong Kong, 21st September, 2005

*As at the date of this announcement, the Board comprises Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan, Ms. Chau Mei Wah, Rosanna, Ms. Chan Ling, Eva, Mr. Li Bo as executive directors, Mr. Chan Kwok Hung and Mr. Lui Siu Tsuen, Richard as alternate directors to Dr. Chan Kwok Keung, Charles and Dr. Yap, Allan respectively and Mr. David Edwin Bussmann, Mr. Wong King Lam, Joseph and Mr. Sin Chi Fai as independent non-executive directors.*