THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Strategic Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of China Strategic Holdings Limited for the purposes of providing information in connection with the Group Reorganisation, the Capital Reorganisation and the change of board lot size of China Strategic Holdings Limited. It does not constitute an invitation or offer to acquire, purchase or subscribe for shares of China Strategic Holdings Limited.

CHINA STRATEGIC HOLDINGS LIMITED
中 策 集 團 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock code: 235

GROUP REORGANISATION,
CAPITAL REORGANISATION
AND
CHANGE OF BOARD LOT SIZE

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

道亨證券有限公司
DaoHeng Securities Ltd.

Independent financial adviser to the independent board committee of China Strategic Holdings Limited and Group Dragon Investments Limited

Hercules

Hercules Capital Limited

A letter from the Board is set out on pages 8 to 52 and a letter from the Independent Board Committee is set out on page 53 of this circular. A letter from Hercules Capital Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 54 to 101 of this circular.

A notice convening an extraordinary general meeting of China Strategic Holdings Limited to be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at 11:00 a.m. on Thursday, 6 October 2005 is set out on pages 314 to 317 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to China Strategic Holdings Limited's share registrar, Standard Registrars Limited at Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

10 September 2005

CONTENTS

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

"Acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Announcement"	the joint announcement dated 19 April 2005 published by the Company, Hanny, GDI, Well Orient and the Offeror in respect of, among other things, (i) the Group Reorganisation, the Capital Reorganisation and the change of board lot size of the Company; (ii) a possible voluntary offer for the GDI Shares; and (iii) a possible mandatory offer for the Shares
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "Black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business during their normal business hours
"BVI"	British Virgin Islands
"Capital Reduction"	the proposed cancellation of the paid-up capital of HK$0.05 on each issued Share and the reduction of the nominal value of each of the issued Share from HK$0.10 to HK$0.05 and the cancellation of the entire amount standing to the credit of the share premium account of the Company
"Capital Reorganisation"	the proposed capital reorganisation of the Company involving the Capital Reduction, the Subdivision and the Share Consolidation
"CCASS"	the central clearing and settlement system established and operated by HKSCC

"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 the Company
"China Strategic Offer"	the possible mandatory cash offer to acquire all the Consolidated Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it at a price of HK$0.386 per Consolidated Share (equivalent to HK$0.193 per Share) in cash, ex-entitlement to the distribution in specie of the GDI Shares pursuant to the Group Reorganisation
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company"	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
"Completion"	completion of the Share Sale Agreement
"Completion Date"	the date of Completion
"Consolidated Share(s)"	issued and unissued ordinary share(s) of HK$0.10 each in the share capital of the Company 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
"Court"	the Court of First Instance of the High Court of the Hong Kong
"Dao Heng Securities"	Dao Heng Securities Limited, a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities and the financial adviser to the Company
"Directors"	the directors of the Company

"Distributed Business"	all business other than the Remaining Business which will be carried on by the GDI Group upon completion of the Group Reorganisation, including property development, manufacturing and marketing of tires, vessels for sand mining, business of providing package tour, travel and other related services and other investment holding business
"EGM"	an extraordinary general meeting of the Company to be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at 11:00 a.m. on Thursday, 6 October 2005 to consider and approve the Group Reorganisation and the Capital Reduction, or any adjournment thereof
"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 the Company as at the Latest Practicable Date
"GDI Group"	GDI and its subsidiaries upon completion of the 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 to be set out in the composite offer and response document to be issued later
"GDI Share(s)"	ordinary share(s) of US$1.00 each in the share capital of GDI
"Group"	the Company and its subsidiaries
"Group Reorganisation"	the proposed internal group reorganisation of the Company which, if approved and implemented, will result in (i) the Company continuing as a public listed company concentrating on the Remaining Business; (ii) GDI concentrating on the Distributed Business; and (iii) the Shareholders receiving by way of distribution in specie of the GDI Shares on the basis of one GDI Share for one Consolidated Share
"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 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 Shares (equivalent to 67,500,000 Consolidated Shares upon the Capital Reorganisation having become effective) held by Well Orient, representing approximately 15.3% of the issued share capital of the Company
"Hanny Share(s)"	ordinary share(s) of HK$0.01 each in the 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)
"Hercules"	Hercules Capital Limited, a licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) of the regulated activities for the purposes of the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders, as well as independent shareholders of GDI
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board, comprising three independent non-executive Directors, namely Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai
"Independent Hanny Shareholders"	shareholders of Hanny other than ITC, its associates (including Paul Y) and parties acting in concert with any of them as well as any parties who have material interests in making of the GDI Offer and the Share Sale Agreement

"Independent Shareholders"	Shareholders other than Paul Y, Hanny, their respective associates and parties acting in concert with any of them as well as any parties who have material interests in making of the GDI Offer and the Share Sale Agreement
"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 holding an indirect effective interest of approximately 20.7% in the Company
"Kingston"	Kingston Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activities under the SFO, which will make the China Strategic Offer on behalf of the Offeror
"Last Trading Day"	7 March 2005, being the last day on which the Shares and Hanny Shares were traded on the Stock Exchange prior to the suspension in trading of the Shares and Hanny Shares pending the publication of the Announcement
"Latest Practicable Date"	7 September 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"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 the Company and the shares of which are listed on the Australian Stock Exchange
"Norton Appraisals"	Norton Appraisals Limited, an independent firm of professional valuers
"Offeror"	Nation Field Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Gao Yang
"Option 1"	the option offered to the Shareholders under the GDI Offer in the form of one Hanny Share plus HK$1.8 in cash for every five GDI Shares

“Option 2”	the option offered to the 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 (to be renamed as “PYI 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
“Paul Y Sale Shares”	135,000,000 Shares (equivalent to 67,500,000 Consolidated 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 the Company
“PRC”	the People’s Republic of China
“Record Date”	the record date to determine entitlements to the distribution in specie of the GDI Shares by the Company, being 8 November 2005 subject to any change to be announced by the Company upon the Group Reorganisation having become unconditional
“Reduced Share(s)”	issued and unissued share(s) of HK$0.05 each in the share capital of the Company created from the Capital Reduction and the Subdivision but prior to the implementation of the Share Consolidation
“Remaining Business”	the business to be remained in the Group upon completion of the 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(s)”	ordinary share(s) of HK$0.10 each in the share capital of the Company
“Share Consolidation”	the proposed consolidation of every two Reduced Shares into one Consolidated Share

"Share Sale Agreement"	the sale and purchase agreement dated 10 March 2005 entered into between, the Offeror, Paul Y and Hanny for the acquisition by the Offeror of an aggregate of 270,000,000 Shares from Paul Y and Hanny, which Shares represent approximately 30.6% of the issued share capital of the Company as at the date of the Share Sale Agreement and as at the Latest Practicable Date
"Shareholder(s)"	holder(s) of the Shares or Consolidated Shares, as the case may be
"Somerley"	Somerley Limited, a licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities and the financial adviser to Hanny, which will make the GDI Offer on behalf of Well-Orient
"Standard Registrars"	Standard Registrars Limited, the Company's share registrar
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subdivision"	the subdivision of each authorised but unissued Share into two Reduced 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$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

Note: Unless otherwise specified, the amounts expressed in US$ have been translated into HK$ at the rate of HK$7.8=US$1.0 in this circular for illustrative purpose.

CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司

(Incorporated in Hong Kong with limited liability)
Stock code: 235

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

Registered office:
8th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

10 September 2005

To the Shareholders

Dear Sir or Madam,

GROUP REORGANISATION, CAPITAL REORGANISATION AND CHANGE OF BOARD LOT SIZE

INTRODUCTION

The Company, Hanny, GDI, Well Orient and the Offeror jointly announced on 19 April 2005, among others, that:

— the Board has been requested by Hanny and Paul Y (each of them being beneficially interested in approximately 29.4% of the issued share capital of the Company as at the Latest Practicable

Date) to place before the Shareholders the Group Reorganisation which, if approved and implemented, will result in the Shareholders receiving GDI Shares on the basis of one GDI Share for one Consolidated Share based on their respective shareholdings in the Company;

— the Board proposes the Capital Reorganisation, which will involve the Capital Reduction, the Subdivision and the Share Consolidation;

— the Board also proposes a change in the board lot for trading from 2,500 Shares to 5,000 Consolidated Shares upon the Capital Reorganisation having become effective;

— subject to (i) the Group Reorganisation being implemented in full; and (ii) the approval by the Independent Hanny Shareholders of the major and connected transactions for Hanny as a result of making the GDI Offer, Somerley, on behalf of Well Orient (an indirect wholly-owned subsidiary of Hanny), will make the GDI Offer to 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 basis of: (a) one Hanny Share plus HK$1.8 in cash for every five GDI shares (being Option 1); or (b) one Hanny Bond, which is convertible into one Hanny Conversion Share at the initial conversion price of HK$9.0 per Hanny Conversion Share from time to time before the fifth anniversary from the date of issue of the Hanny Bond, with face value of HK$15.0 for every five GDI Shares (being Option 2);

— the Board has been informed by Hanny and Paul Y that it has entered into the Share Sale Agreement with the Offeror on 10 March 2005 pursuant to which and subject to, inter alia, the implementation of the Group Reorganisation in full, the Offeror agreed to acquire 135,000,000 Shares (equivalent to 67,500,000 Consolidated Shares) from each of Paul Y and Hanny, which Shares represent approximately an aggregate of approximately 30.6% of the issued share capital of the Company's issued share capital as at the date of the Share Sale Agreement, for an aggregate consideration of HK$52,110,000, equivalent to HK$0.193 per Share (or HK$0.386 per Consolidated Share); and

— subject to completion of the Share Sale Agreement, Kingston will, on behalf of the Offeror, make a mandatory cash offer to acquire all Consolidated Shares, other than those held by the Offeror and parties acting in concert with it, on the basis of HK$0.193 in cash per Share (or HK$0.386 in cash per Consolidated Share), which Consolidated Shares will be acquired ex-entitlement to the distribution in specie of the GDI Shares under the Group Reorganisation.

The Group Reorganisation, including the distribution in specie of the GDI Shares, is required to be approved by the Shareholders pursuant to the article of association of the Company. Under the Listing Rules, the Group Reorganisation does not require the approval of the Shareholders as the distribution in specie of the GDI Shares will be pro rata to the Shareholders' interests in the Company. Nevertheless, the Independent Board Committee comprising Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai, being three independent non-executive Directors, has been established to advise the Independent Shareholders on the Group Reorganisation. Hercules has been appointed as the independent financial adviser to advise the Independent Shareholders and the Independent Board Committee thereon.

The purpose of this circular is to provide you with information in relation to the Group Reorganisation, the Capital Reorganisation and the change of board lot size, to set out the letter of advice from Hercules containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Group Reorganisation and the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Group Reorganisation, as well as to give you notice of the EGM.

THE GROUP REORGANISATION

As at the Latest Practicable Date, Hanny and Paul Y were interested in 258,819,794 Shares (representing approximately 29.4% of the Company's issued share capital) and 258,819,795 Shares (representing approximately 29.4% of the Company's issued share capital) respectively. At the request of Hanny and Paul Y, the Board proposes to place before the Shareholders a proposal for the Group Reorganisation. Pursuant to the Group Reorganisation, the Company 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 Group carrying on property development and investment holding business and vessels for sand mining, and all other associated companies of the 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 the Company. The GDI Shares will, pursuant to the Group Reorganisation, be distributed in specie to the Shareholders 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.

Mechanics of the Group Reorganisation

The Group Reorganisation will be implemented upon the Capital Reorganisation (as detailed below) having taken effect. The Group Reorganisation will be effected by (i) GDI acquiring a number of subsidiaries and associated companies from the Company; (ii) the assignment of various intragroup loans between members of the Group (excluding the GDI Group) and the GDI Group (details of which are set out in note (2) to Unaudited Pro Forma Assets and Liabilities Statements in Appendix II to this circular); and (iii) the transfer of various intragroup assets and liabilities, including certain properties, plant and equipment, amount receivables and payables, cash and bank balances and bank borrowings, between members of the Group (excluding the GDI Group) and the GDI Group (details of which are set out in note (5) to Unaudited Pro Forma Assets and Liabilities Statements in Appendix II to this circular). The various intragroup loans, assets and liabilities 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 the Company as at the date of completion of the Group Reorganisation.

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

For each Consolidated 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 the Company of an amount equivalent to the carrying value of GDI, which will be ascertained immediately prior to completion of the Group Reorganisation.

Pursuant to the Group Reorganisation, all the GDI Shares to be in issue on the Record Date will be distributed to the Shareholders whose names appear on the register of members of the Company on the Record Date. The GDI Shares will be allotted and issued to the Shareholders upon completion of the Group Reorganisation. However, if the GDI Offer proceeds, the share certificates of GDI will only be posted to the 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. Please also refer to the section headed "The GDI Offer" 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 Group Reorganisation

The Group Reorganisation will be conditional upon:

(i) the passing of the necessary resolution(s) approving the Group Reorganisation by the Independent Shareholders;

(ii) the Capital Reorganisation having become effective;

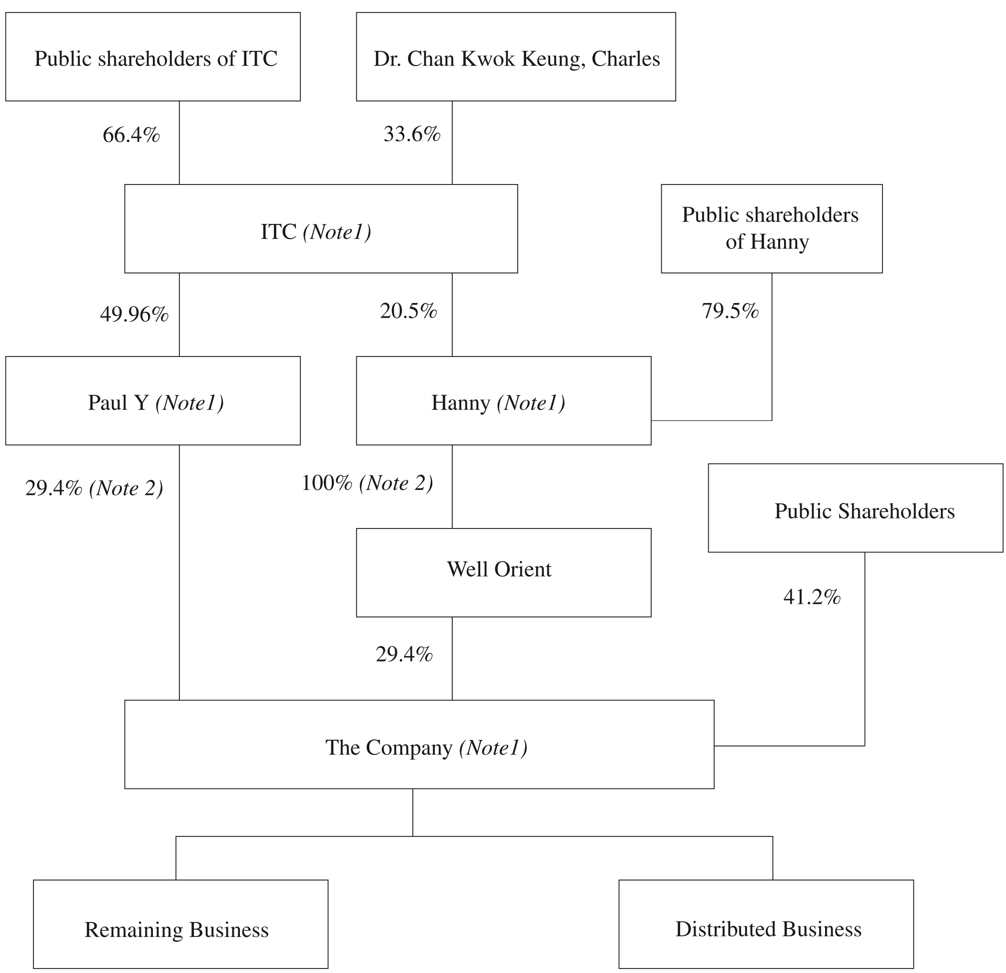
(iii) the agreement of the Group's creditors, if required, to the release of guarantees given by the Company and/or any of its subsidiaries (other than members of the GDI Group) on the obligations of any members of the GDI Group following the implementation of the Group Reorganisation; and

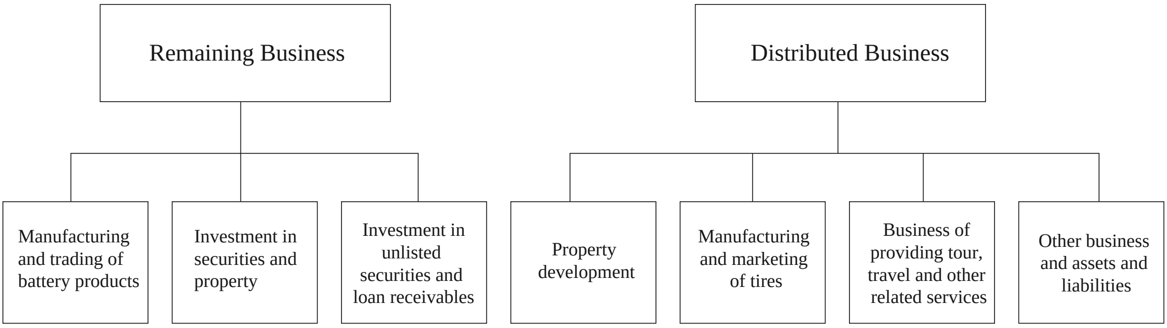
(iv) the obtaining of any other third-party consents or approvals, including all regulatory consents, required to give effect to the Group Reorganisation.

Hanny, Paul Y, their respective associates and parties acting in concert with them as well as any parties who have material interests in making of the GDI Offer and the Share Sale Agreement will abstain from voting on the resolution approving the Group Reorganisation. Save for condition (iv) above, none of the above conditions is capable of being waived. The resolution to consider and approve the Group Reorganisation will be taken by poll.

Group structure before and after the Group Reorganisation

The chart below shows in summary the Group and shareholding structure of the Company immediately before the implementation of the Group Reorganisation (assuming there would be no change in shareholding after the Latest Practicable Date):—





Manufacturing and trading of battery products

— 80% interest in Talent Cosmos Limited

Investment in securities and property

— Various listed securities in Hong Kong and overseas
— a commercial unit in Beijing Huapu International Plaza, Chaoyang District, Beijing, the PRC

Investment in unlisted securities and loan receivables

— 16.4% interest in Beijing Technology Development Fund LDC *(Note 3)*
— 800,000 shares in BNI Business Network Corp. *(Note 4)*
— 1,964,636 series B preference shares in TechSpace Inc. *(Note 5)*
— 4,195,122 shares in China VU.com Inc. *(Note 6)*
— 935,637 series D preference shares of Silicon Magic Corporation *(Note 7)*
— Loan receivables from Danwei Limited and others *(Note 8)*

Property development

— Property interests in Jing An District, Shanghai, the PRC
— Property interests in Long Shan Industrial District, Doumen District, Zhuhai City, Guangdong, the PRC
— 22.7% interest in China Velocity Group Limited *(Note 1)*

Manufacturing and marketing of tires

— 14.4% effective interest, held through CEL, in 杭州中策橡膠有限公司 (Hangzhou Zhongce Rubber Company Limited) *(Note 9)*

Business of providing tour, travel and other related services

— 15.3% effective interest, held through CEL, in Wing On Travel (Holdings) Limited (“Wing On”) *(Note 1)*

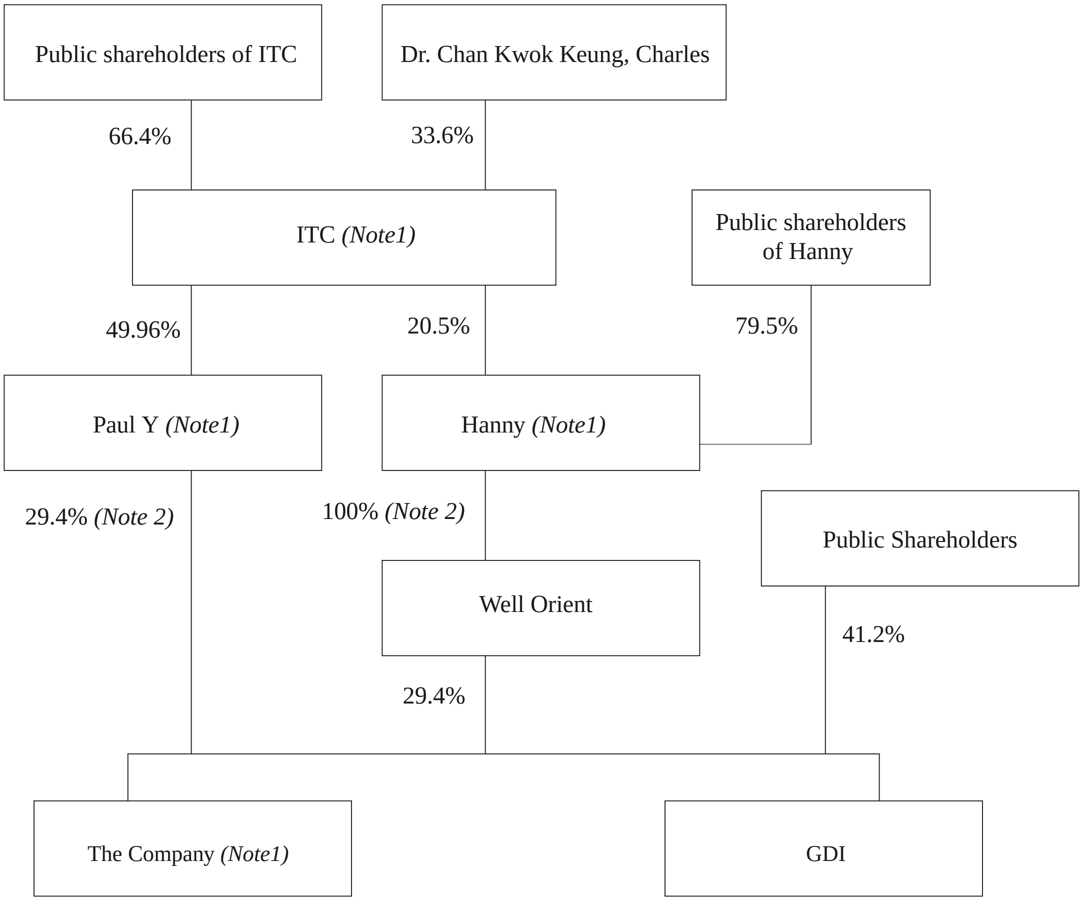
Other business and assets and liabilities

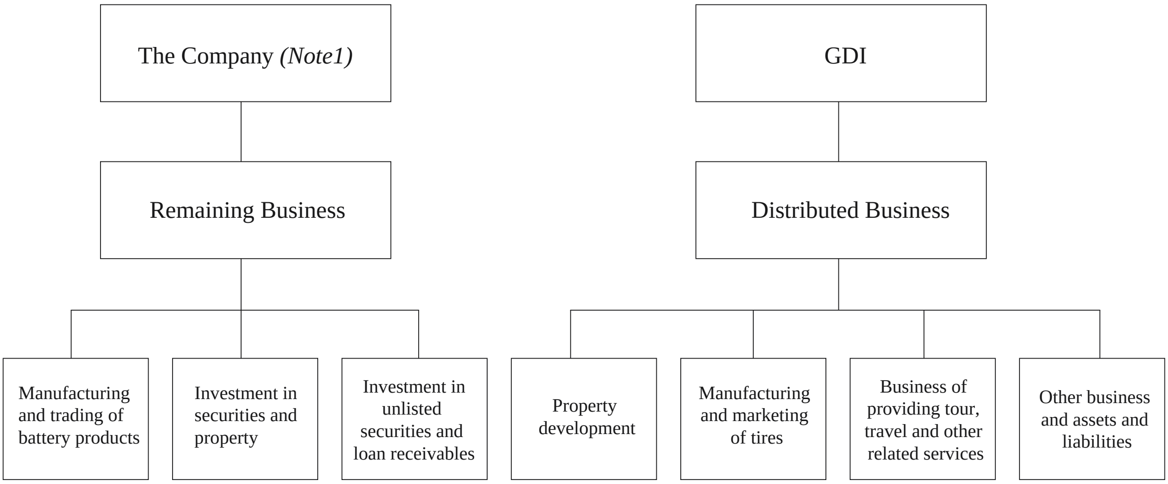
— 55.2% interest in CEL *(Note 14)*
— 57.3% interest in MRI *(Note 10)*
— 9.8% interest in Apex Quality Group Limited *(Note 11)*
— 194 units in Vertex Technology Fund(II) Ltd. *(Note 12)*
— 100% interest in 廣州耀陽實業有限公司(Guangzhou Yao Yang Industrial Co., Ltd.) and 88% interest in 東莞市江海貿易有限公司 (Dongguan Shi Jiang Hai Trading Co., Ltd.) *(Note 13)*
— Other assets and liabilities

Notes:

1. Listed on the main board of the Stock Exchange
2. Indirect interests held by wholly-owned subsidiaries
3. The fund’s objective is to make direct investment in a diversified portfolio of high technology based ventures which currently have or are expected to have a connection with, or focus on, the development of high technology in the Greater China region.
4. The principal business is electronic publication.
5. The principal business is provision of full-serviced facilities and infrastructure delivering a completely integrated IT and business process for customers.
6. The principal businesses include internet marketing, commerce and information service.
7. The principal business is in the semiconductor industry.
8. The principal business is investment holding.
9. The principal business is the manufacturing and marketing of tires.
10. Listed on the Australian Stock Exchange and mainly engaged in the investment holding activities.
11. An investment holding company principally holds “Rosedale” branded hotels in Hong Kong, Guangzhou and Beijing and Luoyang Golden Gulf Hotel in the PRC.
12. The principal business is investment in emerging growth companies in selected industries in the United States of America, Europe and Asia.
13. The principal business is sand mining.
14. Listed on the OTC (over-the-counter) Bulletin Board in the United States of America and mainly engaged in the investment holding activities.

The chart below shows in summary the Group and shareholding structure of the Company and GDI immediately after the implementation of the Group Reorganisation (assuming there would be no change in shareholding after the Latest Practicable Date):—





Manufacturing and trading of battery products:
- — 80% interest in Talent Cosmos Limited

Investment in securities and property:
- — Various listed securities in Hong Kong and overseas
- — a commercial unit in Beijing Huapu International Plaza, Chaoyang District, Beijing, the PRC

Investment in unlisted securities and loan receivables:
- — 16.4% interest in Beijing Technology Development Fund LDC *(Note 3)*
- — 800,000 shares in BNI Business Network Corp. *(Note 4)*
- — 1,964,636 series B preference shares in TechSpace Inc. *(Note 5)*
- — 4,195,122 shares in China VU.com Inc. *(Note 6)*
- — 935,637 series D preference shares of Silicon Magic Corporation *(Note 7)*
- — Loan receivables from Danwei Limited and others *(Note 8)*

Property development:
- — Property interests in Jing An District, Shanghai, the PRC
- — Property interests in Long Shan Industrial District, Doumen District, Zhuhai City, Guangdong, the PRC
- — 22.7% interest in China Velocity Group Limited *(Note 1)*

Manufacturing and marketing of tires:
- — 14.4% effective interest, held through CEL, in 杭州中策橡膠有限公司 (Hangzhou Zhongce Rubber Company Limited) *(Note 9)*

Business of providing tour, travel and other related services:
- — 15.3% effective interest, held though CEL, in Wing On *(Note 1)*

Other business and assets and liabilities:
- — 55.2% interest in CEL *(Note 14)*
- — 57.3% interest in MRI *(Note 10)*
- — 9.8% interest in Apex Quality Group Limited *(Note 11)*
- — 194 units in Vertex Technology Fund(II) Ltd. *(Note 12)*
- — 100% interest in 廣州耀陽實業有限公司(Guangzhou Yao Yang Industrial Co., Ltd.) and 88% interest in 東莞市江海貿易有限公司 (Dongguan Shi Jiang Hai Trading Co., Ltd.) *(Note 13)*
- — Other assets and liabilities

Notes:

1. Listed on the main board of the Stock Exchange
2. Indirect interests held by wholly-owned subsidiaries
3. The fund's objective is to make direct investment in a diversified portfolio of high technology based ventures which currently have or are expected to have a connection with, or focus on, the development of high technology in the Greater China region.
4. The principal business is electronic publication.
5. The principal business is provision of full-serviced facilities and infrastructure delivering a completely integrated IT and business process for customers.
6. The principal businesses include internet marketing, commerce and information service.
7. The principal business is in the semiconductor industry.
8. The principal business is investment holding.
9. The principal business is the manufacturing and marketing of tires.
10. Listed on the Australian Stock Exchange and mainly engaged in the investment holding activities.
11. An investment holding company principally holds "Rosedale" branded hotels in Hong Kong, Guangzhou and Beijing and Luoyang Golden Gulf Hotel in the PRC.
12. The principal business is investment in emerging growth companies in selected industries in the United States of America, Europe and Asia.
13. The principal business is sand mining.
14. Listed on the OTC (over-the-counter) Bulletin Board in the United States of America and mainly engaged in the investment holding activities.

Reasons for the Group Reorganisation

In order to facilitate the Share Sale Agreement, Hanny and Paul Y have requested the Board to place before the Shareholders a proposal for the Group Reorganisation. The Board considers that the Group Reorganisation, as one of the conditions precedent to the Share Sale Agreement (completion of which will proceed to the China Strategic Offer) and the GDI Offer, offers the Shareholders an opportunity to realise a reasonable gain on their present investment in the Company and also gives them flexibility to retain part of their investment in the Remaining Business if they so wish. Completion of the 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.

The Company has not attempted to locate 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 30 April 2005, the date of which as if the completion of the Group Reorganisation taken place on GDI group as set out in Appendix IV of this circular, by which time the Offeror may have lost interest in acquiring the controlling stake of the Company and the Shareholders would miss the opportunity to realise the Shares at a premium over market price. The GDI Offer, which will be made subject to the completion of the Group Reorganisation and approval by the Independent Hanny Shareholders, will provide an alternative to the Independent Shareholders to invest in Hanny Shares (plus a cash element) or in the Hanny Bond. In such event, if the 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 Shares. Where the Independent Shareholders wish to continue to invest in the Distributed Business of the GDI Group upon completion of the 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 Shareholders will not be given the flexibility in realising or retaining their investments in the Distributed Business of the GDI Group.

The 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 the Company will therefore still proceed with the Group Reorganisation subject to fulfilment of all the conditions precedent as set out under the paragraph headed "Conditions of the Group Reorganisation" above and approval by the Independent Hanny Shareholders. Hanny may seek to sell its interests in the Company to another purchaser which purchase may or may not lead to an offer being extended to all Shareholders or a waiver from the general offer obligation being sought and obtained from the Executive pursuant to the Takeovers Code.

The Board (including independent non-executive Directors) considers that the Group Reorganisation, the GDI Offer and the China Strategic Offer together provide alternatives for the Shareholders either to divest all their investments in the Company at a premium over the market price of the Shares based on the combined consideration under Option I or II and the China Strategic Offer (details are set out in the section headed "Comparison of the combined offer price under the GDI Offer and the China Strategic Offer with market performance"), of which, the Board considers to be fair and reasonable as far as the Shareholders are concerned, or to retain some or all of their investments through holding interests in the Company, GDI or both companies.

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

Other information

While the Group Reorganisation is conditional upon, among others, the Capital Reorganisation having become effective, which in turn is conditional upon, among others, the confirmation by the Court, the effective date of the Group Reorganisation is not ascertainable at present. An application will be made to the Court in respect of the Capital Reorganisation as soon as practicable after the approval of the Capital Reorganisation by Shareholders at the EGM and the actual date of the hearing of the petition (and before that, the date of hearing for the summons for directions) by the Court will depend upon the availability of the Court which, in turn, depends upon the projected length and scope of the relevant hearing. Further announcement(s) will be made informing Shareholders of the expected effective date and any change to the Record Date, as necessary or appropriate, the progress and results of the application to the Court.

Upon the Group Reorganisation having become effective, share certificates of GDI Shares will only be posted to those Shareholders who do not accept the GDI Offer after the close of the GDI Offer, so that the despatch of share certificates to the shareholders of GDI could be managed efficiently.

FINANCIAL INFORMATION OF THE GROUP AND THE GDI GROUP

A summary of the audited financial statements of the Group for the three years ended 31 December 2004 are set out in Appendix I to this circular.

Pursuant to the Group Reorganisation, the Company will be the holding company of all subsidiaries which are engaged in manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments, while all other subsidiaries engaging in property development and investment holdings business and vessels for sand mining and all other associated companies of the Group carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services will be grouped under the GDI Group and will continue to be run by the existing management of the Company. On this basis, the unaudited pro forma financial information on the Group upon the implementation of the Group Reorganisation, the accountants' report of the GDI Group and unaudited pro forma financial information on the GDI Group upon completion of the Group Reorganisation have been prepared, details of which are set out in Appendix II, Appendix III and Appendix IV to this circular respectively. Summary of the financial information of the GDI Group (relating to the Distributed Business) and the Group (relating to the Remaining Business) is set out below:

Unaudited pro forma financial information on the Group on the basis of completion of the Group Reorganisation having taken place

The following is a summary extracted from Appendix II to this circular, for reference purposes only, of the unaudited pro forma income statement for the year ended 31 December 2004 and the unaudited pro forma assets and liabilities statement as at 31 December 2004 of the Group assuming the Group Reorganisation had taken place. The basis for the preparation of these pro forma financial information is set out in Appendix II to this circular. These information do not purport to describe the actual financial position of the Group upon completion of the Group Reorganisation. These pro forma financial information may be different upon completion of the Group Reorganisation depending on the then distributable reserve of the Company, to achieve the combined net asset value of the Group (excluding the GDI Group) being not less than HK$110 million and the aggregate liabilities of the Group (excluding the GDI Group) being no more than HK$70 million upon completion as stipulated under the Share Sale Agreement.

Unaudited pro forma income statement

	For the year ended 31 December 2004 *HK$'000*
Turnover	27,141
Cost of sales	(21,074)
Gross profit	6,067
Other operating income	7,808
Distribution costs	(850)
Administrative expenses	(27,067)
Other expenses	(31,459)
Allowances for loans and interest receivable	(108,470)
Loss from operations	(153,971)
Finance costs	(15,943)
Loss on disposal/dilution of interest in associates	(177)
Share of results of associates	5,091
Gain on disposal of interest in subsidiaries	5
Loss before taxation	(164,995)
Taxation	(1,207)
Loss before minority interests	(166,202)
Minority interests	(523)
Net loss for the year	(166,725)

Note: The turnover mainly represents income generated from the Remaining Business of subsidiaries of the Group.

Unaudited pro forma assets and liabilities statement

	As at 31 December 2004 *HK$'000*
NON-CURRENT ASSETS	
Properties, plant and equipment	34,587
Goodwill	25,807
Interests in associates	328
Receivables-due after one year	5,407
Investments in securities	92,967
	159,096
CURRENT ASSETS	
Inventories	13,708
Trade debtors	6,980
Receivables due from associates	2,790
Receivables-due within one year	22,735
Other receivables, deposit and prepayments	3,775
Investments in securities	19,849
Pledged bank deposits	1,012
Bank balance and cash	430
	71,279
CURRENT LIABILITIES	
Creditors, other payables and accrued charges	(15,269)
Payables due to associates	(3,064)
Income and other taxes payable	(1,130)
Bank and other borrowings-due within one year	(42,612)
	(62,075)
NET CURRENT ASSETS	9,204
	168,300

	As at 31 December 2004
	HK$'000
CAPITAL AND RESERVES	
Capital	44,080
Reserves	125,419
	169,499
MINORITY INTERESTS	(1,199)
	168,300

Audited financial information on the GDI Group

The following is a summary of the audited combined income statement for the three years ended 31 December 2004 and for the four months ended 30 April 2005 and the audited combined balance sheets as at 31 December 2002, 2003 and 2004 respectively and 30 April 2005 of the GDI Group. The basis for the preparation of these audited financial information on the GDI Group is set out in the accountants' report on the GDI Group in Appendix III to this circular.

Audited combined income statements

	For the year ended 31 December			For the four months ended 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	3,601,735	2,884,493	96,262	—
Cost of sales	(3,052,768)	(2,520,175)	(60,381)	—
Gross profit	548,967	364,318	35,881	—
Other operating income	56,522	81,143	52,676	23,005
Distribution costs	(248,218)	(174,955)	(21,056)	—
Administrative expenses	(197,526)	(125,826)	(17,917)	(4,515)
Other expenses	(540,828)	(43,227)	(9,020)	(2,193)
Allowances for loans and interest receivable	(768)	(50,645)	(32,419)	—
Change in fair value of conversion option of unlisted convertible note	(5,953)	—	76,959	(39,743)
Profit (loss) from operations	(387,804)	50,808	85,104	(23,446)
Finance cost	(104,335)	(34,096)	(1,491)	—
Gain (loss) on disposal/dilution of interests in associates	17,876	—	57,542	(2,763)
Loss on deemed disposal of associate	—	(36,480)	—	—
Share of results of associates	(99,670)	(175,697)	(37,521)	21,419
Allowance on receivables advanced to an associate	(10,686)	(12,712)	—	—
(Loss) gain on disposal of interests in subsidiaries	64,193	12,309	(5,265)	—
(Loss) profit before taxation	(520,426)	(195,868)	98,369	(4,790)
Taxation	(12,250)	(10,934)	(5,257)	—
(Loss) profit for the year/period	(532,676)	(206,802)	93,112	(4,790)
(Loss) profit attributable to:				
Equity holders of the parent	(296,388)	(216,323)	21,619	2,467
Minority interests	(236,288)	9,521	71,493	(7,257)
(Loss) profit for the year/period	(532,676)	(206,802)	93,112	(4,790)

Audited combined balance sheets

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	738,941	36,074	220	522
Deposit paid for acquisition of interest in properties	—	—	47,012	54,524
Payment for acquisition of subsidiaries	—	—	40,000	40,000
Goodwill	30,953	9,325	—	—
Interests in associates	845,290	828,784	497,116	575,995
Receivables — due after one year	—	—	28,283	—
Investment in securities	34,009	26,164	71,959	90,729
Deferred tax assets	13,454	—	—	—
	1,662,647	900,347	684,590	761,770
CURRENT ASSETS				
Other asset	—	226,718	227,167	229,287
Inventories	827,744	66,976	—	—
Trade debtors	533,959	13,718	—	—
Receivables due from associates	55,073	129	54,373	61,526
Receivables — due within one year	425,681	251,691	540,931	298,638
Other receivables, deposits and prepayments	249,878	35,861	79,800	50,152
Income and other tax recoverable	—	—	—	—
Investment in securities	1,834	1,142	—	—
Receivables due from former fellow subsidiaries	526,969	756,570	878,028	845,958
Pledged bank deposits	24,839	—	—	—
Bank balances and cash	356,829	310,946	72,481	157,675
	3,002,806	1,663,751	1,852,780	1,643,236
CURRENT LIABILITIES				
Creditors, other payables and accrued charges	792,296	78,834	25,497	30,577
Payables — due within one year	44,040	29,180	444	583
Payables due to associates	—	—	673	800
Income and other tax payable	52,694	3,150	8,144	8,060
Payables due to former fellow subsidiaries	2,659,472	3,040,386	3,064,980	2,888,796
Bank loans and other borrowings — due within one year	940,065	26,014	—	—
	4,488,567	3,177,564	3,099,738	2,928,816
NET CURRENT LIABILITIES	(1,485,761)	(1,513,813)	(1,246,958)	(1,285,580)
	176,886	(613,466)	(562,368)	(523,810)
CAPITAL AND RESERVES				
Capital	10,777	10,777	10,777	10,777
Reserves	(643,093)	(874,892)	(893,489)	(847,682)
Minority interest	722,277	249,327	320,344	313,095
	89,961	(614,788)	(562,368)	(523,810)
NON-CURRENT LIABILITIES				
Bank loans and other borrowings — due after one year	86,925	129	—	—
Payables — due after one year	—	1,193	—	—
	86,925	1,322	—	—
	176,886	(613,466)	(562,368)	(523,810)

Unaudited pro forma information on the GDI Group on the basis of completion of the Group Reorganisation having taken place

The following is a summary extracted from Appendix IV to this circular, for reference purposes only, of the unaudited pro forma assets and liabilities statement of the GDI Group as at 30 April 2005 assuming the Group Reorganisation had taken place. The basis for the preparation of these pro forma financial information is set out in Appendix IV to this circular. These information do not purport to describe the actual financial position of the GDI Group upon completion of the Group Reorganisation. These pro forma information may be different upon completion of the Group Reorganisation depending on the then distributable reserve of the Company, to achieve the combined net asset value of the Group (excluding the GDI Group) being not less than HK$110 million and the aggregate liabilities of the Group (excluding the GDI Group) being no more than HK$70 million upon completion as stipulated under the Share Sale Agreement.

As at 30 April 2005

	Proforma GDI Group *HK$'000*
Non-Current Assets	
Properties, plant and equipment	794
Deposit paid for acquisition of interest in properties	54,524
Payment for acquisition of subsidiaries	40,000
Goodwill	—
Interests in associates	575,995
Receivables-due after one year	—
Investment in securities	90,729
Investments in subsidiaries	—
	762,042
Current Assets	
Other assets	229,287
Inventories	—
Trade debtors	—
Receivables due from associates	61,526
Receivables-due within one year	298,638
Other receivables, deposit and prepayments	69,730
Tax recoverable	88
Investments in securities	—
Receivable due from former fellow subsidiaries	—
Pledged bank deposits	—
Bank balance and cash	415,588
	1,074,857
Current Liabilities	
Creditors, other payables and accrued charges	(33,113)
Payables — due within one year	(196,499)
Payable due to associates	(800)
Income and other taxes payable	(8,060)
Oligations under finance leases	(9)
Payables due to former fellow subsidiaries	—
	(238,481)
Net Current Assets	836,376
Non-Current Liabilities	
Bank loans and other borrowings — due after one year	—
Payables — due after one year	—
	—
	1,598,418
Capital and Reserves	
Capital	10,777
Reserves	1,274,546
Minority Interests	313,095
	1,598,418

Set out below is a reconciliation of the respective unaudited pro forma net asset value of the GDI Group and the Group (excluding the GDI Group) upon completion of the Group Reorganisation to the audited net asset value of the Group as at 31 December 2004 for illustrative purposes.

	The Group (excluding the GDI Group) *HK$'000*	The GDI Group *HK$'000*	Total *HK$'000*
Unaudited proforma net asset value of the Group (excluding the GDI Group)/audited net asset value of the GDI Group	169,499[1]	(882,712)[2]	
Adjustment for new Hong Kong Financial Reporting Standards	—	(25,376)	
	169,499	(908,088)	
Add: Elimination of amount due to the Group (excluding the GDI Group) as at 31 December 2004 [3]	—	2,167,420	
	169,499	1,259,332	
Add: Assets and liabilites transferred to the GDI Group [4]		(117,094)	
Reconciliation of the net asset value	169,499[1]	1,142,238	1,311,737[5]

Notes:

(1) Pursuant to unaudited pro forma assets and liabilities statement set out in Appendix II to this circular.

(2) Pursuant to the combined balance sheet of the accountants' report of the GDI Group in Appendix III to this circular.

(3) Restatement of the intragroup balances between the GDI Group and the Group (excluding the GDI Group) before accumulated allowances set out in the combined balance sheet of the accountants' report of the GDI Group in Appendix III to this circular less the intragroup transaction between the GDI Group and the Group (excluding the GDI Group) amounting to HK$19,532,000.

(4) The adjustment reflects the net balance of the transfer of assets and liabilities between the Group (excluding the GDI Group) and the GDI Group set out in note (5) to unaudited pro forma assets and liabilities statement of the Group in Appendix II to this circular.

(5) Pursuant to the consolidated balance sheet of the Group as at 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE GDI GROUP

For the year ended 31 December 2002

Analysis of the GDI Group's performance

The GDI Group's turnover for the year ended 31 December 2002 amounted to approximately HK$3,602 million, which mainly comprised income generated from sale of goods (including tires and pharmaceutical products) of approximately HK$3,306 million, toll highway operation of approximately HK$67 million, property investments of approximately HK$58 million, hotel operation of approximately HK$42 million and manufacturing and trading of tractors and automobile related products of approximately HK$129 million.

The GDI Group's audited consolidated loss attributable to shareholders for the year ended 31 December 2002 amounted to approximately HK$533 million, which was mainly due to (i) the significant increase in finance costs as a result of bank borrowings for the acquisition of interests in Wing On and Dong Fang Gas Holdings Limited (now known as Pacific Century Premium Developments Limited) , the shares of each of them are listed on the Stock Exchange; and (ii) share of losses of its associates in relation to the manufacturing and marketing of tire products.

Capital structure, liquidity and financial resources

The GDI Group generally financed its operations through cash generated from its business activities, bank facilities provided by its principal bankers and the proceeds from disposal of its under-performed investments.

The gearing ratio was not calculated as the GDI Group recorded deficiencies in shareholders' funds as at 31 December 2002. The GDI Group's total borrowings, which amounted to approximately HK$1,027 million as at 31 December 2002, were mainly denominated in Hong Kong dollar and Renminbi and had a maturity profile spreading over a period of five years with approximately HK$940 million repayable within one year and approximately HK$87 million repayable in the second to the fifth year. Non-Hong Kong dollar denominated loans were directly related to the GDI Group's businesses in the countries of the currencies concerned.

Capital expenditures, which amounted to approximately HK$338 million for the year ended 31 December 2002, were used primarily for purchase of property, plant and equipment for the tire business. The GDI Group's capital expenditures continued to be funded primarily from either cash generated from operations, cash on hand or bank borrowings or a combination of any of the above as required.

Human resources

The GDI Group had 13,344 employees as at 31 December 2002.

For the year ended 31 December 2003

Analysis of the GDI Group's performance

The GDI Group's turnover for the year ended 31 December 2003 was approximately HK$2,884 million, which mainly comprised income generated from the sale of goods (including tires and pharmaceutical products). The drop in the GDI Group's turnover from approximately HK$3,602 million for the year ended 31 December 2002, representing a decrease of approximately 20%, was due to the disposals of the major interest in toll highway operations, properties investments, hotel operation and manufacturing and trading of tractors and automobile related products during the financial year ended 31 December 2002.

The GDI Group's audited consolidated loss attributable to the shareholders of GDI for the year ended 31 December 2003 amounted to approximately HK$207 million, which reduced by approximately HK$326 million as compared to approximately HK$533 million as recorded in the year ended 31 December 2002. The improvement in the performance of the GDI Group reflected the positive outcomes from the continual management efforts to dispose of and restructure non-performing businesses or assets on one hand, as well as the streamlining and rationalisation of existing businesses and assets on the other. As a result, there was a significant reduction in other expenses which included impairment loss on the GDI Group's assets as well as unrealised holding losses on investment in securities.

Capital structure, liquidity and financial resources

During the financial year ended 31 December 2003, the GDI Group financed its operations mainly through cash generated from its business activities, bank facilities provided by its principal bankers and the proceeds from disposal of its investments.

The gearing ratio was not calculated as the GDI Group recorded deficiencies in shareholders' funds as at 31 December 2003. The GDI Group's total borrowings, which amounted to approximately HK$26.1 million as at 31 December 2003, were mainly denominated in Hong Kong dollar and had a maturity profile spreading over a period of five years with HK$26 million repayable within one year and approximately HK$0.1 million repayable in the second to the fifth year. The significant drop in total borrowings as at 31 December 2003 as compared to that of 31 December 2002 was mainly due to the disposal of GDI's interest in certain subsidiaries engaged in tire business during the year, a significant portion of the total borrowings of the GDI Group as at 31 December 2002 was attributable to such subsidiaries.

Capital expenditures, which were approximately HK$269 million for the year ended 31 December 2003, were used primarily for purchase of property, plant and equipment for the tire business. The GDI Group's capital expenditures continued to be funded primarily by internal resources or external borrowings or a combination of both as required.

Human resources

The GDI Group have 412 employees as at 31 December 2003 after the disposals of the major interest in toll highway operations, properties investments, hotel operation and manufacturing and trading of tractors and automobile related products during the financial year ended 31 December 2002.

For the year ended 31 December 2004

Analysis of the GDI Group's performance

The GDI Group's turnover for the year ended 31 December 2004 amounted to approximately HK$96 million. No turnover was derived from the then GDI's subsidiaries engaged in the manufacturing and marketing of tire product in the financial year ended 31 December 2004 following the disposal of its interests in such subsidiaries in the financial year ended 31 December 2003. The turnover for the year was generated from the pharmaceutical products operation for the four months ended 30 April 2004 before the disposal of this operation in May 2004 as part of the GDI Group's restructuring and rationalisation of its existing investments. Following the disposal of its interests in subsidiaries engaged in pharmaceutical products operations during the financial year ended 31 December 2004, the GDI Group maintained its operation, including mainly the manufacturing and marketing of tire products, the business of providing tour, travel and other related services and property development, through its associated companies.

The GDI Group maintained its prevalent conservative and cautious investment strategy in the year ended 31 December 2004. In anticipation of the growth in the economy in the PRC, the GDI Group acquired a parcel of land at a consideration of RMB450,000,000 (approximately HK$424,528,000) and took up a property development project located in the high profile residential area of Jing An District in the metropolitan city of Shanghai. This project included development of a 24-storey serviced apartment. Since this project was under development and had not been completed by 31 December 2004, no turnover attributable to this project had been recorded for the year ended 31 December 2004. The Group further entered into certain conditional agreements in October 2004 with third parties to acquire companies engaging in the business of sand mining in the PRC. Such acquisition were subsequently completed in June 2005.

As compared to the audited loss of approximately HK$207 million for the year ended 31 December 2003, the GDI Group's audited consolidated profit attributable to shareholders for the year ended 31 December 2004 amounted to approximately HK$93 million, which was mainly attributable to the changes in the fair value of the conversion right attached to the unlisted convertible note issued by Wing On and gain on disposal of interests in associates (net of its share of losses recorded by its associates). In addition, stringent cost control measures continued to be in place in its prevalent conservative and cautious investment strategy to contribute its effort to explore new investment opportunities.

Capital structure, liquidity and financial resources

During the financial year ended 31 December 2004, the GDI Group financed its operations mainly through cash generated from its business activities, bank facilities provided by its principal bankers and the proceeds from disposal of investments.

As at 31 December 2004, no bank loan nor other borrowings were held by the GDI Group and hence, the gearing ratio was nil.

Capital expenditures, which amounted to approximately HK$49 million for the year ended 31 December 2004, were used primarily for purchase of property, plant and equipment for the pharmaceutical business. The GDI Group's capital expenditures continued to be funded primarily by internal resources or external borrowings or a combination of both as required.

Human resources

Following the disposal of interest in subsidiaries engaged in pharmaceutical products operation during the year ended 31 December 2004, the GDI Group maintained its operation, including mainly the manufacture and marketing of tire products, the business of providing tour, travel and other related services and property development, through its associated companies and therefore, the GDI Group did not have any employees as at 31 December 2004.

For the four months ended 30 April 2005

Analysis of the GDI Group's performance

During the four months ended 30 April 2005, companies under the GDI Group had been engaged in property development and investment holding business and all its associated companies engaged in the business of providing package tour, travel and other related services, manufacturing and marketing of tire products and property development. No turnover was recorded from the GDI's subsidiaries during such period as most of the GDI Group's businesses were mainly operated under its associated companies.

The loss attributable to shareholders of GDI Group for the four months ended 30 April 2005 of approximately HK$5 million was mainly due to change in fair value of the conversion right attached to the unlisted convertible note issued by Wing On, of which GDI owns an effective interest of approximately 15.32%, under the adoption of Hong Kong Financial Reporting Standards.

Capital structure, liquidity and financial resources

During the four months ended 30 April 2005, the GDI Group financed its operations through cash generated from its business activities and the interest received under its loan receivables.

During the period from 1 January 2005 to 30 April 2005, cash and cash equivalents increased from approximately HK$72 million to approximately HK$158 million, which was mainly due to the increase in cash receipt from repayment of loan receivable during the period under review. Most of the GDI Group's deposits with banks were short-term deposits and denominated in either Hong Kong dollar or Australian dollar, which were directly related to the GDI Group's business in the areas of the currencies concerned. It is expected that the GDI Group's exposure to foreign exchange risk is minimal.

As at 30 April 2005, the GDI Group did not enter into any material foreign exchange contracts, interest and currency swaps or other financial activities. Since the businesses of the GDI Group were mainly operated under its associated companies, the GDI Group did not maintain any borrowings facilities and hence, there were no short-term and long-term borrowings as at 30 April 2005. As a result, no gearing ratio, which was calculated based on long-term borrowing divided by total shareholders' funds, could be made as at 30 April 2005.

Capital expenditures, which amounted to approximately HK$7.8 million for the period ended 30 April 2005, mainly represent purchase of property, plant and equipment and deposit paid for acquisition of interests in properties. The GDI Group's capital expenditures continued to be funded primarily by internal resources or external borrowings or a combination of both as required.

Human resources

The GDI Group did not have any employees as at 30 April 2005 as most of the GDI Group's businesses were mainly operated under its associated companies.

CAPITAL REORGANISATION

The 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 Share and reduction in the nominal value of each issued Share from HK$0.10 to HK$0.05. The Capital Reduction also involves the cancellation of the entire share premium account of the Company. The Subdivision involves the subdivision of each authorised but unissued Share into two Reduced Shares of HK$0.05 each.

As at the Latest Practicable Date, the authorised share capital of the Company was HK$800,000,000 divided into 8,000,000,000 Shares of HK$0.10 each, of which 881,595,087 Shares were in issue and fully paid or credited as fully paid. On the assumption that no further Shares will be issued after the Latest Practicable Date and up to the effective date of the Capital Reorganisation, a credit of approximately HK$44,079,754 will arise in the books of the Company as a result of the cancellation of the paid-up capital of HK$0.05 on each issued Share. Based on the audited consolidated financial statements of the Company for the year ended 31 December 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 the Company. 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 the Company. The Company had an audited special capital reserve of approximately HK$414,881,000 as at 31 December 2004, which 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 the Company, which amounted to approximately HK$1,395,867,000 as at 31 December 2004. The balance of special capital reserve account will become approximately HK$964,009,754 after setting off in full the accumulated deficit of the Company.

The distribution in specie of the GDI Shares will then be made out of the special capital reserve account of the Company. The pro forma net asset value of the GDI Group of approximately HK$1,285 million assuming completion of the Group Reorganisation based on the audited combined balance sheet of the GDI Group as at 30 April 2005 as set out in Appendix IV to this circular is for reference purposes only and 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 Group Reorganisation. The balance of special capital reserve account of approximately HK$964 million after setting off in full the accumulated deficit of the Company upon completion of the Group Reorganisation is subject to change and only the then balance on the date of completion of the Group Reorganisation will be used for the purpose of the distribution in specie of the GDI Shares and therefore, the distribution amount of the GDI Group pursuant to the Group Reorganisation, which is based on the net asset value of the GDI Group upon completion of the Group Reorganisation, shall be subject to the distributable reserve of the Company then available. Further announcement will be made by the Company 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 the Company before and after the Capital Reorganisation, which are prepared based on (i) the issued share capital of the Company as at the Latest Practicable Date; and (ii) the audited capital and reserve account balances of the Company as at 31 December 2004:

	Issued share capital	**Share premium**	**Special capital reserve**	**Deficit**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2004	88,160	1,900,916	414,881	1,395,867
Balance upon completion of the Capital Reorganisation	44,080	—	964,010	—

Share Consolidation

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

Effect of the Capital Reorganisation

Based on the Company's authorised share capital of HK$800,000,000 as at the Latest Practicable Date as represented by 8,000,000,000 Shares, and the issued share capital of HK$88,159,508.70 as represented by 881,595,087 Shares, upon completion of the Capital Reorganisation, the authorised share capital of the Company will remain at HK$800,000,000 as represented by 8,000,000,000 Consolidated Shares, and the issued share capital will be HK$44,079,754.35 as represented by 440,797,543 Consolidated Shares.

The Consolidated 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 the Company or the interests or rights of the Shareholders, save that any fractional Consolidated Shares will not be issued to Shareholders but will be aggregated and sold for the benefit of the Company. The Capital Reorganisation itself will not have any material adverse effect on the financial position of the Group.

Conditions of the Capital Reorganisation

The Capital Reorganisation will be conditional upon:—

(i) the passing of the necessary resolution(s) by the Shareholders to approve the Capital Reorganisation at a general meeting of the Company;

(ii) the sanction 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 Shares (including the Consolidated Shares which may be issued pursuant to the exercise of options which may be granted under the share option scheme of the Company adopted on 4 June 2002).

The Capital Reorganisation is not conditional upon completion of the Group Reorganisation and will be carried out irrespective of whether the Group Reorganisation is to be implemented if all of the conditions above have been fulfilled.

Reasons for the Capital Reorganisation

The Company had an audited accumulated deficit of approximately HK$1,396 million as at 31 December 2004. The Company is not allowed to make any distribution while the accumulated deficit remains. Based on the accumulated deficit as at 31 December 2004, the number of Shares in issue as at the Latest Practicable Date and the balance of the share premium and special capital reserve as at 31 December 2004, the accumulated deficit of the Company 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 Group Reorganisation.

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

CHANGE OF BOARD LOT SIZE AND OTHER INFORMATION

As at the Latest Practicable Date, the Shares were traded in board lots of 2,500. The Board also proposes a change in the board lot for trading to 5,000 Consolidated Shares upon the Capital Reorganisation having become effective. Based on the closing price of the Shares of HK$0.83 on the Latest Practicable Date and the existing board lot size of 2,500 Shares, the prevailing board lot value is HK$2,075. On the basis of the aforesaid closing price per Consolidated Share and the new board lot size of 5,000 Consolidated Shares, the new board lot value will be HK$8,300. The change in board lot size will result in the Consolidated Shares being traded in a more reasonable board lot size and value. In view of the relatively small market value of existing board lots of the Shares, the Share Consolidation together with the change in board lot size will reduce the handling cost for the Company and the Shareholders when dealing in Shares, including charges on stock withdrawal and share certificate issues, and would be, in the view of the Directors, beneficial to both the Company and the Shareholders.

While the Capital Reorganisation is conditional upon, among others, the confirmation of the Capital Reorganisation by the Court, the effective date of the Captial Reorganisation is not ascertainable at present. An application will be made to the Court in respect of the Capital Reorganisation as soon as practicable after the approval of the Capital Reorganisation by Shareholders at the EGM has been obtained. The actual date of hearing of the petition (and before that, the date of hearing for the summons for Directions) by the Court will depend upon the availability of the Court which, in turn, depends upon the projected length and scope of the relevant hearing. Further announcement(s) will be made informing the Shareholders of the expected effective date of the Capital Reorganisation, the trading arrangements and free exchange of new share certificates, as necessary or appropriate, the progress and results of the application to the Court.

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Consolidated Shares in issue as a result of the Capital Reorganisation. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS.

Subject to the granting of the listing of, and permission to deal in the Consolidated Shares, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

THE GDI OFFER

Assuming no Shares will be issued after the Latest Practicable Date, upon completion of the Group Reorganisation, the Company will have 440,797,543 Consolidated Shares in issue and on this basis, 440,797,543 GDI Shares will be distributed to the Shareholders whose names appear on the register of members of the Company on the Record Date. Based on the shareholding structure of the Company as at the Latest Practicable Date, 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 58.7% of the issued share capital of GDI upon completion of the Group Reorganisation.

Given that the GDI Shares will not be listed on the Stock Exchange upon completion of the Group Reorganisation, the directors of Hanny consider that it is appropriate to provide the Independent 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 Group Reorganisation, Somerley will, on behalf of Well Orient, 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 Shares in issue on the Record Date.*

Independent Shareholders and Paul Y can either accept Option 1 or Option 2, but not a combination of both, in respect of the GDI Offer. However, this restriction does not apply to professional custodian or nominees.

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 Latest Practicable Date, Hanny had not received any indication or irrevocable commitment from either Paul Y or any Independent 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. 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 then existing Hanny Shares in issue and be entitled to receive all dividends and other distributions thereafter declared, made or paid.

On the Latest Practicable Date, the closing price of the Hanny Shares as quoted on the Stock Exchange was HK$3.85. 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 HK$1.13.

During the six-month period up to and including the Latest Practicable Date, the highest closing price of Hanny Shares as quoted on the Stock Exchange was HK$3.85 on 7 September 2005 and the lowest closing price of Hanny Shares as quoted on the Stock Exchange was HK$2.475 on both 18 and 25 May 2005, whereas the average of the closing prices of the Hanny Shares as quoted on the Stock Exchange during such six-month period was approximately HK$3.080.

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	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. 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.
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 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$3.700 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 30 consecutive trading days up to and including the Last Trading Day;

— a premium of 133.8% over the closing price of HK$3.85 per Hanny Share as quoted on the Stock Exchange on the Latest Practicable Date; and

— a premium of 11.4% over the audited consolidated net asset value of the Hanny Group of HK$8.082 per Hanny Share as at 31 March 2005 based on the audited consolidated net asset value of approximately HK$1,807.3 million and 223,628,412 issued Hanny Shares as at 31 March 2005.

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 allotted and issued, rank pari passu in all respects with all 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 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 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 Well Orient 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 Latest Practicable Date, GDI had no outstanding securities, options or warrants which were convertible into or which conferred 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 GDI Shares. As at the Latest Practicable Date, none of the Shareholders had undertaken or notified Well Orient of an intention to accept or reject the GDI Offer.

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 Group Reorganisation and the market performance of the Shares and Hanny Shares prior to suspension in trading of such shares on 8 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 Group Reorganisation.

On the basis that 440,797,543 GDI Shares are expected to be in issue upon completion of the Group Reorganisation, the GDI Offer values the entire issued share capital of GDI at approximately HK$498.1 million for Option 1 based on the closing price of HK$3.85 per Hanny Share as quoted on the Stock Exchange on the Latest Practicable Date and at approximately HK$1,322.4 million for Option 2 based on the face value of HK$15 per Hanny Bond, respectively. Assuming completion of the 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$351.9 million under Option 1 based on the closing price of HK$3.85 per Hanny Share as quoted on the Stock Exchange on the Latest Practicable Date and approximately HK$934.2 million under Option 2 based on the face value of HK$15 per Hanny Bond, respectively.

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 the Company. As at the Latest Practicable Date, the board of directors of GDI comprised all executive and alternate Directors. The directors of Well Orient are Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard.

Information of 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 and properties trading. The Hanny Group also makes 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 three years ended 31 March 2003, 2004 and 2005 respectively:

	For the year ended 31 March		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	5,676,459	5,025,930	4,162,804
Gross profit	1,300,098	1,093,748	914,035
Profit/(loss) before income tax	22,343	121,639	(570,474)
Profit/(loss) for the period/year	(160,925)	13,300	(648,620)

The following table sets out a summary of the audited consolidated balance sheet of the Hanny Group as at 31 March 2003, 2004 and 2005 respectively:

	As at 31 March		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	1,285,558	1,643,529	1,604,463
Current assets	2,371,932	2,299,707	1,663,268
Current liabilities	(1,240,452)	(1,653,951)	(1,185,858)
Net current assets	1,131,480	645,756	477,410
Non-current liabilities	(160,110)	(10,947)	(177,708)
Minority interests	(449,617)	(405,157)	(174,598)
Capital and reserves	1,807,311	1,873,181	1,729,567

On the basis of 223,628,412 Hanny Shares in issue as at the Latest Practicable Date, the audited consolidated net asset value was approximately HK$8.082 per Hanny Share.

As at the Latest Practicable Date, Hanny had outstanding options to subscribe for an aggregate of 19,000,000 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 21 August 2001 and terminated on 17 March 2003; and (ii) outstanding options to subscribe for 10,000,000 Hanny Share were granted under the new share option scheme adopted on 17 March 2003. Apart from these options 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.

The financial effect of the GDI Offer on Hanny will be included in 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 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 Group Reorganisation. 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. Specifically, those matters requiring independent shareholders approval and independent advice are (a) the acquisition or disposal of assets with an aggregate value or with attributable turnover or net profit before taxation of more than 75% of the latest published total assets, total turnover or net profit before taxation of the GDI Group (or before any publication of results, as shown in the unaudited pro forma financial statements set out in Appendix IV to this circular); (b) any connected transaction (as defined in the Listing Rules and applied as if GDI were a listed issuer) other than those for which independent shareholders' approval would not have been required under the Listing Rules; (c) issues of shares or other securities of GDI other than by way of rights to all shareholders (subject to certain exclusions as the board of GDI deem necessary or expedient as described in Appendix VII to this circular) or as approved by ordinary resolution mentioned below; (d) borrowing or raising or securing of the payment of money unless it is for the furtherance of the objectives of GDI and (e) the making of any investment that is outside the scope of the objectives of GDI. In addition, an ordinary resolution of shareholders in general meeting of GDI is required in respect of (i) any acquisition or disposal of assets with an aggregate value or with attributable total turnover or net profit before taxation of more than 25% of the latest published total assets, total turnover or net profit before taxation of the GDI Group (or before any publication of results, as shown in the unaudited pro forma financial statements set out in Appendix IV to this circular); and (ii) the granting of general authority to directors for any issue of shares or other securities of GDI (which would be convertible into or have rights attached for the subscription of shares of GDI) once every financial year of GDI, provided that such general authority may not allow the number of shares which fall to be issued by GDI under such proposal (including, in the case of securities, the number of shares which fall to be issued at the initial conversion or subscription price) to exceed 20% of the number of GDI Shares then in issue.

The board of directors of GDI currently comprises all executive and alternate Directors, but none of the independent non-executive Directors 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 accountants' report of GDI containing the combined income statements and the combined cash flow statements for the three years ended 31 December 2002, 2003 and 2004 and the four months ended 30 April 2005, the combined balance sheet as at 31 December 2002, 2003 and 2004 and 30 April 2005, together with the respective notes are set out in Appendix III to this circular.

THE SHARE SALE AGREEMENT

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

Vendors: Paul Y and Hanny

Purchaser: the Offeror

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Offeror and its ultimate beneficial owner, Mr. Gao Yang, are third parties independent of the Company and its connected persons.

Subject matter of the sale and purchase:

(i) Paul Y Sale Shares, being 135,000,000 Shares (equivalent to 67,500,000 Consolidated 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 the Company or Paul Y's 52.2% equity interest in the Company as at the date of the Share Sale Agreement; and

(ii) Hanny Sale Shares, being 135,000,000 Shares (equivalent to 67,500,000 Consolidated Shares upon the Capital Reorganisation having become effective) held by Well Orient, representing approximately 15.3% of the issued share capital of the Company or Hanny's 52.2% equity interest in the Company 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 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 Share (equivalent to HK$0.386 per Consolidated 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 Group (before and after the Group Reorganisation) and the market performance of the Shares prior to suspension of trading in the Shares on 8 March 2005.

The consideration of approximately HK$0.193 per Share represents:

- a discount of 64.3% to the closing price of HK$0.540 per Share quoted on the Stock Exchange on the Last Trading Day;

- a discount of 66.3% to the average closing price of HK$0.572 per Share for the last ten consecutive trading days up to and including the Last Trading Day;

- a discount of 66.8% to the average closing price of HK$0.581 per Share for the last 30 consecutive trading days up to and including the Last Trading Day;

- a discount of 76.7% to the closing price of HK$0.830 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

- a discount of 87.0% to the audited consolidated net asset value of the Group of HK$1.488 per Share as at 31 December 2004 based on the audited consolidated net asset value of approximately HK$1,311.7 million and 881,595,087 issued Shares as at 31 December 2004.

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 31 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 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 paragraph headed "Consideration" above. The charged shares, being 40,500,000 Consolidated Shares to be acquired by the Offeror pursuant to Share Sale Agreement (representing approximately 9.2% of the issued share capital of the Company 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 Shares with value of HK$15,633,000 based on the selling price per 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 the Company 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 the Company to the reasonable satisfaction of the Offeror within 15 Business Days from the date of the Share Sale Agreement;

(c) the Shares (or the Consolidated Shares) remaining listed on the Stock Exchange at all times prior to and on Completion and the current listing of the Shares (or the Consolidated Shares) not having been withdrawn or the trading of the Shares (or the Consolidated 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 being 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 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 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 parties acting in concert with it 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 31 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 at the Latest Practicable Date, condition (b) above had been fulfilled.

As set out in the condition (e) above, completion of the 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 Group Reorganisation, the combined net asset value of the Group should be no less than HK$110 million and the aggregate liabilities of the 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.

THE CHINA STRATEGIC OFFER

Upon Completion, the Offeror will be interested in 270,000,000 Shares (equivalent to 135,000,000 Consolidated Shares), representing approximately 30.63% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Takeovers Code, the Offeror will be obliged to make a mandatory cash offer to the Shareholders to acquire all Consolidated Shares (other than those already owned 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 Shares (equivalent to 61,909,897 Consolidated Shares), representing approximately 14.04% of the issued share capital of the Company; and (ii) Hanny will be interested in 123,819,794 Shares (equivalent to 61,909,897 Consolidated Shares), representing approximately 14.04% of the issued share capital of the Company. 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 Shares (equivalent to 258,819,794 Consolidated Shares), representing approximately 58.8% of the issued share capital of the Company. Save for Paul Y and Hanny (being presumed parties acting in concert with the Offeror), as at the Latest Practicable Date, neither the Offeror nor any parties acting in concert with it holds any securities of the Company. Neither the Offeror nor any parties acting in concert with it has dealt in the securities of the Company during the six-month period immediately preceding 15 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 Shareholders to acquire all Consolidated 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 Share .... HK$0.386 in cash (equivalent to HK$0.193 in cash for each 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 Share (adjusted for the Group Reorganisation) under the Share Sale Agreement, which price was fixed after taking into consideration the estimated net asset value of the Group (before and after the Group Reorganisation) and the market performance of the Shares prior to suspension of trading in the Shares on 8 March 2005. Based on the Company's expected issued share capital of 440,797,543 Consolidated Shares upon completion of the Group Reorganisation, the China Strategic Offer values the entire issued share capital of the Company at approximately HK$170.1 million. Excluding the 258,819,794 Consolidated 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 Shares expected to be in issue, 181,977,749 Consolidated 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 Shares subject to the China Strategic Offer will be acquired ex entitlement to the 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 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 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 Shareholders.

It is the responsibility of the Shareholders whose addresses as stated in the register of members of the Company are outside Hong Kong and who wish to accept the China Strategic Offer to satisfy themselves as to full observance of the laws of any relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required to comply with the necessary formalities or legal requirements. Any such Shareholders will be responsible for the payment of any transfer or other taxes by whomsoever payable due in respect of that jurisdiction.

As at the Latest Practicable Date, the Company had no outstanding convertible securities, options or warrants. The Offeror and parties acting in concert with it have not entered into any agreements in relation to the issue of any convertible securities, options, warrants or derivatives of the Company.

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 the Company

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 (relating principally to electricity transmission equipment, power station equipment and fire safety equipment) 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 directors of Hanny 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 the Company will continue with the Remaining Business. The Offeror will review the financial position and business operations of the Company with a view to strengthening the operations and future development of the Company. The Offeror will also adopt the business strategy of making investments with good earnings potential that can complement the business of the Company. 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 the Company. 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

The Board is currently made up of ten Directors, comprising five executive Directors, two alternate Directors and three independent non-executive Directors. Following completion of the Share Sale Agreement, all the existing Directors will resign on the earliest date permitted under the Takeovers Code. As at the Latest Practicable Date, the number of new Directors to be nominated had not been determined. Further announcement will be made as and when there is a change in the composition of the Board.

Maintenance of the listing status of the Company

The Stock Exchange has stated that if, at the close of the China Strategic Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Consolidated 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 Shares; or**

— **there are insufficient Consolidated Shares in public hands to maintain an orderly market,**

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

The Offeror intends the Company to remain listed on the Stock Exchange. The director of the Offeror and the new Directors to be appointed will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Company'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$3.850 per Hanny Share as quoted on the Stock Exchange on the Latest Practicable Date, the combined consideration under Option 1 of the GDI Offer and the China Strategic Offer, adjusted for the Capital Reorganisation, is equivalent to HK$0.758 per existing Share and represents:

— a discount of approximately 49.1% to the audited consolidated net asset value of the Company of approximately HK$1.488 per Share as at 31 December 2004;

— a premium of approximately 40.4% over the closing price of HK$0.54 per Share as quoted on the Stock Exchange on the Last Trading Day;

— a premium of approximately 32.5% over the average closing price of approximately HK$0.572 per Share for the ten consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 30.5% over the average closing price of approximately HK$0.581 per Share for the 30 consecutive trading days up to and including the Last Trading Day; and

— a premium of approximately 37.6% over the average closing price of approximately HK$0.551 per Share for the 60 consecutive trading days up to and including the Last Trading Day; and

— a discount of approximately 8.7% to the closing price of HK$0.830 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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 Share and represents:

— a premium of approximately 13.8% over the audited consolidated net asset value of the Company of approximately HK$1.488 per Share as at 31 December 2004;

— a premium of approximately 213.5% over the closing price of HK$0.54 per 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 Share for the ten consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 191.4% over the average closing price of approximately HK$0.581 per Share for the 30 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 207.3% over the average closing price of approximately HK$0.551 per Share for the 60 consecutive trading days up to and including the Last Trading Day;

— a premium of approximately 104.0% over the closing price of HK$0.830 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

— a premium of approximately 339.7% over the pro forma net asset value of approximately HK$0.385 per Consolidated Share upon completion of the Group Reorganisation.

GENERAL

The Independent Board Committee has been formed to make recommendation to the Independent Shareholders on the 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 and the Independent Shareholders in connection therewith.

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 the Announcement whereas the offer document in relation to the GDI Offer should be posted within 35 days of the date of the 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 has been made by the Offeror for the Executive's consent under Rule 8.2 of the Takeovers Code to extend the deadline for the despatch of the offer document to within 7 days of fulfillment of the conditions precedent to the Share Sale Agreement and such consent has been granted by the Executive. Application has been made by Well Orient for the Executive's consent under Rule 8.2 of the Takeovers Code to extend the deadline for the despatch of the offer document to within 7 days of fulfillment of the conditions precedent to the Group Reorganisation and approval by the Independent Hanny Shareholders of making of the GDI Offer and such consent has been granted by the Executive.

A composite offer and response document of the Company setting out, inter alia, details of the China Strategic Offer (accompanied by the acceptance and transfer form) and incorporating the letter of recommendation from the Independent Board Committee and the letter of advice from Hercules on the China Strategic Offer will be sent to the Shareholders within seven days of fulfilment of the conditions precedent of Share Sale Agreement.

Another composite offer and response document of GDI setting out, inter alia, 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 within seven days of fulfilment of the conditions precedent to the Group Reorganisation and approval by the Independent Hanny Shareholders of making of the GDI Offer.

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 AND SHAREHOLDERS ARE URGED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES.

EGM

The EGM is convened to consider and approve the Group Reorganisation and the Capital Reorganisation. A notice of the EGM is set out on pages 314 to 317 of this circular.

All Shareholders, other than Hanny, Paul Y, their respective associates and parties acting in concert with any of them as well as any parties who have material interests in making of the GDI Offer and the Share Sale Agreement, present in person or by proxy, may vote on resolution numbered 2 relating to the Group Reorganisation as set out in the Notice of EGM.

All Shareholders, present in person or by proxy, may vote on the resolution numbered 1 relating to the Capital Reorganisation as set out in the Notice of EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the relevant form of proxy in accordance with the instructions printed thereon and deposit with the Company's share register, Standard Registrars Limited at Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the relevant form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

Pursuant to Article 80 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded (i) by the chairman of the meeting; or (ii) by at least three members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or (iii) by any member or members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) by a member or members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

RECOMMENDATION

The Board believes that the resolutions to be proposed at the EGM are in the interests of the Company and the Shareholders as a whole and recommends you to vote in favour of the resolutions as set out in the notice of EGM.

In addition, your attention is drawn to the letter from the Independent Board Committee as set out on page 53 of this circular which contains its recommendation to the Independent Shareholders in respect of the Group Reorganisation, based on the advice from Hercules, as set out on pages 54 to 101 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into consideration.

ADDITIONAL INFORMATION

Your attention is also drawn to the information contained in the appendices to this circular and the notice of EGM.

Yours faithfully,
For and on behalf of the Board
Dr. Chan Kwok Keung, Charles
Chairman

CHINA STRATEGIC HOLDINGS LIMITED
中 策 集 團 有 限 公 司

(Incorporated in Hong Kong with limited liability)
Stock code: 235

10 September 2005

To the Independent Shareholders

Dear Sir or Madam,

GROUP REORGANISATION

As the Independent Board Committee, we have been appointed to advise you in connection with the Group Reorganisation, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 10 September 2005 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Hercules has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. Details of its recommendation and principal factors taken into consideration in arriving at its recommendation are set out in the letter from Hercules on pages 54 to 101 of the Circular.

Having considered the terms of the Group Reorganisation and the advice of Hercules in relation thereto, we are of the opinion that the terms of the Group Reorganisation are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the Group Reorganisation (together with the transactions contemplated thereunder excluding the China Strategic Offer and the GDI Offer).

Yours faithfully,
The Independent Board Committee
David Edwin Bussmann   Wong King Lam, Joseph   Sin Chi Fai
Independent non-executive Directors

The following is the text of a letter of advice from Hercules in respect of the Group Reorganisation and is prepared for the purpose of inclusion in this circular.

Hercules

Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

10 September 2005

To the Independent Board Committee
and the Independent Shareholders

Dear Sir or Madam,

GROUP REORGANISATION

We refer to the circular dated 10 September 2005 to the Shareholders (the "Circular") of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

The Independent Board Committee (comprising Mr. David Edwin Bussmann, Mr. Sin Chi Fai and Mr. Wong King Lam, Joseph, being all the independent non-executive Directors) has been formed to advise the Independent Shareholders on whether the terms and conditions of the Group Reorganisation are fair and reasonable and in the interests of the Independent Shareholders as a whole. The other Directors are not considered to be sufficiently independent to serve on the Independent Board Committee and to advise the Independent Shareholders. Mr. Chan Kwok Keung, Charles is the chairman and a substantial shareholder of China Strategic, ITC and Hanny and a non-executive director of Paul Y., and was holding 5,600,000 share options in Hanny as at the Latest Practicable Date. Mr. Allan Yap is an executive director of Hanny and a director of Well Orient and was holding 4,850,000 share options in Hanny as at the Latest Practicable Date. Ms. Chau Mei Wah, Rosanna is the managing director of ITC and an executive director of Paul Y. Ms. Chan Ling, Eva is a salaried executive director of the Company and was holding 500 Hanny Shares as at the Latest Practicable Date. Mr. Lui Siu Tsuen, Richard is an executive director of Hanny and a director of Well Orient, and was holding 1,600,000 share options in Hanny and 1,750,000 Hanny Shares as at the Latest Practicable Date. Mr. Chan Kwok Hung is an executive director of ITC as at the Latest Practicable Date.

Hercules has been appointed to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Group Reorganisation.

Hercules is also engaged by the Company to be the independent financial adviser in respect of the China Strategic Offer and the GDI Offer. Our advice letters on the China Strategic Offer and the GDI Offer will be contained in the relevant composite offer and response documents, where appropriate, to be sent to the Shareholders in accordance with the Takeovers Code.

In formulating our recommendations, we have reviewed, *inter alia*, (i) the audited financial statements of the Company for the three years ended 31 December 2004; (ii) the audited financial statements of Hanny for the three years ended 31 March 2005; (iii) the accountants' report on the GDI Group for the three years ended 31 December 2004 and the four months ended 30 April 2005; (iv) the unaudited pro forma financial information on the Group and the GDI Group upon completion of the Group Reorganisation; (v) the Share Sale Agreement; (vi) property valuation of the GDI Group and the Remaining Group; (vii) the summary of the new articles of association of GDI; (viii) the performance of the Shares and the Hanny Shares for the period from 1 April 2004 to the Latest Practicable Date; (ix) a comparison of the terms of the China Strategic Offer and the GDI Offer with those of other companies that we deemed comparable; (x) a comparison of the financial position of Hanny with other companies that we deemed comparable; and (xi) a comparison of the terms of the Hanny Bond with those issued by other companies that we deemed comparable. We have also had verbal discussions with the Group's management regarding the financial conditions and prospects of the Remaining Business and the Distributed Business. We have undertaken such other studies, analyses and investigations that we deemed appropriate. We have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that all statements and representations made or referred to in the Circular are true and accurate at the time they were made and as at the date of the Circular. We have no reason to doubt the truthfulness, accuracy and completeness of the information and representation provided to us. We have been advised by the Directors that, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view on the Group Reorganisation. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group.

We have not considered the tax consequences on the Shareholders arising from the Group Reorganisation since these are particular to their individual circumstances. Shareholders who are in any doubt as to their tax position should consult their professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons that we have taken into consideration in assessing the Group Reorganisation and arriving at our opinion are set out below. In reaching our conclusion, we have considered all the factors and analyses as a whole.

(1) Background to and rationale for the Group Reorganisation

The Company is an investment holding company and the principal activities of its subsidiaries and associated companies involve manufacturing and trading of battery products, vessels for sand mining, investments in securities and property, investments in unlisted securities, property development and investment holding business, manufacturing and marketing of tires, business of providing package tour, travel and other related services. As at the Latest Practicable Date, the Company had a market capitalisation of approximately HK$731.7 million.

On 19 April 2005, the Company, Hanny, GDI, Well Orient and the Offeror jointly announced, *inter alia*, that the Offeror had conditionally agreed to acquire a controlling stake of approximately 30.6% in the Company from Paul Y and Hanny for a total consideration of HK$52,110,000 (equivalent to about HK$0.193 per Share or HK$0.386 per Consolidated Share) upon completion of the Group Reorganisation. In order to facilitate the Share Sale Agreement, Hanny and Paul Y, which held in total approximately 58.8% of the Company's entire issued share capital as at the date of the Announcement, requested the Board to place before the Shareholders a proposal for the Group Reorganisation.

Following the Group Reorganisation,

(i) China Strategic will continue to be a publicly listed company with its subsidiaries concentrating on the businesses of manufacturing and trading of battery products, investing in securities, properties and investment in unlisted investments;

(ii) all other subsidiaries of the Group carrying on property development, investment holding business and sand mining business, and all other associates of the Group carrying on manufacturing and marketing of tires, and business of providing package tour, travel and other related services will be grouped under the GDI Group and will continue to be run by the existing management of the Company;

(iii) assuming no Shares will be issued after the Latest Practicable Date, the Company will have 440,797,543 Consolidated Shares in issue and 440,797,543 GDI Shares will be allotted and issued to the Shareholders whose names appear on the register of members of the Company on the Record Date; and

(iv) each Shareholder will hold an equal number of (i) Consolidated Shares which will continue to be listed on the Stock Exchange; and (ii) GDI Shares which will be unlisted securities.

Possible Voluntary Offer for the GDI Shares

Subject to approval by the Independent Hanny Shareholders, Somerley will, on behalf of Well Orient, 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, on 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

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

Option 2:
For every five GDI Shares .... one Hanny Bond with face value of HK$15.0

The Hanny Bonds to be issued by Hanny under Option 2 will carry a fixed rate of interest of 2.0% per annum. The Hanny Bonds will be transferable at all times in integral multiples of HK$30,000 in nominal value and can be converted into Hanny Conversion Shares at the initial conversion price of HK$9.0 per Hanny Conversion Share during the conversion period. To take into account the time value factor, we have applied the yield of the 5-year US government bond quoted at the Latest Practicable Date as a discount rate to derive the net present value of the Hanny Bond as the US government bond yields are the most commonly used benchmarks in the market. By using such bond yield of 3.897% as the discount rate, the present value of the Hanny Bond would be equivalent to approximately HK$13.73.

A summary of the principal terms of the Hanny Bond is contained in the "Letter from the Board".

Independent Shareholders (except professional custodian or nominees) and Paul Y can either accept Option 1 or Option 2, but not a combination of both, in respect of the GDI Offer.

As stated in the "Letter from the Board", the offer price for the GDI Shares under Option 1 was determined after taking into account the estimated consolidated net tangible asset value of GDI upon completion of the Group Reorganisation and the market performance of the Shares and Hanny Shares prior to suspension in trading of such shares on 8 March 2005. The offer price for the GDI Shares under Option 2 was determined after taking into account the estimated consolidated net tangible assets of GDI upon completion of the Group Reorganisation.

Possible Mandatory Offer for the Consolidated Shares

Subject to completion of the Share Sale Agreement, Kingston will, on behalf of the Offeror, make a mandatory cash offer to the Shareholders to acquire all the Consolidated Shares, other than those already owned 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 in relation to the China Strategic Offer and the accompanying form of acceptance and transfer on the following basis:

For each Consolidated Share .... HK$0.386 in cash (equivalent to HK$0.193 in cash for each Share)

The China Strategic Offer will not be extended to Paul Y and Hanny. Assuming no Shares will be issued after the Latest Practicable Date, 181,977,749 Consolidated Shares held by the Independent Shareholders, representing approximately 41.3% of the total number of Consolidated Shares then in issue, will be subject to the China Strategic Offer.

As stated in the "Letter from the Board", the China Strategic Offer price is the same as the price per Share under the Share Sale Agreement, which price was fixed after taking into consideration the estimated net asset value of the Group (before and after the Group Reorganisation) and the market performance of the Shares prior to suspension of trading in the Shares on 8 March 2005.

The Consolidated Shares subject to the China Strategic Offer will be acquired ex entitlement to the 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 Group Reorganisation and free from all third party rights attaching thereto on or after that date.

Further terms and conditions of the China Strategic Offer and the GDI Offer, including the procedures for acceptance, where appropriate, will be set out in the relevant composite offer and response documents to be sent to the Shareholders in accordance with the Takeovers Code.

The Board considers that the Group Reorganisation, as one of the conditions precedent to the Share Sale Agreement (completion of which will proceed to the China Strategic Offer) and the GDI Offer, offers the Shareholders an opportunity to realise a reasonable gain on their present investment in the Company, and that the GDI Offer will provide an alternative to the Independent Shareholders to invest in the Hanny Shares (with a cash element) or in the Hanny Bond.

The Board considers that the Group Reorganisation, the GDI Offer and the China Strategic Offer together provide alternatives for the Shareholders either to divest all their investments in the Company at a premium over the market price of the Shares based on the combined consideration under Option I or II and the China Strategic Offer or retain some or all of their investments through holding interests in the Company, GDI or both companies.

(2) Mechanics of the Group Reorganisation

The Group Reorganisation will be implemented upon the Capital Reorganisation taking effect. The Group Reorganisation will be effected by (i) GDI acquiring a number of subsidiaries and associated companies from the Company; (ii) the assignment of various intragroup loans between members of the Group (excluding the GDI Group) (the "Remaining Group") and the GDI Group; and (iii) the transfer of various intragroup assets and liabilities, including certain properties, plant and equipment, amount receivables and payables, cash and bank balances and bank borrowings, between the Remaining Group and the GDI Group (details of which are set out in notes 4 and 5 to "1.(B) Unaudited Pro Forma Assets and Liabilities Statements" contained in Appendix II). The various intragroup loans, assets and liabilities 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 the Company as at the date of completion of the Group Reorganisation.

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

For each Consolidated 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 the Company of an amount equivalent to the carrying value of GDI, which will be ascertained immediately prior to completion of the Group Reorganisation.

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

Conditions of the Group Reorganisation

The Group Reorganisation will be conditional upon:

(i) the passing of the necessary resolution(s) approving the Group Reorganisation by the Independent Shareholders;

(ii) the Capital Reorganisation having become effective;

(iii) the agreement of the Group's bankers and other creditors, if required, to the release of guarantees given by the Company and/or any of its subsidiaries (other than members of the GDI Group) on the obligations of any members of the GDI Group following the implementation of the Group Reorganisation; and

(iv) the obtaining of any other third-party consents or approvals, including all regulatory consents, required to give effect to the Group Reorganisation.

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

The Group structures before and after the Group Reorganisation are depicted in the section headed "Group structure before and after the Group Reorganisation" in the "Letter from the Board".

(3) Financial effects of the Group Reorganisation

Set out in Table 1 below is the pro forma financial effects of the Group Reorganisation on the Group as at 31 December 2004 based on the "Unaudited pro forma financial information on the Group upon completion of Group Reorganisation" set out in Appendix II:

Table 1: Pro forma financial effects of the Group Reorganisation on the Group

	Before the Group Reorganisation	**After the Group Reorganisation**	**Percentage change**
	The Group	**The Remaining Group**	
Number of shares in issue	881,595,087	440,797,543	n.a.
Net asset value *(HK$'000)*	1,311,737	169,499	(87.1%)
Net asset value per share *(HK$)*	1.488	0.385	(74.1%)
Current ratio *(times)*	9.9	1.1	n.a.
Debt/equity ratio *(Note 1)*	22.5%	36.6%	n.a.

Note:

1. Calculated as total liabilities divided by shareholders' equity.

2. n.a. denotes not applicable

As illustrated above, had the Group Reorganisation been completed on 31 December 2004, the pro forma net asset value per share would have decreased by 87.1% as a result of:

(i) the deconsolidation of the GDI Group from the Group;

(ii) the assignments of intragroup balances between the GDI Group and the Remaining Group;

(iii) the elimination of share capital of the companies comprising the GDI Group; and

(iv) the transfer of assets and liabilities from the Remaining Group to the GDI Group.

(Please refer to Appendix II — Unaudited pro forma financial information on the Group upon completion of the Group Reorganisation for further details of the abovementioned adjustments.) The Group's current ratio would have decreased from 9.9 times to 1.1 times and the debt to equity ratio of the Group would have deteriorated from 22.5% to 36.6% as a result of the Group Reorganisation.

Set out in Table 2 below is the pro forma financial effects of the Group Reorganisation on the GDI Group as at 30 April 2005 based on the "Unaudited pro forma financial information on the GDI Group upon completion of Group Reorganisation" set out in Appendix IV:

Table 2: Pro forma financial effects of the Group Reorganisation on the GDI Group

	Before the Group Reorganisation	**After the Group Reorganisation**
	The GDI Group	The GDI Group
Number of shares in issue	—	440,797,543
Net asset value/(deficit) *(HK$'000)*	(836,905)	1,285,323
Net asset value per share *(HK$)*	—	2.916
Current ratio *(times)*	0.6	4.5
Debt/equity ratio *(Note 1)*	n.a.	18.6%

Notes:

1. Calculated as total liabilities divided by shareholders' equity.

2. n.a. denotes not applicable

As illustrated above, had the Group Reorganisation been completed on 30 April 2005, the pro forma net asset value of the GDI Group would have increased to approximately HK$1.3 billion from a net deficit of approximately HK$836.9 million as a result of:

(i) the transfer of assets and liabilities from the Remaining Group to the GDI Group; and

(ii) the assignments of intragroup balances between the GDI Group and the Remaining Group pursuant to the Group Reorganisation.

(Please refer to Appendix IV - Unaudited pro forma financial information on the GDI Group upon completion of the Group Reorganisation for further details of the abovementioned adjustments.) The GDI Group's current ratio would have increased from 0.6 times to 4.5 times as a result of the Group Reorganisation.

Table 3 sets out the pro forma financial effects of the Group Reorganisation on an Independent Shareholder in respect of his/her Shares based on the "reconciliation of the respective unaudited pro forma net asset value of the Remaining Group and the GDI Group upon completion of the Group Reorganisation to the audited net asset value of the Group as at 31 December 2004" as set out in the section headed "Financial information of the Group and the GDI Group" in the "Letter from the Board":

Table 3: Pro forma financial effects of the Group Reorganisation on net asset value of the Group and the GDI Group

	Before the Group Reorganisation	**After the Group Reorganisation**		**Percentage change**
	The Group as at 31 December 2004	**The Remaining Group** as at 31 December 2004	**The GDI Group** as at 31 December 2004	*(Note 1)*
Net asset value *(HK$)*	2.976 per two Shares	0.385 per Consolidated Share	2.591 per GDI Share	0.0%

Note:

1. On the basis of each Independent Shareholder would have received one Consolidated Share and one GDI Share for every two Shares held by him/her before the Group Reorganisation.

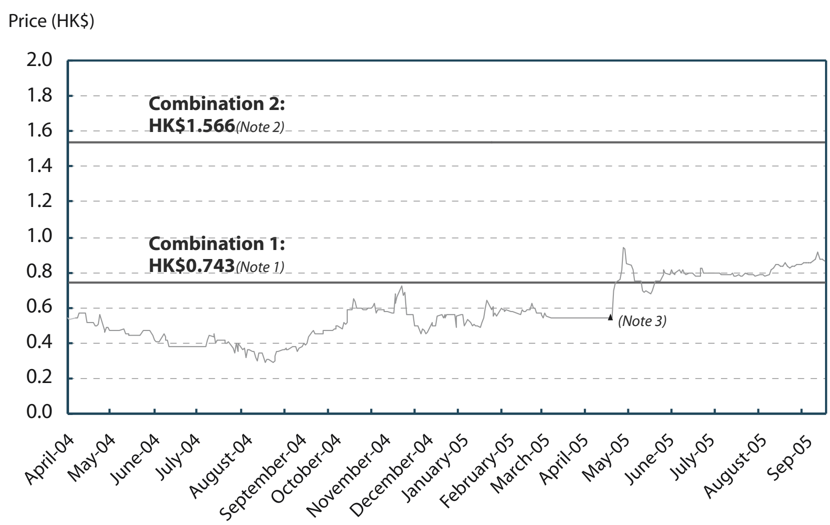
On the basis of each Independent Shareholder would hold one Consolidated Share and one GDI Share directly for every two Shares held by him/her before the Group Reorganisation, we consider that there will be no material effect on the aggregate dividends, earnings and underlying net asset value attributable to each of them.

(4) Trading performance of the Shares

(i) Market price of the Shares

The price of the Shares on the Stock Exchange should, in principle, reflect the prevailing market assessment of its fair value. A chart of historical closing price of the Shares for the twelve full calendar month period prior to the date of the Announcement to the Latest Practicable Date (the "Review Period") is set out below:

Chart 1: Share price performance



Source: the Stock Exchange website

Notes:

1. Being the implied price of the Share under the China Strategic Offer and Option 1 calculated based on the closing price of the Hanny Shares as at the Last Trading Day.

2. Being the implied price of the Share under the China Strategic Offer and Option 2 calculated based on the present value of the Hanny Bond of HK$13.73 using the yield of the 5-year US government bond quoted at the Latest Practicable Date of 3.897% as the discount rate.

3. 19 April 2005, being the date of the Announcement.

4. On market days when the Shares are not traded, closing price equals to that of the preceding trading day.

For the period from 1 April 2004 to the Last Trading Day (the "Pre-Announcement Period"), the Shares have traded within a relatively narrow range between HK$0.29 to HK$0.72 and below both the values of Combination 1 and Combination 2. As shown in Table 4 below, the values of Combination 1 and Combination 2 represented significant premiums over the market price of the Shares during the Pre-Announcement Period.

Table 4: Trading statistics for the Pre-Announcement Period

	Closing price *(HK$)*	**Premium of the value of Combination 1 over closing price**	**Premium of the value of Combination 2 over closing price**
Last Trading Day	0.540	37.6%	190.0%
Highest (22 November 2004)	0.720	3.2%	117.5%
Lowest (18 August 2004, 23 August 2004)	0.290	156.2%	440.0%
Average during the three-month period prior to the Last Trading Day	0.551	34.9%	184.2%
Average during the six-month period prior to the Last Trading Day	0.541	37.3%	189.5%
Average during the twelve-month period prior to the Last Trading Day	0.487	52.6%	221.6%

Source: the Stock Exchange website

As shown in Chart 1 and analysed in Table 5, closing prices of the Shares rose to levels closer to the value of Combination 1 but significantly below the value of Combination 2 during the period from 20 April 2005 (being the market day immediately following the release of the Announcement) to the Latest Practicable Date (the "Post-Announcement Period"). We note the trend of the Share price is not in line with the trend of the Hang Seng Index. Although there is no certainty as to the specific causes for such increase in Share prices, we believe that it could have been prompted by the higher aggregate value of the offers relative to the market prices of the Shares. In light of the absence of supporting fundamentals of the Group particularly given its continued loss-making performance, we believe such Share price level might not be sustainable.

Chart 1, Tables 4 and 5 have been prepared for illustration purposes only and the implied price of Option 1 is calculated based on the closing price of the Hanny Shares as at the Last Trading Day. Independent Shareholders should note that due to the heavy mix of Hanny Shares in Option 1 of the GDI Offer, the implied value of the GDI Offer changes by the day with fluctuations in Hanny's stock price. (Please refer to the subsection headed "(f) Trading Performance of the Hanny Shares" under the section headed "(9) Valuation considerations for the China Strategic Offer and the GDI Offer" for further details.)

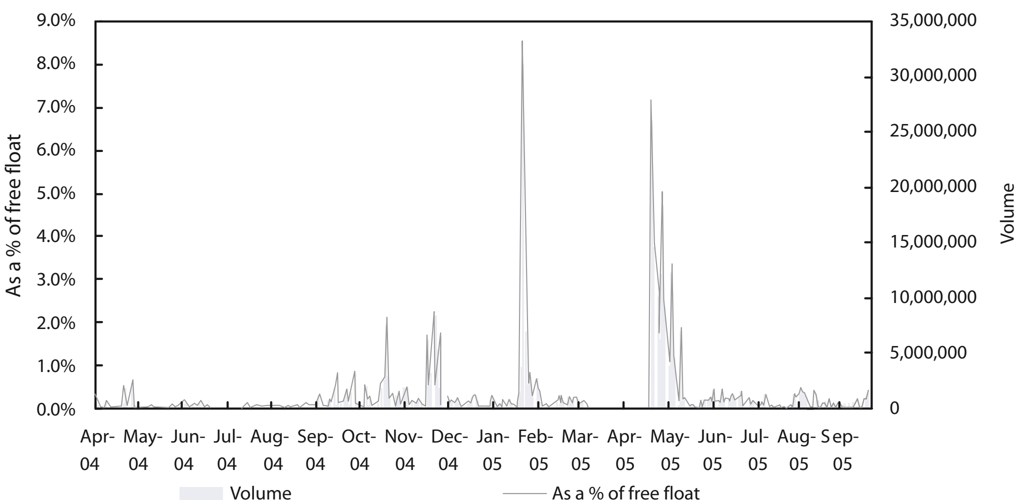
Table 5: Trading statistics for the Post-Announcement Period

	Closing price *(HK$)*	Premium/(Discount) of the value of Combination 1 over/ (to) closing price	Premium of the value of Combination 2 over closing price
20 April 2005, being the market day immediately after the date of the Announcement	0.700	6.1%	123.7%
Latest Practicable Date	0.830	(10.5%)	88.7%
Highest (27 April 2005)	0.940	(21.0%)	66.6%
Lowest (17 May 2005)	0.680	9.3%	130.3%

Source: the Stock Exchange website

(ii) Liquidity of the Shares

Chart 2 — Historical daily trading volume of the Shares as a percentage to free float Shares



Note:

1. Based on 363,955,498 free float Shares, calculated as 881,595,087 Shares in issue less 517,639,589 Shares held by Hanny and Paul Y as at the Latest Practicable Date.

As shown in Chart 2, there have been fluctuations in the trading volume of the Shares during the Review Period. We note that on 15 October 2004, 15 November 2004 and 21 January 2005, the Company made announcements on possible acquisition of interests in the Company by a third party from Hanny and/or Paul Y, which may or may not result in a general offer for all the Shares (other than those already owned or purchased by the third party). On 20 April 2005 (being the market day immediately following the release of the Announcement), the trading volume was stimulated by the Announcement.

Table 6 — Historical trading volume of the Shares

	Total trading volume *(Shares)*	**Average daily trading volume** *(Shares)*	**Average daily trading volume to issued Shares** *(Note 1)*	**Average daily trading volume to free float Shares** *(Note 2)*
2004				
April	9,677,700	509,353	0.1%	0.1%
May	343,000	17,150	0.0%	0.0%
June	2,203,250	183,604	0.0%	0.1%
July	914,500	53,794	0.0%	0.0%
August	2,165,000	98,409	0.0%	0.0%
September	17,948,000	854,667	0.1%	0.2%
October	23,761,500	1,250,605	0.1%	0.3%
November	39,052,475	2,055,393	0.2%	0.6%
December	10,999,070	499,958	0.1%	0.1%
2005				
January	58,597,500	2,790,357	0.3%	0.8%
February	12,490,287	734,723	0.1%	0.2%
March	2,576,500	515,300	0.1%	0.1%
April	114,426,890	14,303,361	1.6%	3.9%
May	45,983,600	2,299,180	0.3%	0.6%
June	16,849,700	765,895	0.1%	0.2%
July	6,475,874	323,794	0.0%	0.1%
August	10,592,500	460,543	0.1%	0.1%
September (up to the Latest Practicable Date)	3,071,353	614,271	0.1%	0.2%

Source: the Stock Exchange website

Note:

1. Based on 881,595,087 Shares in issue as at the Latest Practicable Date.

2. Based on 363,955,498 free float Shares, calculated as 881,595,087 Shares in issue less 517,639,589 Shares held by Hanny and Paul Y as at the Latest Practicable Date.

As illustrated in Table 6, the daily trading volume of the issued Shares has been less than 1% of the free float Shares during the whole Review Period except for April 2005. In April 2005, the monthly trading volume hit a record high in the Review Period of approximately 114.4 million, the average daily trading volume of approximately 14.3 million represented approximately 3.9% of the total number of Shares held by the public.

The aggregate amount of Shares owned by the Independent Shareholders as at the Latest Practicable Date represents approximately 231.2 times the average daily trading volume for the Review Period. Out of a total of 312 trading days during the Review Period, there was no trading in the Shares in 36 days (being 11.5% of the total number of trading days).

Given the relative low liquidity in the Shares, a sufficiently active market may not exist in the Shares to enable the Shareholders who may wish to dispose of their Shares to do so in the short term. Independent Shareholders who believe that because of the size of their shareholding they will be unable to sell the Shares in the open market at a price higher than the aggregate offer price for the Consolidated Shares and the GDI Shares (after deducting related expenses), should consider the China Strategic Offer and the GDI Offer as alternative exits for their investments.

(5) Historical financial performance of the Group

Summarised in Table 7 below is the historical financial information of the Group extracted from the Company's annual reports for the three years ended 31 December 2004.

Table 7: Financial Summary of the Group

	Audited		
	For the year ended 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
			(as restated)
Turnover	**123,403**	**2,884,493**	**3,601,735**
Gross profit	**41,948**	**364,318**	**548,967**
gross profit margin	*34.0%*	*12.6%*	*15.2%*
Profit (loss) from operations	**(146,129)**	**94,111**	**(527,705)**
operating margin	—	*3.3%*	—
Finance costs	(17,434)	(50,712)	(109,460)
Share of results of associates	(37,375)	(175,734)	(137,574)
(Loss) on disposal/dilution of interests in subsidiaries	(5,257)	12,344	64,193
Gain (loss) on disposal/dilution/ liquidation of interests in associates	81,631	(36,481)	14,980
Allowance on receivables advanced to an associate	—	(12,712)	—
(Loss) before taxation	**(124,564)**	**(169,184)**	**(695,566)**
Taxation	(6,464)	(10,935)	(12,250)
(Loss) before minority interests	**(131,028)**	**(180,119)**	**(707,816)**
Minority interests	(45,024)	(9,409)	233,682
Net (loss) for the year	**(176,052)**	**(189,528)**	**(474,134)**
net margin	—	—	—
Basic (loss) per Share *(HK$)*	**(0.20)**	**(0.23)**	**(0.76)**

Year ended 31 December 2004

For the year ended 31 December 2004, turnover decreased by 95.7% to HK$123.4 million. The decline was mainly due to the deconsolidation of the subsidiaries engaged in (i) manufacturing and trading of tire products in the PRC; and (ii) manufacturing of western pharmaceutical products. Turnover for the year was mainly generated from manufacturing and trading of battery products and Chinese pharmaceutical products operation. The latter was treated as discontinuing operations during the year following the Group disposed of its interest in Tung Fong Hung Investment Limited in May 2004. Notwithstanding the significant improvement in gross profit margin, operating loss amounted to HK$146.1 million as compared to an operating profit of HK$94.1 million in 2003. The deterioration was mainly attributable to the substantial decrease in other operating income (from HK$145.7 million in 2003 to HK$60.2 million in 2004), which included interest incomes, net exchange gain, gain on disposal of investments in securities, dividend income and gain on disposal of property, plant and equipment, and increase in allowances for loans and interest receivables (from HK$43.8 million in 2003 to HK$140.9 million in 2004) (please refer to Appendix I — Financial Information on the Group for further details). Loss per share decreased from HK$0.23 in 2003 to HK$0.20, representing an improvement of 13.0%.

Year ended 31 December 2003

For the year ended 31 December 2003, turnover decreased by 19.9% to HK$2,884 million. The decline was mainly due to the deconsolidation of the subsidiaries engaged in (i) manufacturing and trading of food products; (ii) manufacturing and trading of electronic products; (iii) manufacturing and trading of tractors and automobile related products; (iv) toll highway operation; and (v) the activities of hotel operation and property investment. Turnover for the year mainly comprised of sales of tires and pharmaceutical products. Due to the significant reduction in operating expenses from HK$1.2 billion in 2002 to HK$415.9 million in 2003 which included impairment loss on the Group's assets (from HK$345.8 million in 2002 to nil in 2003) and unrealised holding losses on investment in securities (from HK$232.6 million in 2002 to HK$37.6 million in 2003), operating profits increased by 117.8% to HK$94.1 million. The Group's net loss for the year reduced by 60.0% to approximately HK$189.5 million.

Year ended 31 December 2002

For the year ended 31 December 2002, turnover increased by 11.4% to HK$3,602 million as compared with HK$3,234 million for financial year 2001. Turnover for the year mainly comprised of sales of goods (including tires, pharmaceutical products and others), toll highway operation, sale of properties, hotel operation and rental income, etc. Despite the gross profit margin of the Group increased by 7.1% over 2001, the Group recorded operating loss of HK$527.7 million. Net loss for the year amounted to HK$474.1 million due to the significant increases in finance costs (from HK$81.5 million in 2001 to HK$109.5 million in 2002) and share of loss of associates (from HK$18.0 million in 2001 to HK$137.6 million in 2002).

After reviewing the historical performance of the Group, we would highlight the following observations:

(i) ***Improved gearing level*** Following the streamlining and rationalisation of the Group's business and assets in 2002 and 2003, total liabilities decreased in the same three-year period from HK$2.3 billion in 2002 to HK$405.7 million in 2003 and further to HK$295.2 million in 2004, representing year-on-year decrease of 82.4% and 27.2% respectively. Debt/equity ratio (calculated as total liabilities divided by shareholders' equity) improved substantially from 132.7% in 2002 to 26.5% in 2003 and further to 22.5% in 2004. Finance costs charged to the income statements also decreased from HK$109.5 million in 2002 to HK$50.7 million in 2003 and further to HK$17.4 million in 2004, representing year-on-year decrease of 53.7% and 65.7% respectively.

(ii) ***Share of substantial loss of associates*** The Company's share of the loss of associates amounted to HK$137.6 million, HK$175.7 million and HK$37.4 million in 2002, 2003 and 2004, respectively.

(iii) ***Recurring exceptional items*** Exceptional items comprised loss on disposal/dilution of interests in subsidiaries, gain (loss) on disposal/dilution/liquidation of interests in associates and allowance on receivables advanced to an associate. Exceptional items amounted to HK$79.2 million in 2002, minus HK$36.8 million in 2003 and HK$76.4 million in 2004.

(iv) ***Change in source of turnover*** Following a series of disposals and restructuring of the non-performing businesses, the Group no longer engaged in tire operations which contributed substantially to the turnover and operating profits for the two years ended 31 December 2003. Turnover for the year ended 31 December 2004 was mainly generated from manufacturing and trading of battery products and the pharmaceutical products. However, following the disposal of the business of pharmaceutical products in May 2004, which accounted for 78.0% of the turnover of the Group for the year ended 31 December 2004, manufacturing and trading of battery products and related accessories became the only source of turnover for the Group. Manufacturing and trading of battery products accounted for 22.0% of the turnover of the Group for the year ended 31 December 2004, but unlike the pharmaceutical business, it reported a loss.

(6) Future prospects and outlook of the Group

Pursuant to the Group Reorganisation, the Company's assets would be grouped under the Remaining Business and the Distributed Business. We set out below an analysis of the outlook of each of these businesses:

Table 8: Outlook of the Remaining Business

Remaining Business	Details	Outlook
Manufacturing and trading of battery products	80% interest in Talent Cosmos Limited ("Talent Cosmo")	As stated in the Company's 2004 annual report, the battery manufacturing subsidiary of the Company was striving to enlarge its market share. Some of its products had been launched in the market and it had conducted research and development on certain new products. Management of the Company believed that Talent Cosmo would generate ample returns to the Group when it had successfully increased its market share. We have discussed with management of the Company in respect of Talent Cosmo's business and note that over 50% of its turnover was generated from the original brand manufacturing business with its own products sold under the brand name "Megaton". The remaining turnover of the company was generated from original design manufacturing where those products were sold under the brand of their customers. According to the Directors, China is Talent Cosmo's primary market and overseas sales are minimal at this stage. However, its sales currently accounts for negligible domestic market shares.

Remaining Business	Details	Outlook
		China is the world's primary battery manufacturer and the largest exporter. The battery products manufacturing industry in China accounted for over a third of total world battery supply by 2003. According to the statistics released by Customs General Administration of People's Republic of China, the total export volume of batteries from China increased by 8% from 19.8 billion units in 2003 to over 21.4 billion units in 2004 and the total export amount of batteries from China increased by 40% from US$2.9 billion in 2003 to over US$4 billion in 2004. In light of Talent Cosmos's negligible market share in both domestic and overseas markets, we believe there is plenty of room for further growth. As advised by management of the Company, application for patent is being sought for some of the battery products. We consider that this is the first step that allows Talent Cosmo to differentiate its products in the marketplace and to enlarge its market share. However, we have reviewed the consolidated accounts of Talent Cosmos for the year ended 31 December 2004 and note that its loss was mainly attributable to high operating expenses. Outlook of the battery manufacturing and trading business will thus substantially depend on the Company's ability to implement effective cost reduction measures. Given the Company has no publicly-disclosed plans for the implementation of such measures, we are of the opinion that Talent Cosmos's ability to turnaround in the short term remains doubtful.
Investment in securities and property	(1) Various listed securities in Hong Kong and overseas	We note from the Company's annual report that investments in securities and advance reported losses in each of the three financial years ended 31 December 2004. According to the Directors, they have no intention to dispose of any of its existing holdings as at the Latest Practicable Date, however, subject to the then market condition, they might acquire other listed securities. Having discussed with management of the Company, we note that the Group has no specific investment strategies or defined portfolio size. Therefore, we are unable to provide an analysis on the outlook for this business. Independent Shareholders should note that these investments are not subject to any stop-loss policy or maximum investment size and therefore will be exposed to the related investment risks.
	(2) A commercial unit in Beijing Huapu International Plaza, Chaoyang District, Beijing, the PRC	According to the Directors, the commercial unit is currently occupied by the Group as office.

Remaining Business	Details	Outlook
Investments in unlisted securities and loan receivable	(1) 16.4% interest in Beijing Technology Development Fund LDC, the objective of which is to make direct investment in a diversified portfolio of high technology based ventures which currently have or are expected to have a connection with, or focus on, the development of high technology in the Greater China region (2) 800,000 shares in BNI Business Network Corp, which is principally engaged in electronic publication (3) 1,964,636 series B preference shares in TechSpace Inc., which is principally engaged in provision of full-serviced facilities and infrastructure delivering a completely integrated information technology and business process for customers (4) 4,195,122 shares in China VU.com Inc., which is principally engaged in internet marketing, commerce and information service (5) 935,637 series D preference shares of Silicon Magic Corporation, which is principally engaged in semiconductor business (6) HK$2 million loan receivables from Danwei Limited, which is an investment holding company, and others	We note from the Company's annual report that investments in securities and advance reported losses in each of the three financial years ended 31 December 2004. We understand that under the prevailing accounting standards, these investments are subject to annual impairment assessments and unrealised holding gain/loss considerations which have been performed for the purpose of preparation of the "Accountants' report on the GDI Group" as set out in Appendix III. (Please refer to the subsection headed "Impairment" as set out in page 205 for details.) According to the Directors, they have no intention to dispose of any of its existing holdings as at the Latest Practicable Date, however, subject to the then market condition, they might enlarge the portfolio. Having discussed with management of the Company, we note that the Group has no specific investment strategies or defined portfolio size. Therefore, we are unable to provide an analysis on the outlook for this business. Independent Shareholders should note that these investments are not subject to any stop-loss policy or maximum investment size and therefore will be exposed to the related investment risks.

Table 9: Outlook of the Distributed Business

Distributed Business	Details	Outlook
Property development	(1) 100% interest in a property development project in respect of a building situated at Nos. 219 and 229, Jiangning Road, Jiangan District, Shanghai, the PRC and the building being erected thereon comprises two levels of underground carparks and a 24-storey building ("Shanghai Property")	The property comprises a proposed 24-storey commercial building of the development. The property is still under construction and is scheduled to be completed by the end of 2005. Despite GDI's plans to change the use of the property from office to both commercial and residential, the relevant approval has not been obtained as at the Latest Practicable Date and the Directors have decided to proceed with the agreement in respect of the acquisition of the Shanghai Property. In June, the GDI Group had commenced legal proceedings against the vendor for unfulfilled obligations. The prospect of the Shanghai Property depends on the outcome of the litigation as detailed in note 14 contained in Appendix III - Accountants' report on the GDI Group.
	(2) 100% property interest in a development site located at the junction of Zhungang Road and Huangyang Road in the Longshan Industrial District, Doumen District, Zhuhai City, Guangdong, the PRC	This project is to be jointly developed with Zhuhai City Longshan Industrial District Administration Committee (珠海市龍山工業區管理委員會) and the GDI Group is entitled to the exclusive development right to the project and also the right to obtain the land for the development. The construction works for site formation and provisions of servicing /utilities of part of the property are in progress. We have been advised by the Directors that the intended completion date is not determinable as at the Latest Practicable Date. According to the Directors, the Company's interest in this project will be held for sale. However, there is no concrete plan for the disposal of such interest as at the Latest Practicable Date. Outlook of this investment will thus be subject to the then market conditions.

Distributed Business	Details	Outlook
	(3) 22.7% interest in China Velocity Group Limited ("China Velocity")	We note from China Velocity's annual reports that it reported operating loss and net loss for each of the three financial years ended 31 December 2004. The losses were mainly attributable to the substantial impairment losses and revaluation decreases recognised in respect of its assets. Turnover decreased by 90.5% in 2004 to HK$12.6 million and impairment losses and revaluation decrease of HK$221.6 million was reported. With the introduction of the new management team in early 2004, China Velocity is now principally engaged in property investment and development in the PRC. In March 2005, China Velocity entered into an agreement to acquire a property development project in Shenzhen, the PRC for HK$35 million. The development site is located on the proposed new subway line of Shenzhen. According to its 2004 annual report, China Velocity planned to develop the site into a residential complex for resale purpose. However, we note that China Velocity's bank balances and cash amounted to HK$2.5 million, other borrowings amounted to HK$100.0 million and its debt/equity ratio (calculated as total liabilities divided by shareholders' equity) deteriorated substantially to 124.3% as at 31 December 2004. We are of the opinion that China Velocity's ability to obtain sufficient funding for development of this project is doubtful.
Manufacturing and marketing of tires	14.4% effective interest in Hangzhou Zhongce Rubber Company Limited ("Hangzhou Zhongce") held through CEL	As Hangzhou Zhongce is held by CEL, outlook of the manufacturing and marketing of tires business is included in our analysis on the prospect of CEL under "Other business and assets and liabilities".
Business of providing tour travel and other related services	(1) 15.3% effective interest in Wing On Travel (Holdings) Limited ("Wing On Travel") held through CEL	Wing On Travel reported operating loss and net loss in both financial years 2003 and 2002, but managed to turnaround in financial year 2004. For financial year 2004, Wing On Travel reported profit from operations of HK$53.8 million and net profit of HK$35.4 million, the latter was mainly attributable to a HK$37.9 million gain on disposal of associates. As stated in Wing On Travel's 2004 annual report, its directors believed that prospects of Wing On Travel were conditional on domestic and foreign stability. They expected that the local economic environment would remain broadly favourable and the PRC's real economic growth would remain strong. However, it was envisaged that the steady emergency of low cost carriers within the region would place pressure on tour prices. Accordingly, Wing On Travel's principal focus for 2005 was to achieve further revenue growth together with the introducing of more new creative products, which would spread through a much wider spectrum of the market share.

Distributed Business	Details	Outlook
		Wing On Travel returned to profitability in 2004 and is expected to grow in line with, *inter alia*, the timeframe for the PRC to gradually open up foreign ownership of companies operating with outbound travel licences, domestic and foreign stability and economic growth of the local market.
Other business and assets and liabilities	(1) 55.2% Interest in CEL	CEL is listed on the OTC (over-the-counter) Bulletin Board in the United States of America. We note from CEL's annual reports that CEL reported net loss after taxes for each of the three financial years ended 31 December 2003. As stated in the Company's 2004 annual report, CEL maintained minimal involvement in the manufacturing and trading of tire products in the PRC and other countries through Hangzhou Zhongce. As at the Latest Practicable Date, the GDI Group held indirectly 14.4% interest in Hangzhou Zhongce through CEL. Apart from the acquisition of the Shanghai Property, CEL is seeking appropriate investment opportunities in the hotel and travel related businesses in the PRC. We note that CEL has not filed its 2004 annual report with EDGAR as at the Latest Practicable Date. According to CEL's published notice with the Securities and Exchange Commission, CEL had not filed its 2004 annual report with EDGAR because CEL was still evaluating certain filing requirements and was also finalising a restatement relating to its previously issued financial statements for the year ended 31 December 2003 with its advisors. We have discussed with management of the Company in respect of CEL's business and note that CEL's major income came from its share of the results of its affiliates, Wing On Travel and Hangzhou Zhongce, and its future prospects will substantially depend on the profitability of the Shanghai Property. According to management of the Company, both Wing On Travel and Hangzhou Zhongce reported profits for financial year 2004. In addition, we have been advised by management of the Company that the PRC market accounted for over 60% of the total turnover of Hangzhou Zhongce and the U.S. market accounted for most of its exports. Domestic sales have been strong as a result of the robust growth of the PRC's automobile market. Export performance of Hangzhou Zhongce also benefited from the improved global economic environment. However, the surging oil prices have led to substantial increases in the cost of raw materials, which has not been fully reflected in the selling price of tires, and has resulted in a diminishing margin. Continued rising oil prices would hurt the world economy and reduce earnings of Hangzhou Zhongce. Profitability of the tire business would thus subject to continued efficiencies and cost-cutting measures.

Distributed Business	Details	Outlook
		As at the Latest Practicable Date, there is no certainty as to the outcome of the litigation in respect of the Shanghai Property (please refer to the analysis on property development business for further details), this casts doubt on the prospect of CEL's business.
	(2) 57.3% interest in MRI	MRI reported operating loss and net loss for financial years 2002 and 2004 due to high operating costs. Nevertheless, operating profit and net profit were recorded for financial year 2003. The improvement was mainly attributable to a substantial write-back of other financial assets. MRI's net loss for the year ended 31 December 2004 amounted to AUD793,000 or AUD0.017 per share. As at 31 December 2004, MRI's net asset value was AUD21.4 million. As advised by management of the Company, the carrying value of MRI as at 30 April 2005 amounted to HK$98.5 million. According to the Company's 2004 annual report, MRI continued as an investment company under the Australian Stock Exchange Limited ("ASX") guidelines. We note from the MRI's public filings that its securities have been suspended from quotation since 12 July 2004 as it has not been able to comply with ASX Listing Rules 12.1 and 12.3. These listing rules state: *12.1 "the level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing".* *12.2 "if half or more of an entity's total assets is cash or in a form readily convertible to cash, ASX may suspend quotation of the entity's securities".* According to MRI's announcement dated 8 July 2004, the directors of MRI were confident that a suitable further investment would be able to be made in a reasonable timeframe thus allowing for compliance with the relevant listing rules and the subsequent lifting of the suspension. However, according to the Company's 2004 annual report, MRI had considered a number of possible investment opportunities during the year, but none met MRI's objectives. As at the Latest Practicable Date, MRI had not been able to increase its level of activity and half or more of MRI's assets were cash or readily convertible to cash.

Distributed Business	Details	Outlook
		In addition, in July 2003, the status of MRI was changed to an investment entity. The first investment made by MRI was an AUD4 million convertible note with Fruit Projects Australia Limited ("FPA"). Nevertheless, MRI announced on 5 May 2004 that it had become aware that a winding up application had been made against FPA, and MRI subsequently entered into an agreement with Westland Orchards Pty Ltd ("Westland Orchards") and Westland Packaging Pty Ltd ("Westland Packaging") who had acquired the assets previously held by FPA to effect the transfer of the previous convertible note provided to FPA to Westland Orchards and Westland Packaging to fund their acquisition of the land and buildings previously comprised in the FPA operations on 30 March 2005. The note is secured by the assets acquired by Westland Orchards and Westland Packaging and is convertible in the event Westland Orchards undertakes an initial public offering with the conversion price being 70% of the offer price.
		There were limited disclosure for the intended initial public offering of Westland Orchards and the secured assets in MRI's 2004 annual report and public filings. In the absence of a concrete plan and terms for the initial public offering of Westland Orchards, we cannot conclude that there will be any definite positive future prospects to MRI's business and there is no certainty that MRI could resume trading shortly.
	(3) 9.8% interest in Apex Quality Group Limited ("Apex"), which is an investment holding company and principally holds "Rosedale" branded hotels in Hong Kong, Guangzhou and Beijing and Luoyang Golden Gulf Hotel in the PRC	We have discussed with management of the Company in respect of the prospects of these businesses and note that given the small percentages of these investments, they will not be equity accounted for in the books of the Group. These assets would have limited effect on the overall prospects of the Distributed Business and we do not consider a detailed analysis of these businesses meaningful.
	(4) 194 units in Vertex Technology Fund(II) Ltd.	
	(5) Other assets and liabilities	
		Apart from the above businesses, we note from note 15 contained in Appendix III "Accountants' Report on the GDI Group" that subsequent to 30 April 2005, the GDI Group has acquired certain subsidiaries which are engaged in sand mining. However, in the absence of any publicly-disclosed information and plans in respect of this newly acquired business, we are unable to provide an analysis on the outlook for this business.

We note from Tables 8 and 9 that the Company and GDI have limited productive and potential assets and no clearly defined publicly-disclosed plans for growth related to the assets they have in hand, and particularly:

(i) as is evident from the historical financial performance of the Company, there has been a drop-off in net loss of the Group following the extensive group reorganisation and re-engineering in corporate structure in 2002 and 2003; however, the Company has reported four consecutive loss-making years since 2000;

(ii) the Company has undergone extensive restructuring over the last few years, most of the revenue-generating subsidiaries have been disposed of; and

(iii) the Company positions itself as a conglomerate investor with its primary focus on the PRC. However, in the absence of a well-defined business plan, there is no certainty for continuation of the existing businesses.

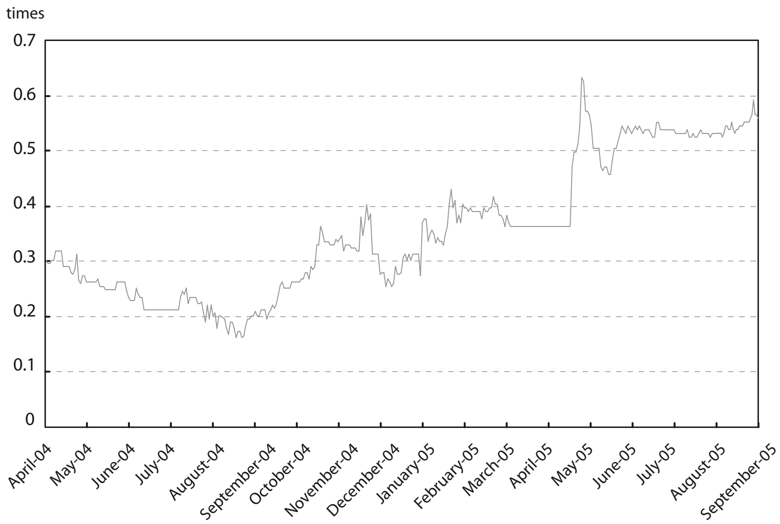
In light of the above, we cannot conclude that there will be any definite positive future prospects to the Group. We are of the opinion that the future prospects of the Remaining Business and the Distributed Business remain uncertain.

(7) Net asset value of the Group

The consolidated net asset value ("NAV") of the Group, based on its audited consolidated balance sheet as at 31 December 2004, amounted to HK$1.3 billion or approximately HK$1.488 per Share. Combinations 1 and 2 represent a discount of approximately 50.1% and a premium of 5.2% respectively to the NAV per Share as at 31 December 2004.

Chart 3 below shows the daily historical Price-to-Book ratio ("P/B") for the Shares for the Review Period:

Chart 3: Price-to-book ratio



Source: Bloomberg

As shown, the Shares have been trading at a significant discount to the NAV of the Group and the Company's P/B has largely remained in a narrow band between 0.16 times to 0.43 times during the Pre-Announcement Period. Following the publication of the Announcement, the Company's P/B reached a record high of approximately 0.63 times and remained in the band between approximately 0.46 to 0.63 times.

Table 10 sets out the P/B calculated based on the implied values of Combinations 1 and 2 against various reference periods.

Table 10: P/B Comparison

	P/B *(times)*	Premium/(Discount) of the P/B represented by Combination 1 over/(to) P/B	Premium of the P/B represented by Combination 2 over P/B
Average during the Pre-Announcement Period	0.283	76.4%	271.9%
Average during the Post-Announcement Period	0.533	(6.3%)	97.5%
Latest Practicable Date	0.558	(10.5%)	88.6%

The low P/B of the Company indicated that the Shares have traded at a significant discount to net asset value. Given the market price of the Shares fails to reflect the value of the Company's assets, we believe the most efficient way of realising some of this value is to distribute the GDI Shares the Company would receive pursuant to the Group Reorganisation to the Shareholders such that the Shareholders would have an opportunity to unlock value by accepting the China Strategic Offer and the GDI Offer.

(8) Dividend payment history of the Company

We have reviewed the dividend payment history of the Company and noted that for the last four financial years ended 31 December 2004 in which the Group reported net losses, the Group had not paid or declared any dividend. According to the Directors, the Company has not formulated any future dividend policy except for the proposed distribution in specie of the GDI Shares pursuant to the Group Reorganisation. We therefore believe the distribution in specie of the GDI Shares is incidental to the Share Sale Agreement and there can be no assurance that the Company would be in a position to pay dividends in the future. In light of the absence of historical dividend yield of the Shares, we are unable to assess the fairness and reasonableness of the aggregate offer price of the China Strategic Offer and the GDI Offer in this respect.

Independent Shareholders looking for dividend income in addition to capital appreciation from an investment are advised to compare the historical dividend payment record of Hanny (which is set out in the subsection headed "(g) Dividend Payment Record of Hanny" under the section headed "(9)Valuation considerations for the China Strategic Offer and the GDI Offer) and that of the Company.

(9) Valuation considerations for the China Strategic Offer and the GDI Offer

Following the Group Reorganisation, the China Strategic Offer and the GDI Offer, which are subject to completion of the Share Sale Agreement and approval by the Independent Hanny Shareholders respectively and satisfaction of certain conditions precedent, might be extended to the shareholders of the Consolidated Shares and the GDI Shares. In view of the foregoing, we believe that it is fair for us to conduct a preliminary evaluation of the terms of the China Strategic Offer and the GDI Offer based on the information available up to the Latest Practicable Date as discussed in this section.

(i) The China Strategic Offer

(a) Indicative Valuation Benchmarks

One of the most commonly used benchmarks for valuing companies is the price-to-earnings ratio (“P/E”). However, the Group has incurred losses in each of the last three financial years. We note from the “Unaudited Pro Forma Income Statement” of the Group as set out in Appendix II of this Circular that the Group would have a pro forma loss per Consolidated Share of HK$0.378 upon completion of the Group Reorganisation, the use of P/E as a reference to assess the offer price is therefore not applicable.

Based on the “Unaudited Pro Forma Assets and Liabilities Statement” of the Group set out in Appendix II of this circular, the net asset value (“NAV”) per Consolidated Share amounted to approximately HK$0.385. The offer price of HK$0.386 represents a premium of approximately 0.4% to the NAV per Consolidated Share and a P/B of 1.0 times.

(b) Comparable Company Analysis

In assessing the fairness and reasonableness of the offer price, we have attempted to compare it with the cash offers made within a twelve-month period prior to the date of the Announcement for companies listed on the main board of the Stock Exchange and are engaged in the Remaining Business. However, we are unable to identify any cash offer in the aforesaid period companies engaged in similar businesses to the Remaining Business. In the absence of industry comparables, we have identified, as an alternative, all offers (“Comparable Offers”) made for companies (“Comparables”) that are listed on the main board of the Stock Exchange within a twelve-month period prior to the Latest Practicable Date. Table 11 sets out various valuation parameters of the Comparables, which were identified, to the best of our knowledge and based on the information from the website of the Stock Exchange.

Table 11: Comparable Offers

Comparables (stock code)	Principal activities	Date of announcement	Market capitalisation *(HK$'mil)* *(Note 1)*	P/B *(times)* *(Note 3)*	Dividend yield
Wanji Pharmaceutical Holdings Limited (835)	Distribution of medical equipment and medical and winery products in Hong Kong	03-Sep-04	71	5.3	n.a.
Minglun Group (Hong Kong) Limited (346)	Manufacture and sales of petrochemical fuel products and sale and distribution of PU materials, PU foam and PU foam products	14-Sep-04	203	0.7	n.a.
Elec & Eltek International Holdings Limited (33)	Manufacture and sale of electronic components, including double-sided and multi-layer printed circuit boards, liquid crystal displays and magnetic products	12-Oct-04	n.a. *(Note 2)*	2.8	2.1%
renren Holdings Limited (59)	Provision of Internet, telecommunication services and products, general trading, provision of financial advices and services, securities and protperties investments	02-Nov-04	51	1.5	n.a.
China Strategic Investment Limited (497)	Property investment and securities investment	15-Nov-04 21-Dec-04	625	0.3 *(Note 4)*	n.a.
Enerchina Holdings Limited (622)	Electricity supplies and investment holding	06-Dec-04	3,724	1.1	n.a.
CCT Tech International Limited (261)	Manufacture and sale of telecom products	31-Jan-05	335	1.5	n.a.
Simsen International Corporation Limited (993)	Shipment sales of metals & metal scraps, bullion, securities & futures contracts broking, provision of margin and loan financing, holding of investment properties in Hong Kong and mining operations in China	22-Feb-05	61	0.5	n.a.
Zida Computer Technologies Limited (859)	Design, development, manufacture and sale of PC motherboards under TOMATOBOARD brandname and PC systems, trading of high quality PC components	01-Apr-05	199	4.1	n.a.

Comparables (stock code)	Principal activities	Date of announcement	Market capitalisation *(HK$'mil)* *(Note 1)*	P/B *(times)* *(Note 3)*	Dividend yield
Magnum International Holdings Limited (305)	Securities dealing and brokerage, money lending and property investment	08-Apr-05	52	n.a.	n.a.
Wealthmark International (Holdings) Limited (39)	Manufacture and sale of handbag products and related accessories; provision of subcontracting services; and trading of raw materials used in the manufacture of handbags and related products	15-Apr-05	165	0.1	103.0%
Swank International Manufacturing Company Limited (663)	Manufacture and sale of optical products and trading of optical equipment and accessories, property holding	18-Apr-05	209	n.a.	n.a.
Geely Automobile Holdings Limited (175)	Manufacturing and trading of automobile parts and related automobile components, and investment holding	10-May-05	1,772	0.6	11.1%
Qingling Motors Co. Ltd. (1122)	Production and sale of Isuzu light-duty truckes, pick-up trucks, multi-purposes vehicles, heavy-duty truck, other vehicles and automobile parts and accessories	20-May-05	3,078	0.8	2.5%
Goldigit Atom-tech Holdings Limited (2362)	Sales and marketing of chemical pesticides based on propulsive agent technology in the PRC	24-May-05	204	0.7	n.a.
Greater China Holdings Limited (431)	Production and sales of fertilizers, property investment and investment holding	17-Jun-05	129	0.9	n.a.
Sunday Communications Limited (866)	Sales of mobile phones and accessories, mobile services, international telecommunications and other services	22-Jun-05	1,914	2.8	n.a.
The Hong Kong Building and Loan Agency Limited (145)	Investment holding, provision of mortgage finance and other related services and treasury investments	06-Jul-05	243	1.1	n.a.
China Investment Fund Co. Ltd. (612)	Invest in listed and unlisted securities in the PRC and Hong Kong	05-Aug-05	72	1.1	n.a.
Wanji Pharmaceutical Holdings Limited (835)	Distribution of medical equipment and medicinal and winery products	12-Aug-05	71	8.2	n.a.
New Spring Holdings Limited (690)	Manufacturing and trading of packaging products, paper gifts items and promotional products and investment holding	01-Sept-05	216	1.2	n.a.
Maximum				8.2	103.0%
Minimum				0.1	2.1%
Mean *(Note 5)*				**1.9**	**29.7%**

Note:

1. Being the market capitalisation as at the Latest Practicable Date.
2. Market capitalisation for Elec & Eltek International Holdings Limited was not available as at the Latest Practicable Date as the listing of its shares on the Stock Exchange had been withdrawn.
3. P/B is calculated as share price divided by book value per share and n.a. denotes not applicable as these Comparables recorded audited/unaudited net deficit as at their latest balance sheet date prior to the respective date of announcement.
4. Adjustments made to take into account the effect of the share consolidation which was announced on 15 July 2004 and became effective on 31 August 2005.
5. Excluding Qingling Motors Co. Ltd which is a partial offer.

As illustrated in Table 11 above, the P/B of the Comparable Offers ranges from 0.1 to 8.2 times. The implied P/B, based on the offer price of HK$0.386 for the Consolidated Share, of 1.0 times falls within the range of the Comparable Offers. On this basis, we consider that the offer price for the Consolidated Share fair and reasonable so far as the Independent Shareholders are concerned.

(ii) The GDI Offer

(a) Indicative Valuation Benchmarks

Table 12 below summarises the P/B for the GDI Group based on the implied values for each GDI Share under Options 1 and 2 against various reference periods.

Table 12: P/B for the GDI Group

	Option 1		**Option 2**	
	implied value	**P/B** *(times)*	**implied value**	**P/B** *(times)*
Last Trading Day	1.1	0.4	2.7	0.9
Average during the Pre-Announcement Period	1.0	0.3	2.7	0.9
Average during the Post-Announcement Period	1.0	0.3	2.7	0.9
Latest Practicable Date	1.1	0.4	2.7	0.9

Due to the heavy mix of Hanny Shares in the GDI Offer, the implied value of Option 1 changes by day with fluctuations in Hanny's stock price. On the Last Trading Day, the implied value of Option 1 was HK$1.1 per GDI Share, translating to a P/B of 0.4 times. On the Latest Practicable Date, the implied value of Option 1 was HK$1.1 per GDI Share, translating to a P/B of 0.4 times. Independent Shareholders who wish to accept the GDI Offer should closely monitor the price of the Hanny Shares which constitutes a variable component in the implied value of Option 1, and compare such value with that of Option 2.

Independent Shareholders should note that (i) most of the revenue-generating subsidiaries of the GDI Group have been disposed of in the past three financial years; (ii) the GDI Group reported losses in each of the two financial years ended 31 December 2003; and (ii) the GDI Group recorded gain/(loss) on disposal/dilution of interests in associates in 2002 and 2004, and gain on deemed disposal of associate in 2003, all of which had significant impacts on earnings, and therefore makes P/E an inappropriate valuation benchmark.

(b) Comparable Company Analysis

Given the fact that the GDI Group has no revenue-generating subsidiaries for the period from 1 May 2004 to 30 April 2005, it reported no turnover and its operating income comprises, *inter alia*, interest income from loans receivable and dividend income from listed investments for the four months ended 30 April 2005, no industry comparables could be identified for comparison. As the GDI Offer comprises a mixture of cash and shares or convertible bonds, we do not consider it appropriate to assess the implied value of the GDI Offer by comparing it with the valuation parameters of the Comparables. Nevertheless, we have applied the comparison approach for reference purposes.

We note from Table 12 that the implied P/B for the GDI Share, (i) based on the implied value of Option 1 on the Last Trading Day, of 0.4 times falls within the low end of the range of the Comparable Offers; (ii) based on the implied value of Option 2 of 0.9 times also fall within the range of the Comparable Offers. On this basis, we consider that the offer price for the GDI Share fair and reasonable so far as the Independent Shareholders are concerned.

(c) Intentions of Hanny regarding GDI

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.

As stated in the section headed "Intentions of Hanny regarding GDI" in the "Letter from the Board", 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 Group Reorganisation. 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. No new listing application will be made for the GDI Shares on the Stock Exchange or any other stock exchange.

As stated in the "Letter from the Board", 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. Specifically, those matters requiring independent shareholders approval and independent advice are (a) the acquisition or disposal of assets with an aggregate value or with attributable turnover or net profit before taxation of more than 75% of the latest published total assets, total turnover or net profit before taxation of the GDI Group (or before any publication of results, as shown in the unaudited pro forma financial statements set out in Appendix IV to this circular); (b) any connected transaction (as defined in the Listing Rules and applied as if GDI were a listed issuer) other than those for which independent shareholders' approval would not have been required under the Listing Rules; (c) issues of shares or other securities of GDI other than by way of rights to all shareholders (subject to certain exclusions as the board of GDI deem necessary or expedient as described in Appendix VII to this circular) or as approved by ordinary resolution mentioned below; (d) borrowing or raising or securing of the payment of money unless it is for the furtherance of the objectives of GDI and (e) the making of any investment that is outside the scope of the objectives of GDI. In addition, an ordinary resolution of shareholders in general meeting of GDI is required in respect of (i) any acquisition or disposal of assets with an aggregate value or with attributable total turnover or net profit before taxation of more than 25% of the latest published total assets, total turnover or net profit before taxation of the GDI Group (or before any publication of results, as shown in the unaudited pro forma financial statements set out in Appendix IV to this circular); and (ii) the granting of general authority to directors for any issue of shares or other securities of GDI (which would be convertible into or have rights attached for the subscription of shares of GDI) once every financial year of GDI, provided that such general authority may not allow the number of shares which fall to be issued by GDI under such proposal (including, in the case of securities, the number of shares which fall to be issued at the initial conversion or subscription price) to exceed 20% of the number of shares of GDI Shares then in issue.

On this basis, we are of the view that the interests of the Independent Shareholders will be properly safeguarded.

(d) *Investment risks and credit risks associated with Options 1 and 2*

Under the GDI Offer, shareholders of the GDI Shares will have the opportunity of receiving one Hanny Share plus HK$1.8 in cash or one Hanny Bond, which has a face value of HK$15 and can be converted into Hanny Shares at the initial conversion price of HK$9.0 per Hanny Conversion Share, for every five GDI Shares held by them. The underlying investment risks and credit risks associated with the Hanny Share and Hanny Bond (as the case may be) are discussed in this section.

(1) Business and Historical Financial Performance of Hanny

Hanny is a limited company incorporated in Bermuda, the shares of which are listed on the Stock Exchange. 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), distribution and marketing of computer accessories and storage media drivers, scanners, audio and video cassettes, minidisks, household electronic products and telecommunication accessories and trading of securities. The Hanny Group also makes strategic investments in information technology, supply of household consumer products and other businesses. Hanny itself is an investment holding company. As at the Latest Practicable Date, Hanny had a market capitalisation of approximately HK$861 million.

Summarised in Table 13 below are the consolidated financial results of the Hanny Group for the three years ended 31 March 2005 extracted from Hanny's annual reports.

Table 13: Financial Summary of the Hanny Group

	Audited		
	For the year ended 31 March		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000* *(as restated)*
Turnover	**5,676,459**	**5,025,930**	**4,162,804**
Gross profit	**1,300,098**	**1,093,748**	**914,035**
gross profit margin	*22.9%*	*21.8%*	*22.0%*
Profit (loss) from operations	**319,491**	**228,816**	**(315,641)**
operating margin	*5.6%*	*4.6%*	—
Realisation of negative goodwill arising on acquisition of an additional interest in an associate	2,057	—	—
Finance costs	(18,198)	(26,440)	(31,669)
Share of results of associates	(59,725)	(73,463)	(32,397)
Impairment loss on goodwill arising on acquisition of an associate	(177,446)	—	(104,585)
Amortisation of goodwill arising on acquisition of associates	(28,089)	(17,651)	(6,612)
Net (loss)/gain on disposal of subsidiaries and associates	(15,747)	10,377	25
Allowance for loans to associates	—	—	(79,595)
(Loss) before taxation	**22,343**	**121,639**	**(570,474)**
Taxation	(121,644)	(27,846)	(36,041)
(Loss) before minority interests	**(99,301)**	**93,793**	**(606,515)**
Minority interests	(61,624)	(80,493)	(42,105)
Net (loss) for the year	**(160,925)**	**13,300**	**(648,620)**
net margin	—	—	—
Basic (loss) per Share (HK$)	(0.81)	0.08	(4.05)

	Audited		
	As at 31 March		
	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*
Total assets	**3,657,490**	**3,943,236**	**3,267,731**
Non-current assets	1,285,558	1,643,529	1,604,463
Current assets	2,371,932	2,299,707	1,663,268
Total liabilities	**1,400,562**	**1,664,898**	**1,363,566**
Current liabilities	1,240,452	1,653,951	1,185,858
Non-current liabilities	160,110	10,947	177,708
Net current assets	**1,131,480**	**645,756**	**477,410**
Net assets value	**2,256,928**	**2,278,338**	**1,904,165**
Shareholders' equity	**1,807,311**	**1,873,181**	**1,729,567**
Return on Equity	—	*0.7%*	—
Current Ratio (times)	*1.9*	*1.4*	*1.4*
Interest coverage (times)	*2.2*	*5.6*	—
Total liabilities/equity	*77.5%*	*88.9%*	*78.8%*
Long term debt/ equity	*8.9%*	*0.6%*	*10.2%*

Year ended 31 March 2005

For the year ended 31 March 2005, turnover increased by 12.9% to HK$5.7 billion. The increase was mainly attributable to a 11.4% increase in sales of computer related products and consumer electronic products to HK$5.5 billion as a result of expansion in new retail outlets distribution and launch of several new products, a 168.6% increase in securities trading to HK$93.9 million and a 147.5% increase in sales of other assets to HK$39.6 million. Profit from operations increased by 39.6% to HK$319.5 million as a result of improved operating efficiencies achieved through global purchasing and consolidation of existing operations. However, owing to share of losses from associates, amortisation of goodwill arising on acquisition of associates and a HK$177.4 million impairment loss on goodwill arising on acquisition of an associate, net loss for the year amounted to HK$160.9 million.

Net current assets as at 31 March 2005 increased by 75.2% to HK$1,131.5 million. The increase was attributable to a lower level of short-term borrowings (from HK$373.4 million in 2004 to HK$133.3 million in 2005), and increased bank balances and cash (from HK$164.4 million in 2004 to HK$359.6 million in 2005). Current ratio increased slightly to 1.9 times from 1.4 times. Interest coverage ratio and total debt to equity ratio improved to 2.2 times and 77.5%, respectively. However, as a result of the significant increase in non-current borrowings, long term debt to equity ratio increased significantly from 0.6% to 8.9%.

Year ended 31 March 2004

For the year ended 31 March 2004, turnover and gross profit achieved growth of 20.7% and 19.7% respectively. The significant growth was attributable to persistent efforts to control cost on inventory pricing, strong and extensive business network worldwide and promotional efforts made in the year. Hanny managed to turnaround and reported profit from operations of HK$228.8 million and net income of HK$13.3 million for the year.

Net current assets as at 31 March 2004 increased by 35.3% to HK$645.8 million. The increase was attributable to the increase in inventory level (from HK$505.2 million in 2003 to HK$877.4 million in 2004) as Hanny made bulk purchase to bargain for favourable prices in anticipation of an increasing sales trend in the coming years. Total liabilities increased by 22.1% mainly due to the increase in trade and other payables. Accompanied with the surge in earnings before interest, tax, depreciation and amortisation, interest coverage ratio improved to 5.6 times. Long term debt to equity ratio also improved to 0.6% from 10.2% as a result of the substantial decreases in non-current borrowings (from HK$173.0 million in 2003 to HK$7.9 million in 2004) and obligations under finance leases (from HK$1.6 million in 2003 to HK$0.5 million in 2004).

Year ended 31 March 2003

For the year ended 31 March 2003, turnover fell by 4.8% to HK$4.2 billion. Turnover from trading of computer and consumer related products achieved moderate growth of 10.1%. However, turnover from securities trading fell by 88.2%, offsetting the growth in trading of computer and consumer related products. An impairment loss on investment securities of HK$323.3 million was recorded which effectively eroded the operating profits of Hanny. Loss from operations amounted to HK$315.6 million. Net loss for the year deteriorated to HK$648.6 million as a result of significant impairment loss on goodwill arising on acquisition of an associate and substantial allowance for loans to associates.

Net current assets as at 31 March 2003 decreased by 40.4% to HK$477.4 million (from HK$801.6 million as at 31 March 2002). The decrease was largely attributable to decreases in trade and other receivables (from HK$815.1 million in 2002 to HK$486.6 million in 2003), margin loans receivable (from HK$123.2 million in 2002 to HK$51.1 million in 2003) and pledged bank deposits (from HK$91.8 million in 2002 to HK$19.2 million in 2003). The current ratio dropped slightly to 1.40 times as compared to 1.56 times in 2002. Total borrowings decreased by 32.4% due to the repayment of other loans during the year to lower finance costs.

In assessing the financial position of Hanny, we have reviewed the major financial ratios for four listed companies (the "Industry Comparables"), whose business largely consist of manufacturing and trading of computer related products and consumer electronic products, which are considered to be broadly comparable to that of Hanny. The Industry Comparables have been selected after taking into consideration, *inter alia*, their scope of business and respective market capitalisation. Table 14 sets out some major financial ratios of Hanny and those Industry Comparables based on their respective latest published audited financial statements.

Table 14: Financial Ratios of Industry Comparables

Industry Comparables	**Principal activities**	**Financial year end**	**Market capitalisation** *(HK$'mil)*	**Return on equity**	**Current ratio** *(times)*	**Interest coverage** *(times)*	**Total liabilities/ equity**	**Long term debt/ equity**
AV Concept Holdings Limited (595)	Marketing and distribution of electronic components, and design, manufacture and original equipment manufacture of electronic products and Internet appliances	31-Mar-05	312	44.3%	1.7	22.3	121.8%	3.4%
China Sciences Conservational Power Ltd. (351)	Provision of software design and development, sale of computer hardware and maintenance support services, power plant and motor spare parts business	31-Dec-04	866	n.a.	4.8	n.a.	42.9%	17.3%
Shenzhen High-Tech Holdings Ltd. (106)	Manufacture and sale of high-tech computers and servers, property investment and development and trading, securities trading and investment holding	31-Dec-04	416	n.a.	2.9	n.a.	30.4%	0%
Wong's International (Holdings) Limited (99)	Manufacture of electronic products for original equipment manufacturer customers, including micro-computers, telecommunication equipment & other electronic products	31-Dec-04	350	4.6%	1.2	4.8	185.7%	32.4%
Maximum				**44.3%**	**4.8**	**22.3**	**121.8%**	**32.4%**
Minimum				**4.6%**	**1.2**	**4.8**	**30.4%**	**0%**
Mean				**24.5%**	**2.7**	**13.6**	**95.2%**	**13.3%**
Hanny			861	n.a.	1.9	2.2	77.5%	8.9%

Note:

1. n.a. denotes not applicable as these companies recorded loss before interest and tax for the year and could not produce an interest coverage ratio.

As shown in Table 14, the current ratio of Hanny falls within the range of the Industry Comparables and its interest coverage ratio is the lowest amongst the Industry Comparables. However, two Industry Comparables could not produce an interest coverage ratio as they reported loss before interest and tax for their respective financial years. Both the total liabilities to equity ratio and the long term debt to equity ratio of Hanny are well below the mean of the comparables. We consider that Hanny has a relatively lower level of indebtedness, lower interest burden and stronger ability of servicing interest when compared to the selected market peers.

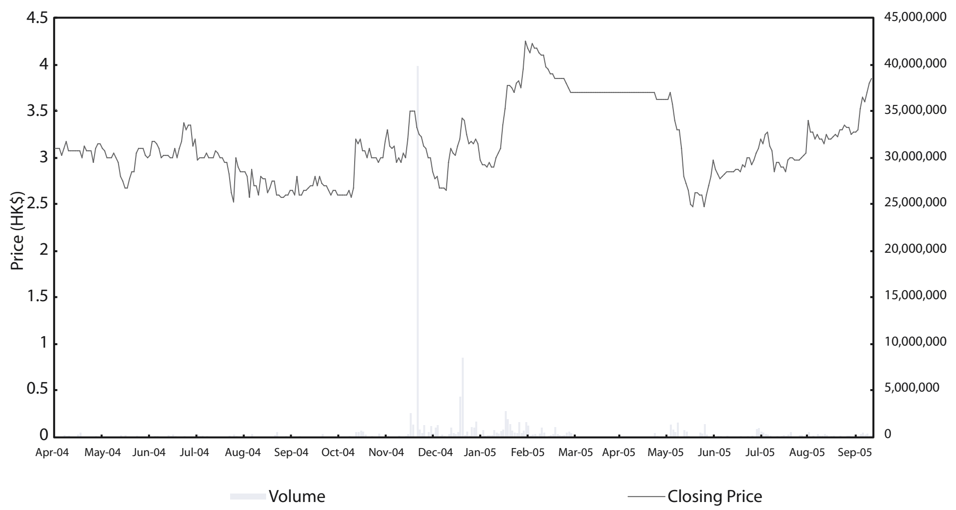
(e) Outlook of Hanny

"Memorex®" currently ranks No.2 globally in CDR & DVD media sales with its DVD units growing 180% from 2004. During the year ended 31 March 2005, revenue growth was primarily from DVD growth and growth in the Traveldrive product line. Although DVD revenue growth was hampered by a nearly 50% decrease in ASPs (Average Selling Prices), Memorex® still recorded strong profit performance. Launch of several new products in the USB Flash Category, specifically the M-Flyer USB flash drive, has been well received by the market.

As stated in Hanny's 2005 annual report, the Hanny Group believes that growth in the DVD segment more than offset any declines in the CDR market for the foreseeable future. According to the research report issued by Santa Clara Consulting Group, the Hanny Group continues to be the market share leader in CDR and DVD media in the United States which accounted for 22.6% and 28.2% respectively of the total market share in 2004. As stated in Hanny's 2005 annual report, Hanny expects to leverage that position through expanded product offerings and expanded geographic distribution. In North America and Europe, the Hanny Group's goal is to expand the products sales within its existing retailers including an expanded accessories offerings, specialty media products and USB Flash products. In particular, the Hanny Group believes the USB Flash products are in the early stage of consumer adoption. According to Hanny's annual report, the Hanny Group continues to introduce and sell its USB products in a growing number of retailers in the United States, Canada and Europe. The Hanny Group expects its investments in the USB Flash business will yield significant growth in the future, and targets to achieve an equally outstanding market share leadership as it has succeeded in its CDR and DVD media products, in the coming years.

(f) ***Trading Performance of the Hanny Shares***

Chart 4: Performance of the Hanny Shares



Note:

1. On market days when the shares are not traded, the closing price equals to that of the preceding trading day.

Independent Shareholders should note that due to the heavy mix of Hanny Shares in the GDI Offer, the implied value of Option 1 changes by day with fluctuations in Hanny's stock price. An analysis of the implied value for each GDI Share under Option 1 against various reference periods is set out in Table 15 below.

Table 15: Implied value of Option 1

	Closing price *(HK$)*	**Implied value of Option 1**
Last Trading Day	3.70	1.10
Latest Practicable Date	3.85	1.13
Average during the Review Period	3.15	0.99
Highest (1 February 2005)	4.25	1.21
Lowest (18 May 2005 and 25 May 2005)	2.48	0.86

Independent Shareholders should note that the GDI Offer may result in a larger free float of shares for Hanny, subject to the level of acceptance received in respect of Options 1 and 2, causing a share overhang. During the Review Period, there was moderate trading in the Hanny Shares and the percentage of the monthly total trading volume to the total issued share capital of Hanny ranged from approximately 0.2% to 21.7% and that to the public float (being the total issued share capital of Hanny less the shares held by the substantial shareholders as at the Latest Practicable Date) ranged from approximately 0.3% to 27.2%. Independent Shareholders should note that subject to their size of shareholding and the level of acceptance received in respect of Options 1 and 2, a sufficiently active market may or may not exist in the Hanny Shares to enable shareholders of GDI Shares who intend to tender their GDI Shares to the GDI Offer and may wish to dispose of their Hanny Shares or Hanny Conversion Shares to do so in the short term and the market price of the shares of Hanny may or may not encounter a downward pressure.

(g) Dividend Payment Record of Hanny

Table 16 below sets forth, for the periods indicated, the profit/(loss) attributable to the Hanny shareholders, dividend per Share and the dividend payout ratio of the Hanny Group:

Table 16: Dividend payment record of Hanny

	For the year ended 31 March				
	2005	**2004**	**2003**	**2002**	**2001**
Profit (Loss) attributable to shareholders *(HK$'000)*	(160,925)	13,300	(648,620)	(102,455)	(589,365)
Earnings (loss) per share *(HK$)*	(0.810)	0.080	(4.050)	(0.640)	(0.134)
Dividend per share *(HK$)*	0.060	0.110	0.020	—	0.128 *(Note 2)*
Dividend payout ratio *(Note 1)*	n.a.	138%	n.a.	n.a.	n.a.

Source: Hanny's annual reports

Notes:

1. Dividend per share divided by earnings per share for the period.

2. Adjustment made to the dividend of HK32 cents to take into account the effect of the share consolidation of 40 old shares into 1 new consolidated share effective on 18 March 2003.

3. n.a. denotes not applicable.

For the five financial years ended 31 March 2005, Hanny declared dividends, regardless of its profitability, for each of the financial years except for 2002. For financial year 2004 in which Hanny made a net profit, Hanny's dividend pay-out ratio was 138%. However, there can be no assurance that Hanny will maintain similar levels of dividend payout, or any at all, in future years.

Shareholders of GDI seeking consistent income might find the Hanny Bonds a better alternative than the dividend payments the Hanny Share may offer. Unlike stock dividends, coupon payments of the Hanny Bonds are distributed annually.

We have identified, to the best of our knowledge, from the website of the Stock Exchange and reviewed for reference purpose the terms of other five-year term unlisted unsecured convertible bonds (the "CB Comparables") issued by companies listed on the main board of the Stock Exchange within a twelve-month period prior to the Latest Practicable Date. Whilst we understand that the principal terms of convertible bonds issued are principally determined with regard to the particular business, credit rating and financial position of each issuer, we consider that the CB Comparables would provide an indication as to the reasonableness of the principal terms of the Hanny Bonds.

Table 17: CB Comparables

CB Comparables (stock code)	Principal activities	Current ratio *(times)*	Interest coverage *(times)*	Total liabilities/ equity	Long term debt/ equity	Date of announcement	Principal amount *(HK$)* *(Note 1)*	Life *(years)*	Coupon rate	Redemption value at maturity	Premium/(discount) between the conversion price and the closing price per share before announcement
Melco International Development Ltd. (200)	Operation of leisure and entertainment business, technology business, and provision of investment banking and financial services	2.9	n.a.	32.7%	0.1%	13-Sep-04	100 mil	5	4.0%	100% *(Note 3)*	50.9%
Tack Fat Group International Ltd. (928)	Design and manufacture of jeans, pants, shorts, swimming apparel and sportswear for men, women and children on OEM and ODM basis	3.9	8.2	124.3%	80%	13-Sep-04	234 mil	5	1.0%	100.0%	38.9%
Shanghai Ming Yuan Holdings Ltd. (233)	Protein chips operation, information technology products and services operation, property investment	1.8	22.7	40.6%	0.8%	23-Dec-04	200 mil	5	1.0%	113.41%	15.0%
TPV Technology Ltd. (903)	Manufacture, design, and sale of a wide range of computer monitors and colour scanner	1.4	15.4	264.4%	29.1%	15-Jun-05	1,642 mil	5	3.35%	100.0%	3.8%
Hanny Bonds	Manufacture, distribution and marketing of data storage media, distribution and marketing of computer accessories and storage media drives, scanners, AV products, household electronic products and telecom accessories	1.9	2.2	77.5%	8.7%	**19-Apr-05**	**15 each** *(Note 2)*	**5**	**2.0%**	**100.0%**	**143.2%**

Notes:

1. Convertible bonds denominated in USD have been converted into HK$ at the exchange rate of USD1=HK$7.8.

2. Value of the Hanny Bonds that will ultimately be issued under the GDI Offer will be ascertained upon closing of the GDI Offer.

3. Redemption value at maturity was not stated in the announcement or the shareholders' circular, we have assumed it to be 100%.

4. Financial ratios of the CB Comparables were calculated based on their latest audited financial statements prior to the respective date of announcement.

Most of the CB Comparables are redeemable at 100% of their face value at maturity, except for Shanghai Ming Yuan Holdings Ltd. The coupon rate of the CB Comparables ranges from 1.0% to 4.0%. The convertible bonds issued by Melco International Development Ltd. and TPV Technology Ltd have relatively higher coupon rates but their conversion or disposal (as the case my be) are subject to a three-year lock-up period. The Hanny Bond will carry a 2% coupon rate, representing a double to that of Tack Fat Group International Ltd. and Shanghai Ming Yuan Holdings Ltd. However, the conversion price of the Hanny Bond has the highest premium to the closing price of the Hanny Share on the Last Trading Day. Such high conversion premium indicates a lesser chance for the holders of the Hanny Bond to convert the Hanny Bond into Hanny Conversion Shares in light of the current price level of the Hanny Shares.

(10) Prospect of an alternative proposal or offer

The Independent Shareholders should also note that the offers, if made, will be unconditional and they will not be able to consummate an alternative deal with a third party without the consent of Hanny and Paul Y which own in total 58.8% of the outstanding share capital of the Company. We understand that the Company has not received or solicited alternative proposals to the China Strategic Offer and the GDI Offer from third parties as at the Latest Practicable Date.

(11) Other merits of the Group Reorganisation to the Independent Shareholders

(i) ***Better risk management*** Given the non-complementary nature of the Remaining Business and the Distributed Business, we are of the view that the segregation into two separate companies, will enhance investor focus and allow Independent Shareholders to better manage the risks involved in the future development and expansion of the two businesses and their investment exposure to the two businesses independently of each other. Independent Shareholders keen on the Distributed Business could focus on GDI while Independent Shareholders interested in the Remaining Business could focus on the Company. We believe that separate valuations for the Remaining Business and the Distributed Business by the investors would be a major step towards the unlocking of value for Independent Shareholders.

(ii) ***Unlock the hidden value on the Company's balance sheet*** The Shares have for some time been trading at a significant discount to net asset value. Given the low liquidity of the Shares during the Review Period, the Group Reorganisation provides opportunities for divestment without compromising value realisation to Independent Shareholders.

(iii) ***Return of Shareholder value*** China Strategic shareholders will receive one share in GDI for every Consolidated Share held by them on the Record Date free of payment.

(iv) ***Shareholder autonomy and optimizing value*** The Group Reorganisation will give Shareholders increased flexibility in their investment choices and to diversify and plan their investments. Following the Group Reorganisation, Independent Shareholders who receive the Consolidated Share and the GDI Shares will be able to decide independently on how they wish to deal with such shares; and Shareholders may choose to directly participate in the ownership of two separately listed companies (i.e. the Company and Hanny) without any additional cash outlay and enjoy returns from these shares. As an alternative to the cash and securities which would otherwise be receivable under Option 1, GDI Shareholders who validly accept the GDI Offer will be able to elect to receive convertible bonds to be issued by Hanny.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons including:

- following the Group Reorganisation, Independent Shareholders will hold the GDI Shares and the Consolidated Shares directly and, accordingly, there will be no material effect on the aggregate dividends, earnings and underlying net asset value attributable to each of them;

- the business prospects of the Remaining Business and the Distributed Business remain uncertain;

- the Shares have for some time been trading with very limited liquidity and at a significant discount to net asset value, the Group Reorganisation would provide the Independent Shareholders an opportunity for divestment without compromising value realisation;

- the value of Combination 1 and Combination 2 represented significant premium over the market price of the Shares during the Pre-Announcement Period;

- during the Post-Announcement Period, closing prices of the Shares rose to levels closer to the value of Combination 1 but was significantly below the value of Combination 2, in the absence of supporting fundamentals of the Group particularly given its continued loss-making performance, we believe such Share price level might not be sustainable;

- completion of the 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; and

- the implied P/B of the China Strategic Offer and the GDI Offer fall within the range of the Comparable Offers;

we are of the view that the terms and conditions of the Group Reorganisation are fair and reasonable and in the interests of the Independent Shareholders as a whole. Therefore, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolutions to approve the Group Reorganisation to be proposed at the upcoming EGM.

However, Independent Shareholders should note that despite Hanny has confirmed that in the event that the Share Sale Agreement is not completed and the China Strategic Offer is not extended, subject to approval by the Independent Hanny Shareholders, Hanny will still proceed with the GDI Offer, possibilities exist that the Group Reorganisation is effected and the GDI Offer is not extended to shareholders of the GDI Shares, resulting in the Independent Shareholders holding shares of a company which are not listed or traded on any stock exchange. As stated in the "Letter from the Board", in the event that the GDI Offer is extended and the Share Sale Agreement is not completed and the China Strategic Offer is not extended, Shareholders who accept the GDI Offer 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 holdings in the Consolidated Shares. Hanny may seek to sell its interests in the Company to another purchaser which purchase may or may not lead to an offer being extended to all Shareholders or a waiver from the general offer obligation being sought and obtained from the Executive pursuant to the Takeovers Code.

For Independent Shareholders who wish to accept the China Strategic Offer and the GDI Offer, they should also closely monitor the market price of the Shares during the period after the Group Reorganisation has been effected and consider selling their Shares in the open market rather than accepting the offers if the net proceeds from such sale are likely to exceed the aggregate amount receivable under the intended offers.

Independent Shareholders are recommended to consider carefully, in the light of their own investment objectives and financial circumstances, whether it is appropriate for them to tender their Consolidated Shares and GDI Shares for the China Strategic Offer and GDI Offer following the Group Reorganisation. In particular, please note that the Hanny Bonds will not enjoy equivalent voting rights to those of Hanny Shares and will not be listed on any stock exchange but will be transferable to others.

Yours faithfully,
For and on behalf of
Hercules Capital Limited
Louis Koo
Managing Director

FINANCIAL SUMMARY

The following is a summary of the audited consolidated income statement of the Group for each of the three years ended 31 December 2004 extracted from the relevant annual reports of the Company.

	For the year ended 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	123,403	2,884,493	3,601,735
(Loss)/profit from operations	(146,129)	94,111	(527,705)
Finance costs	(17,434)	(50,712)	(109,460)
Gain/(loss) on disposal/ dilution of interests in associates	81,631	(36,481)	14,980
Share of results of associates	(37,375)	(175,734)	(137,574)
Allowance on receivables advanced to an associate	—	(12,712)	—
(Loss)/gain on disposal/ dilution of interests in subsidiaries	(5,257)	12,344	64,193
Loss before taxation	(124,564)	(169,184)	(695,566)
Taxation	(6,464)	(10,935)	(12,250)
Minority interests	(45,024)	(9,409)	233,682
Net loss for the year	(176,052)	(189,528)	(474,134)
Loss per Share — Basic	HK$(0.20)	HK$(0.23)	HK$(0.76)

The following is a summary of the audited consolidated balance sheets of the Group as at 31 December 2002, 2003 and 2004 extracted from the relevant annual reports of the Company.

	As at 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets:			
Deposit paid for acquisition of interest in properties	47,012	—	—
Payment for acquisition of subsidiaries	40,000	—	—
Property, plant and equipment	35,238	43,156	746,778
Payment for acquisition of land development rights	—	—	14,687
Goodwill	25,807	9,325	30,953
Interests in associates	429,000	823,147	839,765
Receivables — due after one year	37,044	31,286	22,586
Investments in securities	194,050	217,683	325,885
Deferred tax assets	—	—	13,454
	808,151	1,124,597	1,994,108
Current assets	1,094,397	1,064,647	2,769,928
Current liabilities	(110,256)	(161,090)	(1,988,063)
Net current assets	984,141	903,557	781,865
Minority interests	(295,609)	(250,160)	(728,942)
Non-current liabilities	(184,946)	(244,614)	(312,978)
Net assets	1,311,737	1,533,380	1,734,053

FINANCIAL STATEMENTS

The following is a summary of the audited consolidated financial statements of the Group for the two years ended 31 December 2003 and 2004 as extracted from the relevant annual reports of the Company.

Consolidated Income Statement
For the year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Turnover	4	123,403	2,884,493
Cost of sales		(81,455)	(2,520,175)
Gross profit		41,948	364,318
Other operating income	6	60,181	145,731
Distribution costs		(21,906)	(174,955)
Administrative expenses		(44,984)	(122,587)
Other expenses	7(a)	(40,479)	(74,586)
Allowances for loans and interest receivable	7(b)	(140,889)	(43,810)
(Loss) profit from operations	8	(146,129)	94,111
Finance costs	10	(17,434)	(50,712)
Gain (loss) on disposal/dilution of interests in associates		81,631	(36,481)
Share of results of associates		(37,375)	(175,734)
Allowance on receivables advanced to an associate		—	(12,712)
(Loss) gain on disposal of interests in subsidiaries	32	(5,257)	12,344
Loss before taxation		(124,564)	(169,184)
Taxation	11	(6,464)	(10,935)
Loss before minority interests		(131,028)	(180,119)
Minority interests		(45,024)	(9,409)
Net loss for the year		(176,052)	(189,528)
Loss per share			
Basic	12	HK$(0.20)	HK$(0.23)

Consolidated Balance Sheet
as at 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-Current Assets			
Property, plant and equipment	13	35,238	43,156
Deposit paid for acquisition of interest in properties	14	47,012	—
Payment for acquisition of subsidiaries	15	40,000	—
Goodwill	16	25,807	9,325
Interests in associates	18	429,000	823,147
Receivables — due after one year	19	37,044	31,286
Investments in securities	20	194,050	217,683
		808,151	1,124,597
Current Assets			
Other asset	22	227,167	226,718
Inventories	23	13,708	66,976
Trade debtors	24	6,980	13,718
Receivables due from associates	18	57,163	6,294
Receivables — due within one year	19	563,666	370,459
Other receivables, deposits and prepayments		86,464	57,677
Investments in securities	20	19,849	2,930
Pledged bank deposits	38	1,012	—
Bank balances and cash		118,388	319,875
		1,094,397	1,064,647
Current Liabilities			
Creditors, other payables and accrued charges	25	46,075	84,946
Payables — due within one year	26	8,637	34,611
Payables due to associates	18	3,737	185
Income and other tax payable		9,185	3,064
Bank loans and other borrowings — due within one year	27	42,622	38,284
		110,256	161,090
Net Current Assets		984,141	903,557
		1,792,292	2,028,154

	Notes	2004 HK$'000	2003 HK$'000
Capital and Reserves			
Share capital	*28*	88,160	85,660
Reserves		1,223,577	1,447,720
		1,311,737	1,533,380
Minority Interests		295,609	250,160
Non-Current Liabilities			
Bank loans and other borrowings			
— due after one year	*27*	3	144
Payables — due after one year	*26*	184,943	244,470
		184,946	244,614
		1,792,292	2,028,154

Balance Sheet

as at 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Non-Current Assets			
Property, plant and equipment	13	6,382	7,082
Investments in subsidiaries	17	224,740	224,740
Receivables due from subsidiaries	17	1,755,873	1,857,976
Interests in associates	18	2	2
Receivables — due after one year	19	—	19,139
Investments in securities	20	825	825
		1,987,822	2,109,764
Current Assets			
Receivables due from associates	18	563	719
Receivables — due within one year	19	6,735	14,586
Other receivables, deposits and prepayments		3,122	15,846
Bank balances and cash		43,550	8,915
		53,970	40,066
Current Liabilities			
Creditors, other payables and accrued charges		8,013	3,875
Payables — due within one year	26	275	5,430
Payables due to associates	18	—	185
Bank loans and other borrowings — due within one year	27	10	5,142
		8,298	14,632
Net Current Assets		45,672	25,434
		2,033,494	2,135,198
Capital and Reserves			
Share capital	28	88,160	85,660
Reserves	31	920,163	1,062,276
		1,008,323	1,147,936
Non-Current Liabilities			
Bank loans and other borrowings — due after one year	27	3	13
Payables due to subsidiaries	17	840,225	743,971
Payables — due after one year	26	184,943	243,278
		2,033,494	2,135,198

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000	Capital redemption reserve HK$'000	Goodwill on consolidation HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Deficit HK$'000	Total HK$'000
At 1 January 2003	82,947	1,897,348	414,881	233	123,953	(6,873)	35,839	(814,275)	1,734,053
Exchange adjustment	—	—	—	—	—	291	—	—	291
Share of net reserves movement of associates	—	—	—	—	—	2,090	(172)	—	1,918
Net gain not recognised in the consolidated income statement	—	—	—	—	—	2,381	(172)	—	2,209
Exercise of warrants *(note 29)*	2,713	1,628	—	—	—	—	—	—	4,341
Realised on disposal/dilution of interests in associates	—	—	—	—	(20,333)	(128)	(238)	—	(20,699)
Realised on disposal/dilution of interests in subsidiaries	—	—	—	—	6,852	(3,848)	(17,863)	17,863	3,004
Appropriated from retained profits	—	—	—	—	—	—	1,339	(1,339)	—
Net loss for the year	—	—	—	—	—	—	—	(189,528)	(189,528)
At 31 December 2003	85,660	1,898,976	414,881	233	110,472	(8,468)	18,905	(987,279)	1,533,380
Exchange adjustment	—	—	—	—	—	(588)	—	—	(588)
Share of net reserves movement of associates	—	—	—	—	—	(99)	(307)	—	(406)
Net loss not recognised in the consolidated income statement	—	—	—	—	—	(687)	(307)	—	(994)
Exercise of share options *(note 28)*	2,500	1,940	—	—	—	—	—	—	4,440
Realised on disposal/dilution of interests in associates	—	—	—	—	(48,225)	(825)	—	—	(49,050)
Realised on disposal/dilution of interests in subsidiaries	—	—	—	—	—	13	—	—	13
Net loss for the year	—	—	—	—	—	—	—	(176,052)	(176,052)
At 31 December 2004	88,160	1,900,916	414,881	233	62,247	(9,967)	18,598	(1,163,331)	1,311,737
Attributable to:									
The Company and its subsidiaries	88,160	1,900,916	414,881	233	62,247	(10,586)	19,476	(963,195)	1,512,132
Associates	—	—	—	—	—	619	(878)	(200,136)	(200,395)
At 31 December 2004	88,160	1,900,916	414,881	233	62,247	(9,967)	18,598	(1,163,331)	1,311,737
The Company and its subsidiaries	85,660	1,898,976	414,881	233	62,247	(10,011)	19,476	(647,283)	1,824,179
Associates	—	—	—	—	48,225	1,543	(571)	(339,996)	(290,799)
At 31 December 2003	85,660	1,898,976	414,881	233	110,472	(8,468)	18,905	(987,279)	1,533,380

The special capital reserve of the Group represents the amount arising from the capital reduction carried by the Company during the year ended 31 December 2001.

Goodwill on consolidation as at 31 December 2004, represented goodwill arising on acquisition of subsidiaries of approximately HK$9,492,000 (2003: HK$9,492,000) and negative goodwill arising on acquisition of subsidiaries of approximately HK$71,739,000 (2003: HK$71,739,000) respectively.

As at 31 December 2004, no negative goodwill attributable to associates (2003: HK$48,225,000).

The other non-distributable reserves of the Group include statutory reserves required to be appropriated from the profit after taxation of the Company's PRC subsidiaries under PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' board of directors.

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004	2003
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
(Loss) profit from operations	(146,129)	94,111
Adjustments for:		
Dividend income	(1,542)	(2,832)
Interest income	(54,591)	(48,416)
Depreciation of property, plant and equipment	3,915	58,346
Amortisation of goodwill	1,160	1,628
Unrealised holding loss on investments in securities	12,549	37,604
Loss (gain) on disposal of investments in securities	5,478	(46,368)
Allowances for bad and doubtful debts	17,286	10,728
Allowances for amounts due from associates	4,989	2,458
Impairment loss of goodwill on acquisition of subsidiaries	—	20,387
Allowances for inventories	—	4
Allowances for loan and interest receivables	140,889	43,810
Gain on disposal of property, plant and equipment	(17)	(15,995)
Operating cash flows before movements in working capital	(16,013)	155,465
Decrease in inventories	14,028	22,997
Decrease (increase) in trade debtors	3,386	(10,287)
Increase in other receivables, deposits and prepayments	(43,778)	(9,143)
Decrease in creditors, other payables and accrued charges	(32,641)	(49,808)
Increase in amounts due from associates	(1,611)	(29,768)
(Decrease) increase in payables	(7,919)	6,496
Increase in other asset	(449)	(226,718)
Decrease in income and other tax payable	—	(20,350)
Net cash outflow from operations	(84,997)	(161,116)
Tax paid in other jurisdictions	(313)	(6,650)
NET CASH USED IN OPERATING ACTIVITIES	(85,310)	(167,766)

	Notes	2004 HK$'000	2003 HK$'000
INVESTING ACTIVITIES			
Repayment from third parties		204,919	774,202
Repayment from associates		140,182	92,124
Proceeds from disposal of investments in securities		204,740	219,777
Proceeds from disposal of property, plant and equipment		569	25,994
Increase in pledged bank deposits		(1,012)	(45,259)
Interest received		3,478	8,793
Proceeds from disposal/dilution of interests in associates		110,341	23,887
Proceeds from disposal/dilution of subsidiaries (net of cash and cash equivalents disposed of)	*32*	13,324	(64,295)
Dividend received from investments in securities		1,542	2,832
Amount advanced to third parties		(519,573)	(558,363)
Amount advanced to associates		(163,828)	(260,373)
Purchase of investments in securities		(43,304)	(73,368)
Purchase of property, plant and equipment		(4,000)	(268,704)
Deposit paid for acquisition of a property		(326)	—
Purchase of subsidiaries (net of cash and cash equivalents acquired)	*33*	(26,744)	(785)
Refund of payment for acquisition of land development rights		—	16,965
Payment for acquisition of land development rights		—	(13,310)
NET CASH USED IN INVESTING ACTIVITIES		(79,692)	(119,883)

	2004	2003
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Advance from third parties/related parties	18,979	151,329
New bank loans and other borrowings raised	57,257	994,271
Proceeds from issue of shares	4,440	1,866
Repayment of bank loans and other borrowings	(4,827)	(747,264)
Repayment to third parties/related parties	(111,713)	(165,514)
Advance from (repayment to) associates	1,354	(4)
Repayment of obligations under finance leases	(9)	(168)
Interest paid	(2,282)	(36,126)
Dividends paid to minority shareholders of subsidiaries	—	(1,432)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(36,801)	196,958
NET DECREASE IN CASH AND CASH EQUIVALENTS	(201,803)	(90,691)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	314,744	401,935
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,353)	3,500
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	111,588	314,744
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	118,388	319,875
Bank overdrafts	(6,800)	(5,131)
	111,588	314,744

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Group is an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 17 and 18.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

All significant intra-group transactions and balances have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserve is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straightline basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates is stated at the Group's share of the net assets of the associates less any identified impairment loss.

The results of the associates are accounted for by the Company on the basis of dividends received and receivable during the year. Investments in associates are included in the Company's balance sheet at cost as reduced by any identified impairment loss.

Recognition of revenue

Revenue of the Group for the year is recognised on the following bases:

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

Dividend income from investments in securities is recognised when The Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Impairment

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

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

Property, plant and equipment

Construction in progress

Construction in progress are stated at cost, which includes land cost and the related construction cost in accordance with the Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment *(Cont'd)*

Other property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost less deprecation, amortisation and accumulated impairment losses.

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

Depreciation and amortisation is provided to write off the other items of the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and land use rights	Over the term of the lease or land use rights
Buildings	2% or the term of the lease or land use rights, if shorter
Furniture and fixtures	10% - 25%
Machinery and equipment	10% - 20%
Motor vehicles	12.5% - 25%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the original principal at the inception of the respective leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting year.

All other leases are classified as operating leases and the rentals payables are charged to the income statement on a straight-line basis over the relevant lease term.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Other asset

Other asset are stated at the lower of cost and net realisable value.

Inventories

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

Pension/Retirement benefit scheme

The pension costs/retirement benefit scheme contributions relating to the defined contribution scheme/mandatory provident fund scheme charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are charged to the income statement.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

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

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

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

4. TURNOVER

	2004	**2003**
	HK$'000	*HK$'000*
Sales of goods, net of returns and sales taxes	123,403	2,884,493

The Group carries out its activities primarily in the People's Republic of China ("PRC") including Hong Kong, details of the analysis of the Group's turnover and contribution to results from operations by principal business segment and geographical market are set out in note 5.

5. SEGMENT INFORMATION

Business segments

During the year, the Group acquired a 80% interest in Talent Cosmos Limited for consideration of HK$30 million. Talent Cosmos Limited and its subsidiaries are engaged in manufacturing and trading of battery products and related accessories. The segment of manufacturing and trading of battery products and related accessories are regarded as a new business segment of the Group upon the completion of acquisition.

For management purposes, the Group is currently organised into the following three major divisions-pharmaceutical products, battery products and investment in securities and advance divisions. These divisions are the basis on which the Group reports its primary segment information.

Pharmaceutical products	—	Manufacturing and trading of Chinese and western medicine products
Battery products	—	Manufacturing and trading of battery products and related accessories
Investments in securities and advance	—	Investments in securities holding and advance of receivables
Others	—	Corporate and investment holding

5. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

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

	Discontinuing operation	Continuing operation					
	Pharmaceutical products	Investments in securities and advance	Battery products	Others	Sub-total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note b)						
For the year ended 31 December 2004							
TURNOVER							
External	96,262	—	27,141	—	27,141	—	123,403
Inter-segment	—	—	—	2,184	2,184	(2,184)	—
	96,262	—	27,141	2,184	29,325	(2,184)	123,403
RESULT							
Segment result	6,778	(160,712)	(2,005)	(16,870)	(179,587)	(2,184)	(174,993)
Unallocated corporate expenses							(27,269)
Interest income							54,591
Dividend income							1,542
Loss from operations							(146,129)
Finance costs							(17,434)
Loss on disposal/dilution of interests in subsidiaries	(5,257)	—	—	—	—	—	(5,257)
Gain on disposal/liquidation of interests in associates	—	—	—	81,631	81,631	—	81,631
Share of results of associates	(618)	—	(147)	(36,610)	(36,757)	—	(37,375)
Loss before taxation							(124,564)
Taxation							(6,464)
Loss before minority interests							(131,028)
Minority interests							(45,024)
Net loss for the year							(176,052)

5. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

Inter-segment sales are charged at terms determined and agreed between the group companies.

	Discontinuing operation	Continuing operation				
	Pharmaceutical products	**Investments in securities and advance**	**Battery products**	**Others**	**Sub-total**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note a)					
Assets and liabilities at 31 December 2004						
ASSETS						
Segment assets	—	1,095,673	79,226	62,187	1,237,086	1,237,086
Interests in associates	—	—	—	429,000	429,000	429,000
Unallocated total assets						236,462
Consolidated total assets						1,902,548
LIABILITIES						
Segment liabilities	—	(4,258)	(10,738)	(34,816)	(49,812)	(49,812)
Unallocated corporate liabilities						(245,390)
Consolidated total liabilities						(295,202)
Other information for the year ended 31 December 2004						
Capital expenditure						
— Property, plant and equipment	1,370	—	29,844	251	30,095	31,465
— Deposit paid for acquisition of interest in properties	—	—	—	47,012	47,012	47,012
— Goodwill arising on acquisition of interests in subsidiaries	—	—	26,812	—	26,812	26,812
— Goodwill arising on acquisition of interests in associates	—	3,931	—	—	3,931	3,931
— Payment for acquisition of subsidiaries	—	—	—	40,000	40,000	40,000
Depreciation and amortisation	2,000	—	1,183	1,892	3,075	5,075
Other non-cash expenses	—	153,438	—	22,275	175,713	175,713
Loss on disposal of investments in securities	—	5,478	—	—	5,478	5,478
Loss on disposal of interests in subsidiaries	5,257	—	—	—	—	5,257

5. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinuing operation			Continuing operation				
	Tires	Pharmaceutical products	Sub-total	Investments in securities and advance	Others	Sub-total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note b)	*(Note a)*						
For the year ended 31 December 2003								
TURNOVER								
External	2,635,235	249,258	2,884,493	—	—	—	—	2,884,493
Inter-segment	—	—	—	—	984	984	(984)	—
	2,635,235	249,258	2,884,493	—	984	984	(984)	2,884,493
RESULT								
Segment result	95,847	154	96,001	(17,615)	(19,032)	(36,647)	(984)	58,370
Unallocated corporate expenses								(15,507)
Interest income								48,416
Dividend income								2,832
Profit from operation								94,111
Finance costs								(50,712)
Gain on disposal/dilution of interests in subsidiaries	3,711	8,587	12,298	—	46	46	—	12,344
Loss on disposal/liquidation of interests in associates	—	—	—	—	(36,481)	(36,481)	—	(36,481)
Share of results of associates	14,188	2	14,190	—	(189,924)	(189,924)	—	(175,734)
Allowance on receivables advanced to an associate	—	—	—	—	(12,712)	(12,712)	—	(12,712)
Loss before taxation								(169,184)
Taxation								(10,935)
Loss before minority interests								(180,119)
Minority interests								(9,409)
Net loss for the year								(189,528)

Inter-segment sales are charged at terms determined and agreed between the group companies.

5. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinuing operation			Continuing operation			
	Tires	**Pharmaceutical products**	**Sub-total**	**Investments in securities and advance**	**Others**	**Sub-total**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note b)	*(Note a)*					
Assets and liabilities at 31 December 2003							
ASSETS							
Segment assets	—	88,395	88,395	953,060	88,670	1,041,730	1,130,125
Interests in associates	—	15,416	15,416	—	807,731	807,731	823,147
Unallocated total assets							235,972
Consolidated total assets							2,189,244
LIABILITIES							
Segment liabilities	—	(56,505)	(56,505)	(4,110)	(24,516)	(28,626)	(85,131)
Unallocated corporate liabilities	—	—	—	—	—	—	(320,573)
Consolidated total liabilities							(405,704)
Other information for the year ended 31 December 2003							
Capital expenditure							
— Property, plant and equipment	260,872	7,978	268,850	—	22	22	268,872
Depreciation and amortisation	47,750	11,454	59,204	—	770	770	59,974
Impairment loss of goodwill	—	—	—	—	20,387	20,387	20,387
Other non-cash expenses	—	4	4	107,312	—	107,312	107,316
Gain on disposal of investments in securities	—	—	—	46,368	—	46,368	46,368
Gain (loss) on disposal of property, plant and equipment	16,122	(127)	15,995	—	—	—	15,995

5. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

Note:

(a) Following the disposal of Tung Fong Hung Investment Limited and its subsidiaries which are engaged in the manufacturing and trading of pharmaceutical products in May 2004, the business segment of manufacturing and trading of pharmaceutical products was regarded as discontinuing operations during the year ended 31 December 2004.

(b) Following the disposal of interest in subsidiaries which are engaged in the business of manufacturing and trading of tire products in September 2003, the tire operation was regarded as discontinuing operation during the year ended 31 December 2003.

The aggregate carrying amounts of the assets and liabilities of the discontinuing operations at the date of discontinuance were as follows:

	2004 Pharmaceutical products *HK$'000*
Total assets	141,747
Total liabilities	(103,673)

The condensed cash flow information of the discontinuing operations during the year ended 31 December 2004 were as follows:

	HK$'000
Operating cash inflow	13,601
Cash outflow in respect of investing activities	(1,209)
Cash outflow in respect of financing activities	(21,545)
Net operating cash outflow	9,153

5. SEGMENT INFORMATION *(Cont'd)*

Geographical segments

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

	Turnover	
	2004	**2003**
	HK$'000	*HK$'000*
PRC, other than Hong Kong	27,141	2,683,004
Hong Kong	96,262	172,080
Overseas	—	29,409
	123,403	2,884,493

The following is an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets At 31 December		Capital additions For the year ended 31 December	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	29,012	752,431	147,599	260,872
Hong Kong	1,707,734	1,263,279	1,621	8,000
Overseas	165,802	173,534	—	—
	1,902,548	2,189,244	149,220	268,872

6. OTHER OPERATING INCOME

	2004	**2003**
	HK$'000	*HK$'000*
Interest income from loan receivables	47,119	39,628
Interest income from banks	3,478	4,091
Interest income from unlisted convertible bonds	3,994	4,697
Net exchange gain	3,151	23,108
Gain on disposal of investments in securities	—	46,368
Dividend income from listed investments	1,542	2,832
Gain on disposal of property, plant and equipment	17	15,995
Others	880	9,012
	60,181	145,731

7. (a) OTHER EXPENSES

	2004	**2003**
	HK$'000	*HK$'000*
Allowances for bad and doubtful debts	17,286	10,728
Unrealised holding loss on investments in securities	12,549	37,604
Loss on disposal of investment in securities	5,478	—
Allowances for amounts due from associates	4,989	2,458
Impairment loss on goodwill on acquisition of subsidiaries	—	20,387
Allowances for inventories	—	4
Staff redundancy cost	—	1,938
Others	177	1,467
	40,479	74,586

7. (b) ALLOWANCES FOR LOANS AND INTEREST RECEIVABLE

The amount represents allowance made on loans and interest receivable with reference to the (i) market value of the collateral secured to the Group and (ii) difference between the repayment amount received by the Group and the overdue amount of loans receivable and interest receivables subsequent to balance sheet date.

8. (LOSS) PROFIT FROM OPERATIONS

	2004	**2003**
	HK$'000	*HK$'000*
(Loss) profit from operations has been arrived at after charging:		
Staff costs		
— directors remuneration *(note 9(a))*	3,413	3,217
— other staff costs *(note 9(b))*	22,418	150,543
— retirement benefits scheme contributions, excluding directors	851	27,196
— redundancy payment	—	1,938
Total staff costs	26,682	182,894
Auditors' remuneration		
Current year	5,181	5,427
Under(over)provision in prior years	392	(381)
Depreciation and amortisation of property, plant and equipment	3,915	58,346
Amortisation of goodwill included in administrative expenses	1,160	1,628

9. DIRECTORS' AND EMPLOYEE REMUNERATION

(a) DIRECTORS' REMUNERATION

	2004 *HK$'000*	**2003** *HK$'000*
Fees		
— Executive directors	—	—
— Non-executive directors	—	—
— Independent non-executive directors	317	228
	317	228
Other emoluments		
— Executive directors		
Salaries and other benefits	3,071	2,965
Retirement benefits scheme contributions	25	24
	3,096	2,989
	3,413	3,217

The number of directors (including independent non-executive directors) whose remuneration falls within the bands set out below is as follows:

HK$	**2004** **Number of directors**	**2003** **Number of directors**
Nil to 1,000,000	8	9
1,000,001 to 1,500,000	1	1
1,500,001 to 2,000,000	1	1
	10	11

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office.

9. DIRECTORS' AND EMPLOYEE REMUNERATION *(Cont'd)*

(b) EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group included two (2003: two) directors of the Company, details of whose salaries and other benefits are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Salaries and other benefits	1,482	1,515
Retirement benefit scheme	36	36
	1,518	1,551

	2004	**2003**
	Number	**Number**
HK$	**of employees**	**of employees**
Nil to 1,000,000	3	3

10. FINANCE COSTS

	2004	**2003**
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Bank borrowings	943	34,455
Other borrowings and payables	16,488	16,246
Obligations under finance leases	3	11
	17,434	50,712

11. TAXATION

	2004	2003
	HK$'000	*HK$'000*
The charge (credit) comprises:		
Taxation in other jurisdictions		
— Current year	1,340	11,467
— Underprovision in prior years	—	238
Hong Kong Profits Tax	5,124	—
	6,464	11,705
Deferred tax credit *(note 21)*	—	(770)
Taxation attributable to the Company and its subsidiaries	6,464	10,935

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax was made in the financial statements for the year ended 31 December 2003 as the subsidiaries operated in Hong Kong has no assessable profit for that year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years ("Tax Reduction"). Since these PRC subsidiaries were disposed of during the year ended 31 December 2003, no PRC subsidiaries of the Group were exempted from Tax Reduction.

11. TAXATION *(Cont'd)*

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

	2004	**2003**
	HK$'000	*HK$'000*
Loss before taxation	(124,564)	(169,184)
Tax at the average income tax rate *(Note a)*	(23,455)	(51,297)
Tax effect of share of results of associates	6,540	30,753
Tax effect of income not taxable in determining taxable profit	(34,334)	(28,399)
Tax effect of expenses not deductible for tax purpose	25,679	44,503
Tax effect of deductible temporary differences not recognised	23,849	11,769
Underprovision in respect of prior year	—	238
Tax effect of tax losses not recognised	6,280	2,209
Utilisation of tax losses previously not recognised	—	(3,084)
Effect of tax exemption granted to PRC subsidiaries	(485)	(13,104)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,139	16,570
Others	251	777
Tax expense for the year	6,464	10,935

Notes:

(a) The average income tax rate for both years represents the weighted average income tax rate of the operations in different jurisdictions on the basis of the relative amounts of net profits before taxation and the related statutory rates.

(b) As at 31 December 2004, the Group had unused tax loss of approximately HK$29,682,000 (2003: HK$231,337,000) available to offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams.

(c) As at 31 December 2004, the Group had deductible temporary differences in respect of allowances on doubtful debts of approximately HK$308,765,000 (2003: HK$172,483,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK$176,052,000 (2003: HK$189,528,000) and on the weighted average of 877,471,799 (2003: 829,734,016) ordinary shares in issue during the year.

No disclosure of the diluted loss per share has been shown for the year ended 31 December 2004 and 2003 as the exercise of the share options and warrants would result in a decrease in loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Furniture and fixtures HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January 2004	67,944	33,096	158,767	3,605	760	264,172
Currency realignment	—	8	—	—	—	8
Reclassification	—	205	—	—	(205)	—
Arising from acquisition of subsidiaries	—	614	9,800	551	16,500	27,465
Additions	—	1,011	2,206	596	187	4,000
Disposals	—	(1,263)	(26)	—	—	(1,289)
Disposal of subsidiaries	(4,590)	(31,389)	(1,526)	(3,191)	(742)	(41,438)
At 31 December 2004	63,354	2,282	169,221	1,561	16,500	252,918
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS						
At 1 January 2004	57,611	3,615	157,533	2,257	—	221,016
Provided for the year	195	2,257	1,100	363	—	3,915
Eliminated on disposals	—	(732)	(5)	—	—	(737)
Eliminated on disposal of subsidiaries	(402)	(4,061)	(483)	(1,568)	—	(6,514)
At 31 December 2004	57,404	1,079	158,145	1,052	—	217,680
NET BOOK VALUES						
At 31 December 2004	5,950	1,203	11,076	509	16,500	35,238
At 31 December 2003	10,333	29,481	1,234	1,348	760	43,156
THE COMPANY						
COST						
At 1 January 2004 and 31 December 2004	6,824	1,488	1,338	541	—	10,191
DEPRECIATION						
At 1 January 2004	703	888	1,181	337	—	3,109
Provided for the year	171	285	109	135	—	700
At 31 December 2004	874	1,173	1,290	472	—	3,809
NET BOOK VALUES						
At 31 December 2004	5,950	315	48	69	—	6,382
At 31 December 2003	6,121	600	157	204	—	7,082

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

At the balance sheet dates, the land and buildings of the Group and the Company are held under medium-term land use rights in the PRC.

The carrying value of construction in progress as at 31 December 2004 represented the amount paid to acquire a land use right with medium lease term relating to the land located in Zhuhai, the PRC for a consideration of HK$16,500,000 for the construction of a factory. The land use right has not yet been obtained by the Group as at 31 December 2004. The directors are of the opinion that the land use right will be obtained in due course.

The net book value of motor vehicles and furniture and fixtures as at 31 December 2004 included an amount of approximately HK$3,000 (2003: HK$173,000) in respect of assets held under finance leases.

14. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES

During the year, the Group entered into a conditional agreement with a third party ("Vendor") to acquire the properties interest in a parcel of land situated in Shanghai, the PRC (the "Land") and the 24-storey building being erected upon the land together with 2 levels of underground carparks (the "Building") (collectively referred to as to the "Properties") for a consideration of RMB450,000,000 (approximately HK$424,528,000). A deposit of RMB50,000,000 (HK$47,012,000) was paid upon the entering into the conditional agreement.

According to the conditional agreement, prior to the completion of acquisition, the Vendor should (i) obtain the certificate in respect of the land use rights of the Land and the ownership of the Building; (ii) obtain an approval from 上海市計劃委員會 that the use of the Properties be changed from office to both commercial and residential and that all relevant fee and charges arising from the sale of the Land payable to the relevant authorities including 上海市國土局 having been settled in full; (iii) agree with the Group on the specification of installation, fixtures and furniture and other internal decoration of the Properties; (iv) procure all the contractors engaged in the development/construction of the Properties to enter into agreements with the Group to bind these contractors with obligations to the Group to rectify all defects of the Properties which may arise after the completion of the development/construction; and (v) procure the granting of a loan ("Loan") to be granted by PRC banks to the Group to finance the remaining consideration.

Provided that if the conditions are not fulfilled on or before 1 June 2005, the Group shall agree to a further extension of not less than 60 days without imposing any fine on the Vendor. If the conditions are not fulfilled within the extended period, the Group shall be entitled to terminate the agreement and the Vendor shall refund the deposit to the Group together with interests accrued during the period from the date of the agreement to the date the deposit is refunded and calculated on the relevant prevailing market interest rate.

It is one of the conditions for completion of the acquisition that the Vendor should obtain approval for the change of use of the Properties from office to both commercial and residential. Should the Vendor fail to obtain such approval within 150 days from the date of the agreement, the Group is entitled to either (i) to proceed with the agreement in accordance with the existing terms and conditions; or (ii) to acquire the 1st to 7th floors and the 23rd floor of the Properties together with the two levels underground carparks for a consideration of RMB70,000,000 approximately (HK$65,817,000).

The remaining consideration will be settled upon the grant of the Loan and the transfer of the ownership of the Land and Buildings to the Group.

14. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES *(Cont'd)*

Although the conditions stated above for the change of the use of the Properties has not yet fulfilled within the said period and as at the date of this report, the directors has decided to proceed with the agreement in accordance with the existing terms and conditions.

15. PAYMENT FOR ACQUISITION OF SUBSIDIARIES

During the year, the Group entered into conditional agreements with third parties ("Vendor Parties") to acquire the entire interest in 廣州耀陽實業有限公司 ("廣州耀陽") and 88% interest in 東莞市江海貿易有限公司 ("東莞市江海") for consideration of approximately RMB27,300,000 (approximately HK$25,756,000) and RMB25,700,000 (approximately HK$24,244,000) respectively. 廣州耀陽 and 東莞市江海 are companies incorporated in the PRC and engaged in the business of sand mining. As one of the conditions according to the conditional agreements, the Vendor Parties should procure the Group to obtain all necessary approval from relevant government authorities for the proper transfer of ownership in 廣州耀陽 and 東莞市江海. Deposits of RMB21,200,000 (approximately HK$20,000,000) and RMB21,200,000 (approximately HK$20,000,000) were paid upon entering into the conditional agreements. If the conditions are not fulfilled, the Group shall be entitled to terminate the agreements and the Vendor Parties shall refund the deposit to the Group. As at the date of this report, the conditions has not yet been fulfilled and the transaction has not yet been completed.

16. GOODWILL

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
COST		
At 1 January	33,469	33,082
Arising from acquisition of subsidiaries	26,812	387
Eliminated on disposal of subsidiaries	(33,469)	—
At 31 December	26,812	33,469
AMORTISATION AND IMPAIRMENT		
At 1 January	24,144	2,129
Provided for the year	1,160	1,628
Impairment loss recognised	—	20,387
Eliminated on disposal of subsidiaries	(24,299)	—
At 31 December	1,005	24,144
NET BOOK VALUES		
At 31 December	25,807	9,325

Goodwill is amortised on a straight-line basis and the amortisation period for goodwill is 20 years.

17. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES

	2004	2003
	HK$'000	*HK$'000*
Investments in subsidiaries		
Shares listed overseas, at cost	139,703	139,703
Unlisted shares, at cost	85,037	85,037
	224,740	224,740
Market value of listed shares	37,344	69,885
Receivables due from subsidiaries		
Amounts due from subsidiaries	3,779,832	3,801,035
Less: Allowances	(2,023,959)	(1,943,059)
	1,755,873	1,857,976
Payables due to subsidiaries		
Amounts due to subsidiaries	840,225	743,971

The receivables due from and payables due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts are not repayable within one year and are therefore shown as non-current.

17. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES *(Cont'd)*

Particulars of the principal subsidiaries at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
MRI Holdings Limited ("MRI") *(note c)*	Australia *(note a)*	A$31,184,116	—	57.26	Investment holding
China Pharmaceutical Industrial Limited *(note c)*	Hong Kong	HK$2	—	57.26	Investment holding
China Enterprises Limited ("China Enterprises") *(note c)*	Bermuda *(note b)*	Supervoting Common Stock US$30,000 Common Stock US$60,173	33.27 *(note b)*	24.84 *(note b)*	Investment holding
Zhuhai Zhongce Property Investment Limited *(note c)*	British Virgin Islands *(note e)*	US$1	—	100	Holding of land development project held for resale
Talent Cosmos Limited *(note c)*	British Virgin Islands	US$13,000	—	80	Investment holding
Super Energy Group Limited *(note c)*	Hong Kong	HK$13,000,000	—	80	Investment holding and trading of battery products
Super Energy Battery Industries Limited *(note c)*	Hong Kong	HK$2,500,000	—	80	Investment holding and trading of battery products
台山市超量電池有限公司 ("台山市超量") *(note c)*	PRC	RMB9,183,763	—	76 *(note d)*	Manufacturing of battery products

17. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES *(Cont'd)*

Notes:

a. MRI operates both in Australia and Hong Kong and its shares are listed on the Australian Stock Exchange. MRI and its subsidiaries are mainly engaged in the investment holding activities.

b. China Enterprises operates in both Hong Kong and PRC and its shares are traded on the Over the Counter Bulletin Board of the United States of America. The Group holds a 55.2% effective equity interest and a 88.8% effective voting interest in China Enterprises.

c. These companies are limited liability company incorporated in the respective jurisdiction.

d. 台山市超量 is a 95% subsidiary of Super Energy Battery Industries Limited and the Group hold effective 76% interest in 台山市超量.

e. Zhuhai Zhongce Property Investment Limited operates in PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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

18. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interests in associates				
Share of net assets	337,212	531,015	—	—
Goodwill *(note i)*				
At 1 January	91,785	91,785	—	—
Accumulated amortisation as at 1 January	(10,326)	(1,148)	—	—
Arising from acquisition of associates	3,931	—	—	—
Less: amortisation provided for the year	(3,059)	(9,178)	—	—
Realised upon disposal/ dilution of interests in associates	(80,325)	—	—	—
At 31 December	2,006	81,459	—	—
Negative goodwill *(note i)*				
At 1 January	(123,379)	(123,379)	—	—
Accumulated negative goodwill released at 1 January	12,338	—	—	—
Release of negative goodwill during the year	10,598	12,338	—	—
Release upon disposal/dilution of interests in associates	53,385	—	—	—
At 31 December	(47,058)	(111,041)	—	—
Unlisted shares, at cost	—	—	2	2
Unlisted convertible notes due from an associate *(note ii)*	55,000	84,800	—	—
Loans receivables due from associates *(note iii)*	81,840	260,312	—	—
Less: Allowance	—	(23,398)	—	—
	136,840	321,714	—	—
	429,000	823,147	2	2

18. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont'd)*

Notes:

(i) Goodwill is amortised on a straight-line basis and the amortisation period for goodwill is 10 years. Negative goodwill is released to income over 10 years.

(ii) The carrying value of the unlisted convertible notes at 31 December 2003 represented investments in convertible note issued by Wing On ("Wing On Note"). The Wing On Note bore interest at 2% per annum and was due for redemption on 19 April 2004 at HK$84,800,000 with accrued interest. It also entitled the holders at any time after the date of the issuance of the Wing On Note and up to 19 April 2004 to convert the Wing On Note into shares of Wing On at an initial conversion price of HK$0.032 per share (subject to adjustment).

In January 2004, the Group entered into a new convertible note agreement with Wing On pursuant to which Wing On issued the convertible notes with principal amount of HK$155,000,000 ("New Wing On Note") to the Group, of which HK$84,800,000 was used to settle Wing On Note and HK$70,200,000 were used to settle the receivables due from Wing On. The New Wing On Note is interest bearing at 2% per annum and is due for redemption on 14 June 2007 at HK$155,000,000 with accrued interest. The New Wing On Note entitled the holders at any time after the date of the issuance of the New Wing On Note and up to 14 June 2007 to convert the New Wing On Note into shares of Wing On at an initial conversion price of HK$0.020 per share (subject to adjustment).

In October and November 2004, the Group converted HK$100,000,000 convertible notes of Wing On into ordinary shares of HK$0.01 each in Wing On at conversion price of HK$0.020 per share. Certain convertible notes holders also converted their convertible notes of Wing On into ordinary shares of HK$0.01 each in Wing On at conversion price of HK$0.020 per share. The interest in Wing On held by the Group was accordingly increased from approximately 32.21% to approximately 38.16% upon the conversion of the convertible notes into shares of HK$0.01 each in Wing On by the Group and other convertible note holder. The Group also disposed of approximately 7.88% interest in Wing On for a consideration of approximately HK$45 million and the interest in Wing On held by the Group was decreased to approximately 30.28%.

On 30 November 2004, the Group further entered into two placing and subscription agreements with Wing On and placing agent pursuant to which the placing agent agreed to place 6,000 million ordinary shares of HK$0.01 each in Wing On on behalf of the Group at the price of HK$0.028 per share and the Group would subscribe up to 6,000 million new ordinary shares of Wing On at HK$0.028 per share. The placing of 6,000 million ordinary shares of HK$0.01 each in Wing On and subscription of 3,660 million new ordinary shares of HK$0.01 each of Wing On were completed in December 2004 and the Group's interest in Wing On was decreased to approximately 19.58% as at 31 December 2004. the Group further subscribed 2,340 million new ordinary shares of Wing On in January 2005 and the Group's interest in Wing On was increased to 25.02% subsequent to 31 December 2004.

(iii) The amounts are unsecured, carry interest at the prevailing market date and not repayable within one year from the balance sheet date.

(iv) In March 2004, Pacific Century Premium Development Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited whose shares are listed on the Hong Kong Stock Exchange), a then 43.06% owned associate of the Group, entered into agreements with PCCW Limited ("PCCW", a company whose shares are listed on the Hong Kong Stock Exchange) to acquire various property interests from PCCW for a consideration of approximately HK$6,557 million which was satisfied by the issue of new shares and convertible notes by PCPD to PCCW or as it may direct. The above transaction was completed in May 2004 and the Group's interest in PCPD was decreased from 43.06% to 2.83% and PCPD ceased to be an associate of the Group accordingly. The Group further disposed of all its 2.83% interest in PCPD and no interest in PCPD was held by the Group as at 31 December 2004.

18. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont'd)*

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Receivables due from associates				
Amounts due from associates	57,163	6,294	563	719
Payables due to associates				
Amounts due to associates	3,737	185	—	185
Market value of listed shares in associates	311,480	325,245	—	—

The amounts due from associates are unsecured and repayable on demand. Except for amount due from an associate of approximately HK$54,247,000 (2003: Nil) are interest bearing, all remaining amount due from associates are non-interest bearing. The amounts due to associates are unsecured, non-interest bearing and repayable on demand.

The amounts due to associates are unsecured, non interest bearing and repayable on demand.

Particulars of the principal associates at 31 December 2004 are as follows:

Name of associate	**Place of the incorporation/ registration/ establishment**	**Place of operation**	**Proportion of nominal value of issued share capital/registered capital held indirectly by The Company** %	**Principal activities**
China Velocity Group Limited ("China Velocity") *(notes a and b)*	Bermuda	Hong Kong and PRC	22.65	Property investment and development in the PRC
Wing On *(notes a and b)*	Bermuda	Hong Kong	19.58	Business of providing package tours, travel and other related services
Hangzhou Zhongce Rubber Company Limited ("HZ Rubber") *(note c)*	PRC	PRC	26.00	Manufacturing of tires

Notes:

(a) The shares of China Velocity and Wing On are listed on the Hong Kong Stock Exchange.

(b) These companies are a limited liability company incorporated in the respective jurisdiction.

(c) This is a sino-foreign equity joint venture.

18. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont'd)*

The above table lists the associates of the Group which, in the opinion of the directors, constituted a substantial portion of the share of results or of net assets of the associates. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The following is a summary of the most recent published financial information and management account of the principal associates held by the Group as at 31 December 2004:

Consolidated results for the year:

	HZ Rubber 1.1.2004 to 31.12.2004 *HK$'000*	**China Velocity 1.1.2004 to 31.12.2004** *HK$'000*	**Wing On 1.1.2004 to 31.12.2004** *HK$'000*
Turnover	4,784,903	12,605	1,722,177
Net (loss) profit for the year	97,940	(235,515)	35,377
Net (loss) profit for the year attributable to the Group	25,464	(53,344)	10,614

Consolidated financial position:

	HZ Rubber as at 31.12.2004 *HK$'000*	**China Velocity as at 31.12.2004** *HK$'000*	**Wing On as at 31.12.2004** *HK$'000*
Non-current assets	1,286,257	151,929	2,037,951
Current assets	1,753,486	81,482	564,490
Current liabilities	(2,180,756)	(120,665)	(581,588)
Non-current liabilities	(90,165)	(667)	(1,075,940)
Minority interests	(24,109)	(14,430)	(312,171)
Net assets	744,713	97,649	632,742
Share of net assets by the Group:			
As at 31 December 2004	190,893	22,117	123,890
Market value of interest held by the Group	N/A	52,770	258,710

19. RECEIVABLES

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loan and interest receivables				
— secured *(note a)*	230,105	242,967	—	—
— unsecured *(note b)*	666,513	297,124	41,958	33,725
Promissory note and its interest receivables *(note c)*	6,735	—	—	—
Receivable due from related companies *(note d)*	—	10	—	—
	903,353	540,101	41,958	33,725
Less: Allowances	(302,643)	(138,356)	(35,223)	—
	600,710	401,745	6,735	33,725
Less: Amounts due within one year and shown under current assets	(563,666)	(370,459)	(6,735)	(14,586)
Amounts due after one year	37,044	31,286	—	19,139

Notes:

(a) Included in secured loan and interest receivables were amounts of approximately HK$109,286,000 (2003: HK$128,183,000) and approximately HK$120,819,000 (2003: HK$114,784,000) due from Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Allowances made in the loans receivables due from Danwei and Lucklong as at 31 December 2004 were approximately HK$143,905,000 (2003: HK$48,000,000) with reference to the market value of the collateral secured to the Group. Shares in certain companies were pledged to the Group as securities to the loans receivables.

The loan receivables carry interest at the prevailing market rate.

19. RECEIVABLES *(Cont'd)*

(b) Included in unsecured loan and interest receivables were amount of approximately HK$80,021,000 (2003: HK$40,662,000) due from a subsidiary of an investee.

The loan receivables carry interest at the prevailing market rate.

(c) The principal amount of HK$6,500,000 is unsecured, carries interest at prevailing market rate and repayable on 6 May 2005.

(d) Details of the receivable due from related companies are as follows:

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Paul Y. — ITC Construction Holdings Limited	—	5	—	—
ITC Corporation Limited	—	5	—	—
	—	10	—	—

The amounts were unsecured, non-interest bearing and were repayable on demand.

Paul Y. — ITC Construction Holdings Limited ("Paul Y. — ITC") is a substantial shareholder of the Company and ITC Corporation Limited is a shareholder of Paul Y. — ITC.

20. INVESTMENTS IN SECURITIES

	THE GROUP Other investments		THE COMPANY Other investments	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities:				
Listed	91,081	140,053	—	—
Unlisted	76,909	36,314	—	—
	167,990	176,367	—	—
Debt securities:				
Unlisted	45,084	43,421	—	—
Club debentures	825	825	825	825
Total	213,899	220,613	825	825
Total and reported as:				
Listed				
Hong Kong	80,415	112,800	—	—
Elsewhere	10,666	27,253	—	—
	91,081	140,053	—	—
Unlisted	122,818	80,560	825	825
	213,899	220,613	825	825
Classified under				
Current	19,849	2,930	—	—
Non-current	194,050	217,683	825	825
	213,899	220,613	825	825
Market value of listed securities	91,081	140,053	—	—

The carrying value of listed securities in Hong Kong at 31 December 2004 included amounts of HK$28,860,000 (2003: HK$18,300,000), representing 4.64% (2003: 4.64%) interest in Y.T. Realty Group Limited ("YT Realty"). YT Realty is incorporated in Bermuda with it shares listed on the Hong Kong Stock Exchange.

The carrying value of unlisted securities in Hong Kong at 31 December 2004 included an amount of HK$43,498,000 (2003: Nil), representing 9.77% interest in Apex Quality Group Limited ("Apex"). Apex is incorporated in the British Virgin Islands and engaged in hotel and leisure related business. Apex was a 22.65% associate of the Group as at 31 December 2003. Upon the completion of disposal of approximately 12.88% interest of Apex by the Group in September 2004, Apex ceased to be the Group's associate.

21. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movement during the prior accounting periods:

	Bad and doubtful debts and allowance
	HK$'000
At 1 January 2003	13,454
Credit to the consolidated income statement	770
	14,224
Realised on disposal of subsidiaries *(note 32)*	(14,224)
At 31 December 2003 and 31 December 2004	—

22. OTHER ASSET

The amount represents cost incurred in connection with a land development project in the PRC. The project is a land development of 珠海市龍山智業產業園 located in Long Shan Development Area, Doumen District, Zhuhai City and is to be jointly developed with 珠海市龍山工業區管理委員會. the Group is entitled to the exclusive development right to the project and also the right to obtain the land for the development ("Other Asset"). the Group is also entitled to sell the Other Asset to investors at consideration to be agreed among themselves.

The amount of approximately HK$227,045,000 (2003: approximately HK$226,596,000) was paid by the Group for obtaining the exclusive development right to the project and in obtaining certain parts of the right for land development.

As the directors are of the opinion that the Other Asset is held for sale, the cost incurred for the Other Asset is included in current asset accordingly.

The directors has assessed the carrying value of the Other Asset with reference to the valuation performed by Norton Appraisal Limited, an independent valuer, on open market value basis and no impairment loss is identified.

23. INVENTORIES

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Raw materials	8,004	12,146
Work in progress	—	163
Finished goods	5,704	54,667
	13,708	66,976

Included in above are finished goods of HK$5,704,000 (2003: HK$54,667,000) which are carried at net realisable value.

The cost of inventories recognised as an expense during the year was approximately HK$76,066,000 (2003: HK$2,459,991,000).

24. TRADE DEBTORS

The Group allows its trade customers with credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the balance sheet date is as follows:

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
0-90 days	6,832	12,011
91-180 days	114	762
Over 180 days	34	945
	6,980	13,718

25. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

Included in creditors, other payables and accrued charges are creditors with the following aged analysis:

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
0-90 days	1,613	39,468
91-180 days	2,838	1,413
Over 180 days	513	813
	4,964	41,694
Add: Other payables and accrued charges	41,111	43,252
	46,075	84,946

26. PAYABLES

Details of the payables are as follows:

		THE GROUP		THE COMPANY	
		2004	**2003**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Payables due to related companies	*(a)*	185,635	201,286	185,218	198,105
Payables due to third parties	*(b)*	7,945	77,795	—	50,603
		193,580	279,081	185,218	248,708
Less: Amounts shown under current liabilities		(8,637)	(34,611)	(275)	(5,430)
		184,943	244,470	184,943	243,278

26. PAYABLES *(Cont'd)*

Notes:

(a) Details of the payables due to related companies are as follows:

		THE GROUP		THE COMPANY	
		2004	**2003**	**2004**	**2003**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nation Cheer Investment Limited	*(i)*	184,943	192,675	184,943	192,675
Hanny Magnetics Limited	*(i)*	—	1,076	—	1,076
ITC Management Limited	*(ii)*	275	519	275	519
Paul Y. Project Management International Limited	*(i)*	—	2,314	—	2,314
Mass Success International Limited	*(iii)*	—	1,251	—	1,251
Paul Y. — ITC Management Limited	*(i)*	—	450	—	—
Micro Tech Limited	*(i)*	—	270	—	270
Cycle Company Limited and Gunnell Properties Limited	*(i)*	417	693	—	—
ITC Corporation Limited	*(iv)*	—	744	—	—
Paul Y. — ITC (E&M) Company Limited	*(i)*	—	1,014	—	—
Paul Y. — ITC (E&M) Contractors Limited	*(i)*	—	280	—	—
		185,635	201,286	185,218	198,105

Notes:

(i) The companies are wholly-owned subsidiaries of substantial shareholders of the Company.

(ii) ITC Management Limited is a wholly-owned subsidiary of ITC Corporation Limited, a shareholder of the Company's substantial shareholder.

(iii) Mass Success International Limited is an associate of a substantial shareholder of the Company.

(iv) ITC Corporation Limited is a shareholder of the Company's substantial shareholder.

THE GROUP AND THE COMPANY

The amounts are unsecured and carry interest at prevailing market rate.

Except for the payable of HK$184,943,000 (2003: HK$192,675,000) which is repayable after one year from the balance sheet date, all remaining balances are repayable on demand.

26. PAYABLES *(Cont'd)*

(b) The amounts are unsecured, carry interest at prevailing market rate and repayable on demand.

THE GROUP

As at 31 December 2003, except for the payable of HK$51,795,000 which was repayable after one year from the balance sheet date, all remaining balances were repayable on demand.

THE COMPANY

As at 31 December 2003, except for the payable of HK$50,603,000 which was repayable after one year from the balance sheet date, all remaining balances were repayable on demand.

27. BANK LOANS AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	2,245	12,991	—	—
Obligations under finance leases *(note a)*	13	175	13	24
Bank overdrafts	6,800	5,131	—	5,131
Other borrowings *(note b)*	33,567	20,131	—	—
	42,625	38,428	13	5,155
Secured	42,098	12,438	13	5,155
Unsecured	527	25,990	—	—
	42,625	38,428	13	5,155
Repayable as follows:				
Within one year	42,622	38,284	10	5,142
Between one and two years	3	33	3	13
Between two and five years	—	111	—	—
	42,625	38,428	13	5,155
Less: Amount due within one year included under current liabilities	(42,622)	(38,284)	(10)	(5,142)
Amount due after one year	3	144	3	13

27. BANK LOANS AND OTHER BORROWINGS *(Cont'd)*

Notes:

(a)

	Minimum lease payments				Present value of minimum lease payments			
	THE GROUP		THE COMPANY		THE GROUP		THE COMPANY	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:								
Within one year	14	45	14	14	10	31	10	11
In the second to fifth years inclusive	4	165	4	18	3	144	3	13
	18	210	18	32	13	175	13	24
Less: Future finance charges	(5)	(35)	(5)	(8)	—	—	—	—
Present value of lease obligations	13	175	13	24	13	175	13	24
Less: Amount due within one year					(10)	(31)	(10)	(11)
Amount due after one year					3	144	3	13

The average lease term is two (2003: five) years. For the year ended 31 December 2004, the average effective borrowing rate was 9.4% (2003: 6.7%). Interest rate is fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases contract are secured by the lessor's charge on the hired assets.

(b) The amounts carrying interest at prevailing market rate.

28. SHARE CAPITAL

	Notes	Number of shares	Value HK$'000
Authorised:			
Ordinary shares of HK$0.10 each at 31 December 2003 and 2004		8,000,000,000	800,000
Issued and fully paid:			
Ordinary shares of HK$0.10 each at 1 January 2003		829,468,413	82,947
Exercise of warrants	*(i)*	27,126,674	2,713
Ordinary shares of HK$0.10 each at 31 December 2003		856,595,087	85,660
Issue of shares	*(ii)*	25,000,000	2,500
At 31 December 2004		881,595,087	88,160

Notes:

(i) During the year ended 31 December 2003, 27,126,674 shares in the Company of HK$0.10 each were issued upon the exercise of 27,126,674 warrants at a price of HK$0.16 per share. The shares issued during the year ended 31 December 2003 rank pari passu with the then existing shares in all respect.

(ii) During the year ended 31 December 2004, 25,000,000 ordinary shares in the Company of HK$0.10 each were issued at a price of HK$0.1776 per share as a result of exercise of share options. The shares issued during the year rank pari passu with the then existing shares in all respect.

29. WARRANTS

In accordance with the conditions attached to the warrants of the Company, each of the warrants confers rights to the registered holder to subscribe for one new share of the Company in cash at an initial subscription price of HK$0.16 per share, subject to adjustment, at any time from the date of issue to 31 December 2003 (both days inclusive). The movement in the number of warrants of the Company during the year ended 31 December 2003 were set out as below:

	Number of outstanding warrant
At 1 January 2003	165,893,682
Exercised during the year	(27,126,674)
Lapsed during the year	(138,767,008)
At 31 December 2003	—

On 31 December 2003, all of the remaining outstanding warrants, which entitled the registered holders to subscribe for 138,767,008 shares of HK$0.10 each in the Company, were lapsed.

At 31 December 2004, there were no outstanding warrants.

30. SHARE OPTIONS

THE COMPANY

The 1992 Scheme

In accordance with the terms of the Company's Executive Share Option Scheme adopted on 20 July 1992 and effective for a period of ten years after the date of the scheme, the Company granted to directors and employees of the Company and its subsidiaries share options to subscribe for its ordinary shares for a consideration of HK$1 for the primary purpose of providing incentives to directors and eligible employees. The subscription price, subject to adjustment, is based on 80% of the average of the closing prices of the shares of the Company on the five trading days immediately before the options were offered. Options granted are exercisable not later than ten years after the date the options are granted. The 1992 Scheme was terminated pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 4 June 2002.

At 31 December 2003 and 31 December 2004, there was no shares issuable under the 1992 Schemes. The total number of shares in respect of which options may be granted under the 1992 Scheme was not permitted to exceed 10% of the shares of the Company in issue excluding any share issued pursuant to the 1992 Scheme at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual was not permitted to exceed 25% of the aggregate number of shares of the Company in issue and issuable under the 1992 Scheme at any point in time, without prior approval from the Company's shareholders.

30. SHARE OPTIONS *(Cont'd)*

THE COMPANY *(Cont'd)*

A summary of the movements of share options under the 1992 Scheme during the year ended 31 December 2003 were as follows:

			Number of shares under option		
Date of grant	**Exercisable period**	**Exercise price** *HK$*	**Outstanding at 1.1.2003**	**Surrendered/ lapsed during the year**	**Outstanding at 31.12.2003**
12.1.2000	18.1.2000 to 17.1.2005	3.145	75,000	(75,000)	—
Total for directors			75,000	(75,000)	—
Employees					
14.2.2000	16.2.2000 to 15.2.2005	3.702	435,000	(435,000)	—
Total for employees			435,000	(435,000)	—
Grand total			510,000	(510,000)	—

The 2002 Scheme

On 4 June 2002, the Company adopted a new share option scheme ("2002 Scheme") which is effective for a period of ten years for the primary purpose of providing incentives to directors and eligible employees. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK$1. Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per grant. Options granted are exercisable not later than ten years after the date the options are granted. The exercise price, subject to adjustment, is determined by the board of directors of the Company and will not be less than the highest of (i) the closing price of the Company's share on the date of options granted; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 46,097,894 shares, representing 10% of the issued share capital of the Company as at the date of adoption of 2002 Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Rules Governing the Listing of Securities of Hong Kong Stock Exchange from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the aggregate number of shares of the Company in issue and issuable under 2002 Scheme at any point in time, without prior approval from the Company's shareholders.

There were no options granted during the year ended 31 December 2003 under the 2002 Scheme.

30. SHARE OPTIONS *(Cont'd)*

THE COMPANY *(Cont'd)*

The 2002 Scheme (Cont'd)

A summary of the movements of share options under the 2002 Scheme during the year ended 31 December 2004 were as follows:

			Number of shares under option			
Date of grant	**Exercisable period**	**Exercise price**	**Outstanding at 1.1.2004**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31.12.2004**
		HK$				
Employees						
8.1.2004	8.1.2004 to 7.1.2009	0.1776	—	25,000,000	(25,000,000)	—

Consideration was received by the Company in respect of the options granted during the year was insignificant.

The closing prices of the Company's shares at the dates of grant on 8 January 2004 was HK$0.172.

The closing price of the Company's shares at the dates of exercise by the employees were HK$0.46, HK$0.41, HK$0.60, HK$0.58, HK$0.55 and HK$0.54 respectively.

SUBSIDIARY

China Enterprises

Pursuant to the Executive Share Option Scheme adopted on 7 June 1994 and effective for a period of ten years after the date of the adoption of the scheme, China Enterprises granted options to officers and employees, and directors who are also employees, of China Enterprises and its subsidiaries to subscribe for common stock in China Enterprises for a consideration of HK$1 for the primary purpose of providing incentives to officers, directors and eligible employees, subject to a maximum of 910,000 shares. Shares of common stock to be issued upon the exercise of options will be authorised and unissued shares. An independent committee (the "Committee") of China Enterprises' board of directors was formed to monitor and consider the granting of options under the scheme. The subscription price will be determined by the Committee, and will not be less than 80% of the average closing price of shares of common stock over the five trading days immediately preceding the date of offer of the option.

At 31 December 2003 and 31 Demcember, 2004, there was no shares issuable under the above scheme. The total number of shares in respect of which options may be granted under the schemes is not permitted to exceed 910,000 of the shares of China Enterprises in issue at any point in time, without prior approval from China Enterprises' shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the shares of China Enterprises in issue at any point in time, without prior approval from China Enterprises' shareholders.

30. SHARE OPTIONS *(Cont'd)*

SUBSIDIARY *(Cont'd)*

China Enterprises (Cont'd)

A summary of the movements of share options under the share option scheme of China Enterprises held by employees during the year ended 31 December 2003 was as follows:

Exercisable period	Exercise price	Outstanding at 1.1.2003	Surrendered/ lapsed during the year	Outstanding at 31.12.2003
	US$			
3.2.2000 to 2.2.2010	9.9375	20,000	(20,000)	—

31. RESERVES

	Share premium	Special capital reserve	Capital redemption reserve	Deficit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY					
At 1 January 2003	1,897,348	414,881	233	(1,157,457)	1,155,005
Exercise of warrants	1,628	—	—	—	1,628
Net loss for the year	—	—	—	(94,357)	(94,357)
At 31 December 2003	1,898,976	414,881	233	(1,251,814)	1,062,276
Issue of shares	1,940	—	—	—	1,940
Net loss for the year	—	—	—	(144,053)	(144,053)
At 31 December 2004	1,900,916	414,881	233	(1,395,867)	920,163

The special capital reserve of the Company represents the amount arising from the capital reduction carried out by the Company during the year ended 31 December 2001.

At 31 December 2004 and 2003, the Company had no reserves available for distribution to shareholders.

32. DISPOSAL/DILUTION OF INTERESTS IN SUBSIDIARIES

During the year, the Group disposed of its 100% interest in Tung Fong Hong Investment Limited ("TFHI"). Details of the assets and liabilities of the subsidiaries disposed of are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	34,924	901,368
Deferred tax assets	—	14,224
Interests in associates	14,808	103,064
Receivables due from associates	—	81,551
Investments in securities	—	5,216
Inventories	49,319	737,767
Trade debtors	12,112	530,528
Other receivables, deposits and prepayments	8,427	207,315
Pledged bank deposits	—	70,098
Bank balances and cash	22,176	296,719
Trade creditors, other payables and accrued charges	(43,316)	(757,419)
Income and other taxes payable	(30)	(34,335)
Bank loans and other borrowings	(60,197)	(1,274,058)
Obligations under finance leases	(149)	—
Minority interests	—	(486,909)
	38,074	395,129
Less: Interest retained as interests in associates	—	(178,053)
	38,074	217,076
Goodwill realised	9,170	6,852
Negative goodwill reserve realised	—	—
Exchange reserve realised	13	(3,848)
	47,257	220,080
(Loss) gain on disposal/dilution	(5,257)	12,344
	42,000	232,424
Satisfied by:		
Cash	35,500	232,424
Promissory note included in receivables	6,500	—
	42,000	232,424
Analysis of the net inflow (outflow) of cash and cash equivalents in connection with the disposal/dilution of subsidiaries:		
Cash consideration received	35,500	232,424
Bank balances and cash disposed of	(22,176)	(296,719)
Net inflow (outflow) of cash and cash equivalents	13,324	(64,295)

The subsidiaries disposed of during the year contributed approximately HK$96,262,000 (2003: HK$2,653,540,000) to the Group's turnover, and approximately profit of HK$6,778,0000 (2003: loss of HK$90,362,000) to the Group's loss from operations.

33. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired a 80% interest in Talent Cosmos Limited for a consideration of HK$30 million. Details of the assets and liabilities acquired are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	27,465	—
Investment in securities	4,160	—
Interests in associates	386	—
Inventories	10,079	—
Trade debtors	8,760	—
Bank balances and cash	3,256	—
Creditors, other payables and accrued charges	(37,086)	(12)
Payables due to associates	(2,198)	—
Bank loans	(10,453)	—
Minority interests	(1,181)	410
	3,188	398
Goodwill arising on acquisition	26,812	387
	30,000	785
Satisfied by:		
Cash	30,000	785

Analysis of the net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries:

	2004	**2003**
	HK$'000	*HK$'000*
Cash consideration paid	(30,000)	(785)
Bank balances and cash acquired	3,256	—
Net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries	(26,744)	(785)

The subsidiaries acquired during the year ended 31 December 2004, contributed approximately HK$27,141,000 to the Group's turnover and approximately HK$2,005,000 to the Group's loss from operations.

The subsidiaries acquired during the year ended 31 December 2003 did not make significant contribution to the Group's turnover and the Group's loss from operations.

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2004, the major non-cash transactions were as follows:

(a) Increase in receivables of approximately HK$34,979,000 before allowances of HK$10,686,000 were resulted from reclassification from loans receivables due from associates included in interests in associates upon the completion of dilution of interest in associates.

(b) Addition to deposit paid for acquisition of interest in properties of approximately HK$46,686,000 were repayments of loans receivables due from associates.

(c) Addition to investment in securities of approximately HK$43,588,000 were as result of disposal/dilution of interests in associates.

(d) Loan receivables due from associates of HK$70,200,000 were settled by the issuance of convertible notes by the associates included in interests in associates.

(e) Additions to deposits paid for acquisition of subsidiaries of HK$40,000,000 were repayments from receivables.

During the year ended 31 December 2003, the major non-cash transaction are as follows:

(a) Increase in interests in associates of approximately HK$74,989,000 arose from the disposed of 25% interest in a 51% owned subsidiary and arose from disposal of 50% interest in a wholly-owned subsidiary.

(b) Increase in other receivables, deposits and repayment of approximately HK$11,032,000 were as a result of reclassification from payment for acquisition of land development right upon the termination of the project during the year ended 31 December 2003.

(c) Finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the leases of approximately HK$168,000.

35. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted for but not provided in the financial statements in respect of				
(i) Acquisition of interest in properties *(note 14)*	377,516	—	—	—
(ii) Other assets	91,981	—	—	—
(iii) Acquisition of subsidiaries *(note 15)*	10,000	—	—	—
	479,497	—	—	—

36. OPERATING LEASE COMMITMENTS

The Group has made approximately HK$8,052,000 (2003: HK$26,344,000) minimum lease payments under operating leases during the year in respect of office premises.

The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under noncancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	64	16,216	—	577
In the second to fifth year inclusive	—	16,930	—	—
	64	33,146	—	577

Leases are negotiated for an average term of one year and rentals are fixed for an average of one year.

37. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Corporate guarantee given by the Company for banking facilities granted to:				
(i) subsidiaries	—	—	28,500	26,243
(ii) associates	15,500	32,300	15,500	32,300
Other guarantees issued to associates	30,780	780	30,780	780
	46,280	33,080	74,780	59,323

(b) The Company has granted a guarantee in favour of MTR Corporation Limited ("MTR") in respect of outstanding rent and obligations under the tenancy agreement entered into between Tung Fong Hung Medicine (Retail) Limited, a wholly-owned subsidiary of the TFHI (note 32) and MTR for the leased properties. As at 31 December 2004, such guarantee has not yet been released upon the disposal of the entire interest in TFHI by the Group.

38. PLEDGE OF ASSETS

(a) As at 31 December 2004, bank deposits of HK$1,012,000 (2003: Nil) was pledged to secure credit facilities granted to the Group.

At 31 December 2003, interests in an associates with net assets value attributable to the Group of approximately HK$83,622,000 were pledged to secure credit facilities granted to the associates of the Group.

(b) At 31 December 2004, investment in securities with a carrying value of HK$72,186,000 (2003: HK$111,496,000) were pledged to secure margin account credit facilities and banking facilities granted to the Group.

The margin loan facility amounting to HK$33,567,000 included in bank loans and other borrowings (2003: HK$7,131,000) were utilised by the Group.

39. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

Name of company	Nature of transactions	*Notes*	2004 *HK$'000*	2003 *HK$'000*
Sing Pao Newspaper Company Limited	Loan interest income received and receivable by the Group	*(a)*	390	363
Lucklong	Loan interest income received and receivable by the Group	*(b)*	—	5,984
Danwei	Loan interest income received and receivable by the Group	*(b)*	—	6,683
Hanny Magnetics Limited	Loan interest expense paid and payable by the Group	*(c)*	—	2,606
	Rent expenses paid and payable by the Group		16	17
	Sale of goods made by the Group		—	63
Paul Y. — ITC Management Limited	Loan interest paid and payable by the Group	*(d)*	—	1,193
	Secondment fee paid an payable by the Group		330	354
	Sales of goods by the Group		3	—
Paul Y. — ITC (E & M) Company Limited	Repair and maintenance fee paid and payable by the Group	*(c)*	42	58
	Project management fee paid and payable by the Group		—	872
	Mechanical and electrical service fee paid and payable by the Group		—	7
Cycle Company Limited and Gunnell Properties Limited	Rental expenses paid and payable by the Group	*(c)*	553	554
Paul Y. Project Management International Limited	Project management fee paid and payable by the Group	*(c)*	—	434
Paul Y. — ITC Management Limited	Sale of goods made by the Group	*(c)*	338	687

39. RELATED PARTY TRANSACTIONS *(Cont'd)*

Name of company	Nature of transactions	*Notes*	2004 *HK$'000*	2003 *HK$'000*
Paul Y. — ITC Interior Contractors Limited	Project management fee paid and payable by the Group	*(c)*	—	15
Nation Cheer Investment Limited	Interest expense paid and payable by the Group	*(c)*	12,428	10,270
Millennium Target Holdings Limited	Loan interest income received and receivable by the Group	*(e)*	—	31
Wing On	Loan interest income received and receivable by the Group	*(f)*	1,466	2,198
China Velocity	Loan interest income received and receivable by the Group	*(f)*	—	3,249
Hong Kong Wing On Travel Service Limited	Air ticketing and travel service expenses paid and payable by the Group	*(e)*	260	73
	Sale of goods made by the Group		—	209
Mass Success International Limited	Rental expenses paid and payable by the Group	*(g)*	577	618
Pacific Century Premium Developments Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited)	Management fee received and receivable by the Group	*(h)*	200	150
Apex	Loan interest income received and receivable by the Group	*(h)*	3,280	248
Mirco Tech Limited	Rental expense of motor vehicles paid and payable by the Group	*(c)*	216	216
Chief Altantic Profits Limited	Loan interest income received and receivable by the Group	*(i)*	303	306
Rosedale Park Limited	Sale of goods made by the Group	*(i)*	—	11
	Hotel expense paid and payable by the Group		—	14

39. RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes:

(a) Sing Pao Newspaper Company Limited is wholly-owned subsidiary of an investee of the Group.

(b) Ms. Chau Mei Wah, Rosanna ("Ms. Chau"), a director of the Company, is the former director of Danwei and Lucklong. Mr. Lau Ko Yuen, the former alternate director to Ms. Chau, is a director of substantial shareholder of the Company and a director of Danwei and Lucklong. During the year ended 31 December 2004, interest income received and receivable by the Group from Danwei and Lucklong were approximately HK$6,035,000 and HK$6,103,000 respectively.

(c) Hanny Magnetics Limited, Paul Y. — ITC (E & M) Company Limited, Paul Y. Project Management International Limited, Cycle Company Limited and Gunnell Properties Limited, Paul Y. ITC Management Limited, Paul Y. — ITC Interior Contractors Limited, Nation Cheer Investment Limited and Mirco Tech Limited are wholly-owned subsidiaries of a substantial shareholder of the Company.

(d) Paul Y. — ITC Management Limited is the shareholder of a substantial shareholder of the Company.

(e) Millennium Target Holdings Limited and Hong Kong Wing On Travel Service Limited are wholly-owned subsidiaries of Wing On.

(f) Wing On, China Velocity are associates of the Group.

(g) Mass Success International Limited is an associate of a substantial shareholder of the Company.

(h) PCPD and Apex ceased to be associates of the Group during the year ended 31 December 2004.

(i) China Altantic Profits Limited and Rosedale Park Limited are wholly-owned subsidiaries of PCPD and Apex.

During the year, the Company issued "all monies" guarantees and indemnity to a bank for the banking facilities granted to a nonwholly owned subsidiary and an associate of the Group and the amount of approximately HK$1,913,000 and no amount utilised by that non-wholly subsidiary and an associate respectively as at 31 December 2004.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 18, 19 and 26.

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business transactions and the terms were mutually agreed between the Group and the related parties.

40. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and employees each contribute 5% of the relevant payroll costs to the Scheme.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

40. RETIREMENT BENEFIT SCHEME *(Cont'd)*

The employees in the joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture companies are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme. The amount of contributions payable to the pension schemes are charged to the income statement.

At the balance sheet date, there were no significant forfeited contributions which arose upon employees leaving the scheme prior to their interests in the Group's contributions becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

The total cost charged to income statements of approximately HK$851,000 (2003: HK$27,196,000) represents contribution payable to these schemes by the Group in respect of the current year.

41. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

On 19 April 2005, the Company announced a proposed group reorganization ("the Group Reorganization") which, if approved and implemented, will result in, (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 investment; (ii) all other subsidiaries of the Group carrying on property development and investment holding business, and all other associates of the Group carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services being grouped under the Group Dragon Investments Limited ("GDI") (a wholly owned subsidiary of the Company) and its subsidiaries upon completion of the the Group Reorganization; and (iii) the distribution in specie of shares in GDI to the then shareholders of the Company on a record date to be fixed, on the basis of one GDI shares for every share in the Company after consolidation under the capital reorganization as described below ("Capital Reorganization").

The Company also proposed to carry out the Capital Reorganization which involve, inter alia, the followings:

(i) 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 from HK$0.10 to HK$0.05 ("Capital Reduction") and the cancellation of the entire share premium account of the Company;

(ii) subdivision of each authorized but unissued share of the Company into two reduced shares of HK$0.05 each ("Subdivision");

(iii) every two reduced shares of the Company of HK$0.05 each arising from the Capital Reduction and Subdivision will then be consolidated into one ordinary share of HK$0.10; and

(iv) the credits of approximately HK$44,079,000 and HK$1,900,916,000 resulting from the Capital Reduction and the cancellation of the share premium account, respectively to the special capital reserve account of the Company.

Details of the the Group Reorganization and Capital Reorganization are set out in the joint announcement of the Company dated 19 April 2005.

INDEBTEDNESS

Borrowings

At the close of business on 30 June 2005, (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had outstanding borrowings of approximately HK$288,623,000 comprising secured bank borrowings of approximately HK$8,609,000, payables due to related companies of approximately HK$192,218,000, payables due to former shareholders of subsidiaries of approximately HK$49,770,000, payables due to third parties of approximately HK$3,379,000, obligations under finance leases of approximately HK$9,000 and secured margin loan payables of approximately HK$34,638,000.

Securities and guarantees

The secured bank borrowings as shown above were guaranteed by personal guarantees given by the directors of a non-wholly owned subsidiary. The secured margin loan payables and secured bank borrowings were secured by investments in securities of approximately HK$82,098,000 and bank deposits of approximately HK$1,012,000.

At the close of business on 30 June 2005, the Group had contingent liabilities in respect of guarantees in favour of banks for facilities granted to an independent third party 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 The People's Republic of China ("PRC") court to an institution in the PRC which provided a guarantee of the same amount to the PRC court on behalf of the Group.

Debt securities

At the close of business on 30 June 2005, the Group had no debt securities.

Commitment

At the close of business on 30 June 2005, the Group had commitment of approximately HK$469,481,000, in respect of the acquisition of the interest in properties and other assets.

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 30 June 2005, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance leases, guarantees, or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 30 June 2005.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 June 2005 and up to the Latest Practicable Date.

MATERIAL CHANGES

The Directors are not aware of any material changes in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Company were made up.

WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the effect of Group Reorganisation and the present available banking facilities and the internal resources, the Group have sufficient working capital for its present requirement and for the next twelve months from the date of this circular.

1. UNAUDITED PRO FORMA ASSETS AND LIABILITIES STATEMENT OF THE GROUP UPON COMPLETION OF GROUP REORGANISATION

(A) Introduction

The unaudited pro forma assets and liabilities statement of the Group has been prepared giving effect to the Group Reorganisation.

The unaudited pro forma assets and liabilities statement of the Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the Group Reorganisation as if the Group Reorganisation taken place on 31 December 2004.

The unaudited pro forma assets and liabilities statement of the Group is based upon the audited consolidated balance sheet of the Group as at 31 December 2004, which has been extracted from the audited consolidated financial statements of the Company for the year ended 31 December 2004, after giving effect to the pro forma adjustments of the Group Reorganisation that are (i) directly attributable to the transaction; and (ii) factually supportable, are summarized in the accompany notes.

The unaudited pro forma assets and liabilities statement of the Group is based on a number of assumptions, estimates, uncertainties, the accompanying unaudited pro forma assets and liabilities statement of the Group does not purport to describe the actual financial position of the Group that would have been attained had the Group Reorganisation been completed on 31 December 2004. The unaudited pro forma assets and liabilities statement of the Group does not purport to predict the future financial position of the Group.

The unaudited pro forma assets and liabilities statement of the Group should be read in conjunction with the historical information of the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2004 and other financial information included elsewhere in this circular.

(B) Unaudited Pro Forma Assets and Liabilities Statement

As at 31 December 2004

	Audited *HK$'000*	Pro Forma Adjustments *HK$'000* *Note 1 (a)*	Pro Forma Adjustments *HK$'000* *Note 2*	Pro Forma Adjustments *HK$'000* *Note 3*	Subtotal *HK$'000*	Pro Forma Adjustments *HK$'000* *Note 4*	Pro Forma Adjustments *HK$'000* *Note 5*	Pro Forma Remaining Group *HK$'000*
Non-Current Assets								
Properties, plant and equipment	35,238	(220)			(220)		(431)	34,587
Deposit paid for acquisition of interest in properties	47,012	(47,012)			(47,012)			—
Payment for acquisition of subsidiaries	40,000	(40,000)			(40,000)			—
Goodwill	25,807							25,807
Interests in associates	429,000	(428,672)			(428,672)			328
Receivables — due after one year	37,044	(28,283)			(28,283)		(3,354)	5,407
Investment in securities	194,050	(71,959)			(71,959)		(29,124)	92,967
Investments in subsidiaries	—							—
	808,151	(616,146)			(616,146)			159,096
Current Assets								
Other assets	227,167	(227,167)			(227,167)			—
Inventories	13,708							13,708
Trade debtors	6,980							6,980
Receivables due from associates	57,163	(54,373)			(54,373)			2,790
Receivables — due within one year	563,666	(540,931)			(540,931)			22,735
Other receivables, deposit and prepayments	86,464	(79,800)			(79,800)		(2,889)	3,775
Investments in securities	19,849							19,849
Receivables due from former fellow subsidiaries	—	(878,028)	878,028		—			—
Pledged bank deposits	1,012							1,012
Bank balance and cash	118,388	(72,481)			(72,481)		(45,477)	430
	1,094,397	(1,852,780)			(974,752)			71,279
Current Liabilities								
Creditors, other payables and accrued charges	(46,075)	25,497			25,497		5,309	(15,269)
Payables — due within one year	(8,637)	444			444		8,193	—
Payable due to associates	(3,737)	673			673			(3,064)
Income and other taxes payable	(9,185)	8,144			8,144		(89)	(1,130)
Bank and other borrowings — due within one year	(42,622)						10	(42,612)
Payables due to former fellow subsidiaries	—	3,064,980	(3,064,980)		—			—
	(110,256)	3,099,738			34,758			(62,075)
Net Current Assets	984,141	(1,246,958)			(939,994)			9,204
Non-Current Liabilities								
Bank loans and other borrowings — due after one year	(3)						3	—
Payables - due after one year	(184,943)						184,943	—
	(184,946)	—			—			—
	1,607,346	**630,812**			**(1,556,140)**			**168,300**
Capital and Reserves								
Capital	88,160	(10,777)		10,777	—	(44,080)		44,080
Reserves	1,223,577	938,397	(2,186,952)	(10,777)	(1,259,332)	44,080	117,094	125,419
	1,311,737	927,620			(1,259,332)			169,499
Minority Interests	295,609	(296,808)			(296,808)			(1,199)
	1,607,346	**630,812**			**(1,556,140)**			**168,300**

Notes to unaudited pro forma assets and liabilities statement of the Group

Pursuant to the Group Reorganisation, all subsidiaries of the Company carrying on property development and investment holding business and all associates of the Company carrying on manufacturing and marketing of tires products, business of providing package tour, travel and other related services ("Distributing Business") will be grouped under Group Dragon Investments Limited (hereinafter collectively referred to as "GDI Group") and will be continued to be operated by the existing management of the Company. Group Dragon Investments Limited ("GDI"), a wholly owned subsidiary of the Company, will become the holding company of GDI Group which comprises of companies carrying on Distributing Business, and the issued shares of GDI will be distributed as dividend in specie to the shareholders of the Company, details of which are set out under section "Letter from the Board" of the Circular. the Company will continue to be a public listed company with its subsidiaries concentrating on the business of manufacturing and trading of batteries products and investment in securities (hereinafter collectively referred to as "Remaining Group"). the Group Reorganisation will be subject to the approval by the shareholders of the Company in an extraordinary general meeting to be held on 6 October 2005.

The statement has been prepared by the directors of the Company for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Group following completion of the Group Reorganisation.

(1) These adjustments reflect the deconsolidation of the GDI Group from the Group and as follows:

    (a) the net assets of the GDI Group was deconsolidated from the Group which comprises the subsidiaries and associates carrying on the Distributing Business as at 31 December 2004;

(2) These adjustments reflect the assignments of intragroup balances between GDI Group and the Remaining Group to be taken place pursuant to the Group Reorganisation as set out below:

    (a) the intragroup amount due to member of the Remaining Group by members of the GDI Group will be assigned to GDI; and

(b) the intragroup amount due to members of the GDI Group by members of the Remaining Group will be assigned to the Company.

The assignments of such loan will result in no intra-group balances between the GDI Group and the Remaining Group upon completion of the Group Reorganisation.

(3) The amount represents the elimination of share capital of companies comprising the GDI Group, in which HK$10,777,000 was eliminated in consolidation in preparing the consolidated financial statements of the Group for the year ended 31 December 2004;

(4) The amount represents the capital reduction in the nominal value of each issued share from HK$0.10 to HK$0.05 per share upon the completion of the Group Reorganisation.

(5) These adjustments reflect the transfer of assets of approximately HK$81,364,000 and liabilities of approximately HK$198,458,000 from Remaining Group to GDI Group pursuant to the completion of Group Reorganisation.

(C) Comfort Letter

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10 September 2005

The Directors
China Strategic Holdings Limited
8/F, Paul Y. Centre
51 Hung To Road
Kwun Tong
Hong Kong

Dear Sirs,

We report on the pro forma assets and liabilities statement set out in Section 1 of Appendix II ("Pro Forma Assets and Liabilities Statement") to the circular (the "Circular") of China Strategic Holdings Limited (the "Company") dated 10 September 2005 issued by the Company in connection with group reorganization, capital reorganization and change of board lot size of the Company (collectively referred as to the "Group Reorganisation"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purposes only, to provide information about how the Group Reorganisation have affected the assets and liabilities of the Company and its subsidiaries (collectively referred to as the "Group") as if the Group Reorganisation has taken place on 31 December 2004.

Responsibilities

It is the responsibility solely of the Directors to prepare the Pro Forma Assets and Liabilities Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Assets and Liabilities Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Assets and Liabilities Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practice Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Assets and Liabilities Statement with the Directors.

The Pro Forma Assets and Liabilities Statement has been compiled in accordance with the basis that the Group Reorganisation had been completed as at 31 December 2004 for illustrative purposes only and because of its nature, it may not give an indicative financial position of the Group:

(a) at 31 December 2004; or

(b) at any future date.

Opinion

In our opinion:

a. the Pro Forma Assets and Liabilities Statement has been properly compiled on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Pro Forma Assets and Liabilities Statement as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. UNAUDITED PRO FORMA INCOME STATEMENT AND UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE GROUP UPON COMPLETION OF GROUP REORGANISATION

(A) Introduction

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Group have been prepared giving effect to the Group Reorganisation.

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Group have been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the Group Reorganisation as if the Group Reorganisation had taken place at the beginning of the year ended 31 December 2004.

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Group are based upon the audited consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 December 2004, which have been extracted from the audited consolidated financial statements of the Company for the year ended 31 December 2004, after giving effect to the pro forma adjustment of the Group Reorganisation that are (i) directly attributable to the transaction; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Group are based on a number of assumptions, estimates and uncertainties. Accordingly, the accompanying unaudited pro forma income statement and unaudited pro forma cash flow statement of the Group do not purport to describe the actual result and cash flow of the Group that would have been attained had the Group Reorganisation been completed at the beginning of the year ended 31 December 2004 or to predict the future result and cash flow of the Group.

The unaudited pro forma income statement and unaudited pro forma cash flow statement of the Group should be read in conjunction with the audited consolidated financial statements of the Company for the year ended 31 December 2004 and other financial information included elsewhere in this Circular.

(B) Unaudited Pro Forma Income Statement

For the year ended 31 December 2004

	Audited	Pro Forma Adjustment	Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*
		Note 1(a)	
Turnover	123,403	(96,262)	27,141
Cost of sales	(81,455)	60,381	(21,074)
Gross profit	41,948		6,067
Other operating income	60,181	(52,373)	7,808
Distribution costs	(21,906)	21,056	(850)
Administrative expenses	(44,984)	17,917	(27,067)
Other expenses	(40,479)	9,020	(31,459)
Allowances for loans and interest receivable	(140,889)	32,419	(108,470)
Profit (loss) from operations	(146,129)		(153,971)
Finance costs	(17,434)	1,491	(15,943)
Gain (loss) on disposal/ dilution of interest in associates	81,631	(81,808)	(177)
Share of results of associates	(37,375)	42,466	5,091
Allowance on reveivables advancesd to an associates	—	—	—
(Loss) gain on disposal of interests in subsidiaries	(5,257)	5,262	5
	(124,564)		(164,995)
Taxation	(6,464)	5,257	(1,207)
Loss before minority interests	(131,028)		(166,202)
Minority interest	(45,024)	45,547	(523)
Net loss for the year	(176,052)		(166,725)

Unaudited Pro Forma Cash Flow Statement

For the year ended 31 December 2004

	Audited	Pro Forma Adjustment	Pro Forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*
		Note 1(a)	
OPERATING ACTIVITIES			
(Loss) Profit from operations	(146,129)	7,842	(153,971)
Adjustments for:			
Dividend income	(1,542)	—	(1,542)
Interest income	(54,591)	(45,844)	(8,747)
Depreciation of property, plant and equipment	3,915	2,031	1,884
Amortisation of goodwill	1,160	155	1,005
Unrealised holding loss on investments in securities	12,549	(70)	12,619
Loss (gain) on disposal of investments in securities	5,478	(2,959)	8,437
Allowances for bad and doubtful debts	17,286	1,724	15,562
Allowances for amounts due from associates	4,989	4,099	890
Impairment loss of goodwill on acquisition of subsidiaries	—	—	—
Allowances for inventories	—	—	—
Allowances for loan and interest receivables	140,889	32,419	108,470
Gain on disposal of property, plant and equipment	(17)	—	(17)
Operating cash flows before movements in working capital	(16,013)	(603)	(15,410)
Decrease (increase) in inventories	14,028	17,657	(3,629)
Decrease (increase) in trade debtors	3,386	(118)	3,504
Increase in other receivables, deposits and prepayments	(43,778)	(41,655)	(2,123)
Decrease in creditors, other payables and accrued charges	(32,641)	(10,021)	(22,620)
Increase in amounts due from associates	(1,611)	(4,097)	2,486
Increase in amounts due to associates	—	673	(673)
(Decrease) Increase in payables	(7,919)	—	(7,919)
Increase in other asset	(449)	(449)	—
Decrease in income and other tax payable	—	—	—
Net cash (outflow) inflow from operations	(84,997)	(38,613)	(46,384)
Tax paid in other jurisdictions	(313)	(233)	(80)
NET CASH USED IN OPERATING ACTIVITIES	(85,310)	(38,846)	(46,464)
INVESTING ACTIVITIES			
Repayment from receivables	204,919	160,903	44,016
Repayment from associates	140,182	143,214	(3,032)
Proceeds from disposal of investments in securities	204,740	152,642	52,098
Proceeds from disposal of property, plant and equipment	569	771	(202)
Increase in pledged bank deposits	(1,012)	—	(1,012)
Interest received	3,478	7,200	(3,722)
Proceeds from disposal/dilution of interests in associates	110,341	110,341	—
Proceeds from disposal/dilution of subsidiaries (net of cash and cash equivalents disposed of)	13,324	13,324	(6,500)
Dividend received from investments in securities	1,542	—	1,542
Amount advanced to third parties	(519,573)	(501,146)	(11,927)
Amount advanced to associates	(163,828)	(163,828)	—
Purchase of investments in securities	(43,304)	(26,250)	(17,054)
Purchase of property, plant and equipment	(4,000)	(1,864)	(2,136)
Depost paid for acquisition of a property	(326)	(326)	—
Purchase of subsidiaries (net for cash and cash equivalents acquired)	(26,744)	—	(26,744)
Increase in receivables due from former fellow subsidiaries	—	(121,456)	121,456
Refund of payment for acquisition of land development rights	—	—	—
Payment for acquisition of land development rights	—	—	—
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(79,692)	(226,475)	146,783

	Audited *HK$'000*	Pro Forma Adjustment *HK$'000* *Note 1(a)*	Pro Forma Remaining Group *HK$'000*
FINANCING ACTIVITIES			
Advance from third parties/related parties	18,979	13,000	5,979
New bank loans and other borrowings raised	57,257	39,033	18,224
Proceeds from issue of shares	4,440	—	4,440
Repayment of bank loans and other borrowings	(4,827)	(4,827)	—
Repayment to third parties/related parties	(111,713)	(43,537)	(68,176)
Advance form (repayment to) associates	1,354	—	1,354
Repayment of obligations under finance leases	(9)	(1)	(8)
Interest paid	(2,282)	(883)	(1,399)
Increase in payables due to former fellow subsidiaries	—	24,687	(24,687)
Dividends paid to minority shareholders of subsidiaries	—	—	—
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(36,801)	27,472	(64,273)
Net decrease in cash and cash equivalents	(201,803)	(237,849)	36,046
Cash and Cash Equivalents at the Beginning of the Year	314,744	310,944	3,800
Effect of Foreign Exchange Rate Changes	(1,353)	(614)	(739)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	111,588	72,481	39,107
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	118,388	72,481	45,907
Bank overdrafts	(6,800)	—	(6,800)
	111,588	72,481	39,107

Notes to unaudited pro forma income statement and unaudited pro forma cash flow statements

Pursuant to the Group Reorganisation, all subsidiaries of the Company carrying on property development and investment holding business and all associates of the Company carrying on manufacturing and marketing of tires products, business of providing package tour, travel and other related services ("Distributing Business") will be grouped under Group Dragon Investments Limited (hereinafter collectively referred to as "GDI Group") and will be continued to be operated by the existing management of the Company. Group Dragon Investments Limited ("GDI"), a wholly owned subsidiary of the Company, will become the holding company of GDI Group which comprises of companies carrying on Distributing Business, and the issued shares of GDI will be distributed as dividend in specie to the shareholders of the Company, details of which are set out under section "Letter from the Board" of the Circular. The Company will continue to be a public listed company with its subsidiaries concentrating on the business of manufacturing and trading of batteries products and investment in securities (hereinafter collectively referred to as "Remaining Group"). The Group Reorganization will be subject to the approval by the shareholders of the Company in an extraordinary general meeting to be held on 6th October, 2005.

The statements have been prepared by the directors of the Company for illustrative purposes only and because of their nature, they may not give a true picture of the results and the cash flow of the Group had the Group Reorganisation actually occurred at the beginning of the year ended 31 December 2004 or for any future period.

(1) These adjustments reflect the result and cash flows of the GDI Group for the year ended 31 December 2004 was deconsolidated from the Group in which the amount was based on the consolidation schedules which extracted from the consolidated financial statement of the Group for the year ended 31 December, 2004.

(C) Comfort Letters

(1) Comfort letter from Deloitte Touche Tohmatsu

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

10 September 2005

The Directors
China Strategic Holdings Limited
8/F, Paul Y. Centre
51 Hung To Road
Kwun Tong
Hong Kong

Dear Sirs,

We report on the pro forma income statement and pro forma cash flow statement set out in Section 2 of Appendix II ("Pro Forma Income Statement and Pro Forma Cash Flow Statement") to the circular (the "Circular") of China Strategic Holdings Limited (the "Company") dated 10 September 2005 issued by the Company in connection with group reorganization, capital reorganization and change of board lot size of the Company (collectively referred as to the "the Group Reorganisation"), which has been prepared by the directors of the Company (the "Directors"), for illustration purposes only, to provide information about how the Group Reorganisation might have affected the results and cash flow of the Company and its subsidiaries (collectively referred to as "the Group") as if the Group Reorganisation has taken place at the beginning of the year ended 31 December 2004.

Responsibilities

It is the responsibility solely of the Directors to prepare the Pro Forma Income Statement and Pro Forma Cash Flow Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

It is our responsibility to form an opinion on the Pro Forma Income Statement and Pro Forma Cash Flow Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Income Statement and Pro Forma Cash Flow Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Income Statement and Pro Forma Cash Flow Statement and the explanatory notes with the Directors.

The Pro Forma Income Statement and Pro Forma Cash Flow Statement has been compiled in accordance with the basis that the Group Reorganisation had been completed at the beginning of the year ended 31 December 2004 for illustrative purposes only and, because of their nature, they may not be indicative of the results and the cash flows of the Group:

(a) for the year ended 31 December 2004; or

(b) for any future period.

Opinion

In our opinion:

(a) the pro forma income statement and pro forma cash flow statement have been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma income statement and pro forma cash flow statement as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(2) Comfort letter from Dao Heng Securities

道亨證券有限公司
DaoHeng Securities Ltd.

10 September 2005

The Directors
China Strategic Holdings Limited
8/F, Paul Y. Centre
51 Hung To Road
Kwun Tong
Hong Kong

Dear Sirs,

We refer to the unaudited pro forma income statement of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") contained in the paragraph headed "(B) Unaudited Pro Forma Income Statement" in Appendix II to the circular of the Company dated 10 September 2005, regarding the Company's group reorganisation, capital reorganisation and change of board lot size, of which this letter forms part.

We have discussed with you the basis upon which the unaudited pro forma income statement has been made. We have also considered the letter dated 10 September 2005 addressed to the directors of the Company from Deloitte Touche Tohmatsu relating to the accounting policies upon which the unaudited pro forma income statement has been made.

On the basis adopted by you and the procedures performed by Deloitte Touche Tohmatsu, we are of the opinion that the unaudited pro forma income statement for which the directors of the Company are solely responsible, has been prepared after due and careful consideration.

Yours faithfully,
For and on behalf of
Dao Heng Securities Limited

Venus Choi
Executive Director

Jenny Leung
Director, Corporate Finance

Set out below is the text of a report, prepared for the purpose of incorporation in this circular, received from Deloitte Touche Tohmatsu in connection with the GDI Group.

Deloitte.
德勤

德勤・關黃陳方會計師行
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Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

10 September 2005

The Directors
China Strategic Holdings Limited

Dear Sirs,

We set out below our report on the financial information, which is presented on the basis as set out in note 1 to the financial information, regarding Group Dragon Investments Limited ("GDI") and the companies which will become subsidiaries of GDI pursuant to the proposed group reorganisation referred to below (hereinafter collectively referred to as the "GDI Group") for the three years ended 31 December 2004 and four months ended 30 April 2005 (the "Relevant Periods") for inclusion in the circular dated 10 September 2005 of China Strategic Holdings Limited ("CSH") in connection with the Group reorganisation, capital reorganisation and change of board lot size (the "Circular").

GDI was incorporated on 1 March 2005 in the British Virgin Islands ("BVI") under the International Business Companies Act. GDI is an investment holding company and is a wholly owned subsidiary of CSH. GDI has not carried on any business since its incorporation, except that it will undergo the Group reorganisation (the "the Group Reorganisation").

Pursuant to the Group Reorganisation, all subsidiaries of CSH carrying on property development and investment holding business and all associates of CSH carrying on manufacturing and marketing of tires product, business of providing package tour, travel and other related services ("Distributing Business") will be grouped under the GDI Group and will continue to be operated by the existing management of CSH. CSH will continue to be a public listed company with its subsidiaries concentrating on the business of manufacturing and trading of batteries products and investment in securities. GDI will become the holding company of the GDI Group which comprise of companies carrying on Distributing Business, and the issued shares of GDI will be distributed as dividend in specie to the shareholders of CSH, details of which are set out under the section "Letter from the Board" of the Circular. The Group Reorganisation is subject to the approval by the shareholders of CSH in an extraordinary general meeting to be held on 6 October 2005.

Particulars of the companies comprising the Distributing Business to be grouped under GDI according to the proposed Group Reorganisation are as follows:

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly %	Indirectly %	
Acrow Limited *(note 1)*	8 August 1996 BVI	US$1	100	—	Inactive
APEC.com Limited *(note 2)*	15 October 1992 Hong Kong	HK$2	100	—	Inactive
B2B Limited *(note 2)*	18 August 1992 Hong Kong	HK$2	—	100	Holding licence
Capital Canton Limited *(note 1)*	2 May 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Capital Passion Limited *(note 1)*	15 December 2000 BVI	US$1	100	—	Inactive
Carling International Limited *(note 1)*	24 September 1991 BVI	US$1	100	—	Investment holding
Century Lead Limited *(note 1)*	2 May 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
China Advertising Holdings Limited *(note 2)*	5 December 1991 Hong Kong	HK$2	100	—	Charity
China Audio & Communications Limited *(note 2)*	15 January 1997 Hong Kong	HK$2	100	—	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly %	Indirectly %	
China Automobile (Holdings) Limited *(note 2)*	16 January 1992 Hong Kong	HK$2	100	—	Inactive
China B2B Net.com Limited *(note 2)*	5 February 1991 Hong Kong	HK$2	100	—	Inactive
China Barter Trade.com Limited *(note 2)*	10 January 1997 Hong Kong	HK$2	100	—	Inactive
China Broadcasts (Holdings) Limited *(note 2)*	16 January 1992 Hong Kong	HK$2	100	—	Inactive
China Cable (BVI) Limited *(note 1)*	18 July 1995 BVI	US$3	100	—	Inactive
China Cement Holdings Limited *(note 2)*	9 February 1988 Hong Kong	HK$20	100	—	Inactive
China Computer Limited *(note 2)*	21 August 1987 Hong Kong	HK$20	100	—	Inactive
China Data Center Limited *(note 2)*	4 June 1991 Hong Kong	HK$2	—	100	Inactive
China Digital Corporation Limited *(note 2)*	15 January 1997 Hong Kong	HK$2	100	—	Inactive
China Dr. Zhu Kezhen Education Foundation (H.K.) Limited *(note 2)*	9 December 1993 Hong Kong	N/A *(note 3)*	—	100	Inactive
China e-Barter.com Limited *(note 2)*	15 October 1991 Hong Kong	HK$2	100	—	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly %	Indirectly %	
China eBay.com Limited *(note 2)*	19 December 1991 Hong Kong	HK$2	100	—	Inactive
China e-Commerce.com Limited *(note 2)*	5 December 1991 Hong Kong	HK$2	100	—	Inactive
China e-link.com Limited *(note 2)*	11 October 1989 Hong Kong	HK$2	100	—	Inactive
China e-Printing.com Limited *(note 2)*	23 December 1992 Hong Kong	HK$2	100	—	Inactive
China Electric Corporation Limited *(note 2)*	10 January 1997 Hong Kong	HK$2	100	—	Inactive
China Electronics Industries Limited *(note 2)*	3 December 1991 Hong Kong	HK$2	100	—	Inactive
China Enterprises Limited ("CEL") *(note 5(a))*	28 January 1993 Bermuda	Super voting common stock US$30,000 Common stock US$60,173	33.27 *(note 5(a))*	24.84 *(note 5(a))*	Investment holding
China Financial Net.com Limited *(note 2)*	26 January 1993 Hong Kong	HK$2	100	—	Inactive
China Grains.com Limited *(note 2)*	3 December 1991 Hong Kong	HK$2	100	—	Inactive
China I.T. Net.com Limited *(note 2)*	8 February 1994 Hong Kong	HK$2	100	—	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly %	Indirectly %	
China Internet Capital Group Limited *(note 2)*	3 December 1991 Hong Kong	HK$2	100	—	Inactive
China Internet Global Alliance Limited *(note 2)*	12 November 1991 Hong Kong	HK$10,000	100	—	Investment holding
China Logistic.com Limited *(note 2)*	16 January 1992 Hong Kong	HK$2	100	—	Inactive
China Micro Systems Limited *(note 2)*	3 January 1997 Hong Kong	HK$2	100	—	Inactive
China Pharmaceutical Industrial Limited *(note 2)*	24 March 1992 Hong Kong	HK$2	—	57.26 *(note 4(b))*	Investment holding
China Pharmaceutical Pty Limited *(note 6)*	17 December 1993 Australia	A$2	—	57.26 *(note 4(b))*	Inactive
China Resources Holdings Limited *(note 1)*	15 June 1994 BVI	US$1	—	57.26 *(note 4(b))*	Inactive
China Strategic (B.V.I.) Limited *(note 1)*	5 July 2001 BVI	US$1	100	—	Investment holding
China Strategic Investments Pty Limited *(note 6)*	17 December 1993 Australia	A$2	—	57.26 *(note 4(b))*	Inactive
China Technologies Limited *(note 2)*	10 January 1997 Hong Kong	HK$2	100	—	Inactive
China Telecom International Limited *(note 2)*	12 January 1993 Hong Kong	HK$2	51	—	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
China Television (Holdings) Limited *(note 2)*	5 February 1991 Hong Kong	HK$2	100	—	Inactive
China University Online Limited *(note 2)*	12 November 1991 Hong Kong	HK$2	100	—	Investment holding
China VU.com Limited *(note 2)*	5 February 1991 Hong Kong	HK$2	100	—	Inactive
China Wireless Limited *(note 2)*	10 January 1997 Hong Kong	HK$2	100	—	Inactive
China WTO.com Limited *(note 2)*	18 August 1992 Hong Kong	HK$2	100	—	Investment holding
China Youth Net.com Limited *(note 1)*	23 December 1993 Cayman Islands	US$1,000	100	—	Inactive
Citybest Limited *(note 1)*	3 January 1997 BVI	US$1	100	—	Inactive
Com.com Limited *(note 2)*	10 January 1997 Hong Kong	HK$2	100	—	Inactive
Container Limited *(note 1)*	22 January 1998 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Crown Dragon Limited *(note 1)*	2 November 2000 BVI	US$1	100	—	Inactive
CSI Land Group Limited *(note 2)*	19 December 1991 Hong Kong	HK$2	100	—	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly %	Indirectly %	
Dom.com Limited *(note 2)*	3 November 1966 Hong Kong	HK$737,680	100	—	Inactive
Earnfull Industrial Limited *(note 2)*	23 January 1987 Hong Kong	HK$10,000,000	—	90	Inactive
eAsia Limited *(note 2)*	18 August 1992 Hong Kong	HK$2	—	100	Inactive
Easy Legend Limited *(note 1)*	5 July 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Ease Wealth Limited *(note 1)*	12 December 2001 BVI	US$1	—	100	Investment holding
Ever Excellent Limited *(note 1)*	15 December 2000 BVI	US$1	100	—	Investment holding
Evergrowth Properties Limited *(note 1)*	1 December 2000 BVI	US$1	100	—	Investment holding
Expert Commerce Limited *(note 1)*	8 March 2000 BVI	US$1	—	100	Investment holding
Expert Solution Limited *(note 1)*	26 April 2001 BVI	US$1	—	100	Inactive
Fast Settle Development Company Limited *(note 2)*	2 March 1993 Hong Kong	HK$2	—	100	Inactive
Favour Leader Limited *(note 1)*	8 March 1994 BVI	US$1	—	100	Investment holding

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
Future Returns Limited *(note 1)*	28 February 2001 BVI	US$1	100	—	Investment holding
Glory Eagle Limited *(note 1)*	18 September 1996 BVI	US$1	100	—	Investment holding
Gold Label Investments Limited *(note 1)*	1 April 1992 BVI	US$1	100	—	Inactive
Golden Flower Limited *(note 1)*	3 January 1997 BVI	US$1	—	100	Investment holding
Good Trend Enterprises Limited *(note 1)*	18 October 2000 BVI	US$1	100	—	Investment holding
Great Joint Profits Limited *(note 1)*	29 January 2002 BVI	US$1	—	100	Investment holding
Group Dragon Limited *(note 1)*	12 December 2003 BVI	US$1	—	100	Investment holding
Great Windfall Agents Limited *(note 1)*	28 November 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Grotto Profits Limited *(note 1)*	6 January 2000 BVI	US$1	100	—	Inactive
Happy Access Limited *(note 1)*	15 December 2000 BVI	US$1	100	—	Inactive
Hollywood & Co., Limited *(note 2)*	5 December 1991 Hong Kong	HK$2	—	100	Investment holding

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
Honest Map Limited *(note 1)*	15 November 2001 BVI	US$1	—	100 *(note 5(b))*	Inactive
Honest Sincere Limited *(note 1)*	28 February 2001 BVI	US$1	100	—	Investment holding
Hongkong Macau Telecom Holdings Limited *(note 2)*	3 December 1991 Hong Kong	HK$2	100	—	Inactive
Hongkong Pharmaceutical Industries Corporation Limited *(note 2)*	5 December 1991 Hong Kong	HK$2	100	—	Inactive
Kamthorn Limited *(note 1)*	23 July 1996 BVI	US$1	100	—	Investment holding
Katmon Limited *(note 1)*	10 November 1992 BVI	US$1	100	—	Investment holding
Keen Strategic Limited *(note 1)*	26 November 2003 BVI	US$1	—	100	Investment holding
Leading Returns Limited *(note 1)*	12 June 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Longnew Ltd. *(note 1)*	19 September 1997 BVI	US$1	—	100	Investment holding
Manwide Holdings Limited *(note 1)*	3 March 2004 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Million Good Limited *(note 1)*	28 November 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly %	Indirectly %	
MRI Holdings Limited ("MRI") *(note 4(a))*	7 August 1925 Australia	A$31,184,116	—	57.26	Investment holding
MRI Infrastructure Holdings Limited *(note 1)*	3 January 1995 Bermuda	US$12,000	—	57.26 *(note 4(b))*	Inactive
MRI Services (Overseas) Limited *(note 1)*	8 January 1999 BVI	US$1	—	57.26 *(note 4(b))*	Inactive
Orion (B.V.I.) Tire Corporation *(note 1)*	14 February 1994 BVI	US$100	—	60 *(note 5(c))*	Inactive
Orion Tire Corporation *(note 1)*	7 March 1994 USA	—	—	60 *(note 5(c))*	Inactive
Perfect City Limited *(note 1)*	28 November 2001 BVI	US$1	—	100	Inactive
Pioneer Honour Limited *(note 1)*	11 August 2001 BVI	US$1	—	100	Investment holding
Premier Zhou En Lai Foundation Limited *(note 2)*	28 February 1991 Hong Kong	HK$2	100	—	Inactive
Quality Best Limited *(note 1)*	28 February 2001 BVI	US$1	100	—	Investment holding
Regal Tender Limited *(note 1)*	5 July 2001 BVI	US$1	—	100	Inactive
Rosedale Luxury Hotel & Suites Ltd. *(note 5(b))*	29 August 2004 PRC	US$20,000,000	—	55.22 *(note 5(b))*	Property holding
Ruby Services Limited *(note 1)*	21 February 1995 BVI	US$1	100	—	Consulting services

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
Ruby Uniforms Limited *(note 2)*	8 April 1988 Hong Kong	HK$100	90	—	Inactive
See Ying Limited *(note 1)*	1 September 1997 BVI	US$1	100	—	Investment holding
Sifford Limited *(note 1)*	24 September 1991 BVI	US$1	100	—	Investment holding
Sincere Ocean Limited *(note 1)*	12 June 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Sino Gold Investments Limited *(note 1)*	28 August 1991 BVI	US$1	—	100	Investment holding
Strawberg Limited *(note 1)*	8 August 1996 BVI	US$1	100	—	Inactive
Super Plus Limited *(note 1)*	8 November 2001 BVI	US$1	—	100	Inactive
Supreme Solutions Limited *(note 1)*	16 May 2002 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Treasure Way Services Limited *(note 2)*	6 August 1991 Hong Kong	HK$10,000	100	—	Secretarial services
United China Internet Capital Limited *(note 2)*	25 July 1991 Hong Kong	HK$10,000,000	100	—	Inactive
Union Money International Limited *(note 2)*	14 August 2002 Hong Kong	HK$2	—	100	Investment holding
Ventures Kingdom Limited *(note 1)*	12 June 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital to be held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
Venture Leader Limited *(note 1)*	28 March 2001 BVI	US$1	100	—	Investment holding
Vision Leader Limited *(note 1)*	26 June 2002 BVI	US$1	—	100	Investment holding
Wai Cheong Limited *(note 1)*	1 December 2000 BVI	US$1	100	—	Investment holding
Wealth Faith Limited *(note 1)*	18 October 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Wealthy Mark Limited *(note 1)*	5 July 2001 BVI	US$1	—	100	Investment holding
Winning Effort Limited *(note 1)*	28 March 2001 BVI	US$1	100	—	Inactive
Zhuhai Zhongce Property Investment Limited *(note 1)*	16 December 2002 BVI	US$1	—	100	Property development

Note 1: No audited financial statements have been issued for these companies, which were incorporated in a country where there were no statutory audit requirements. For the purpose of this report, we have carried out independent audit procedures in accordance with the Statement of Auditing Standards ("SAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the management account of these companies for each of the Relevant Periods, or since their respective date of incorporation or acquisition, where this is a shorter period, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

Note 2: We have acted as auditors of these companies for each of the Relevant Periods or since their respective date of incorporation or acquisition, where this is a shorter period. Audited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong for these companies for each of the three years ended 31 December 2004, or from their respective date of incorporation, where this is a shorter period. For the purpose of this report, we have carried out independent audit procedures in accordance with the SAS issued by the HKICPA on the management account of these companies for the four months ended 30 April 2005, which was prepared in accordance with accounting principles generally accepted in Hong Kong.

Note 3: China Dr. Zhu Kezhen Education Foundation H.K. Limited is a company limited by guarantees and not having a share capital.

Note 4 (a): MRI is a company listed on The Australian Stock Exchange and operates in both Hong Kong and Australia. The statutory financial statements of MRI were audited by Deloitte Touche Tohmatsu Australia, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements of MRI were prepared in accordance with the relevant accounting principles and financial regulations applicable in Australia. For the purpose of this report, we have undertaken an independent audit in accordance with the SAS issued by the HKICPA on the financial statements of MRI for each of the three years ended 31 December 2004 and four months ended 30 April 2005 which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

(b): These companies are wholly owned subsidiaries of MRI and the GDI Group hold a 57.26% effective equity interest in MRI.

Note 5 (a): CEL is a company with its shares trading on the Over the Counter Bulletin Board of the United States of America and operates in both Hong Kong and PRC. The GDI Group holds a 55.22% effective equity interest and a 88.8% effective voting interest in CEL. The statutory financial statements of CEL were prepared in accordance with the relevant accounting principles and financial regulation applicable in the United States of America. For the purpose of this report, we have undertaken an independent audit in accordance with SAS issued by the HKICPA on the financial statements of CEL for each of the three years ended 31 December 2004 and four months ended 30 April 2005, which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

(b): These companies are wholly-owned subsidiaries of CEL and the GDI Group holds a 55.22% effective equity interest in CEL.

(c): Orion (B.V.I.) Tire Corporation and Orion Tire Corporation are 60% subsidiaries of CEL and the GDI Group holds a 55.22% effective equity interest in CEL.

Note 6: China Pharmaceutical Pty Limited and China Strategic Investments Pty Limited are subsidiaries of MRI. The statutory financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Limited were audited by Deloitte Touche Tohmatsu Australia, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Limited were prepared in accordance with the relevant accounting principles and financial regulations applicable in Australia. For the purpose of this report, we have undertaken an independent audit in accordance with the SAS issued by the HKICPA on the financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Limited for each of the three years ended 31 December 2004 and four months ended 30 April 2005 which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

No audited financial statements have been prepared for GDI since the date of incorporation as it is newly incorporated in a country where there are no statutory requirements and has not carried on any businesses. We have, however reviewed all relevant transactions of GDI since its date of incorporation.

We have examined the audited financial statements or, where appropriate, management accounts (the "Underlying Financial Statements") of the companies comprising the GDI Group for the Relevant Periods or since their respective dates of incorporation or acquisition to 30 April 2005. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The combined income statements and combined cash flow of the GDI Group for the Relevant Periods and the combined balance sheets of the GDI Group as at 31 December 2002, 2003, 2004 and at 30 April 2005 as set out in this report have been prepared from the Underlying Financial Statements of the companies comprising the GDI Group on the basis set out in note 1 to the financial information, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of CSH are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 below, the financial information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the GDI Group as at 31 December 2002, 2003, 2004 and at 30 April 2005 and of the combined results and combined cash flows of the GDI Group for each of the three years ended 31 December 2004 and the four months ended 30 April 2005.

The comparative combined financial information of the GDI Group for the four months ended 30 April 2004 has been extracted from the GDI Group's combined financial information for the same period which was prepared by the directors of CSH solely for the purpose of this report. We have reviewed the combined financial information for the four months ended 30 April 2004 in accordance with the SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the combined financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the combined financial information for the four months ended 30 April 2004. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the combined financial information for the four months ended 30 April 2004.

I. FINANCIAL INFORMATION

The following are the financial information of the GDI Group and GDI as at 31 December 2002, 2003, 2004 and 30 April 2005 and of the GDI Group for the Relevant Periods and for the four months ended 30 April 2004 prepared on the basis set out in note 1 to the financial information.

COMBINED INCOME STATEMENTS

		GDI Group Year ended 31 December			Four months ended 30 April	
	Notes	**2002**	**2003**	**2004**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Turnover	*3*	3,601,735	2,884,493	96,262	96,262	—
Cost of sales		(3,052,768)	(2,520,175)	(60,381)	(60,381)	—
Gross profit		548,967	364,318	35,881	35,881	—
Other operating income	*5*	56,522	81,143	52,676	49,417	23,005
Distribution costs		(248,218)	(174,955)	(21,056)	(21,056)	—
Administrative expenses		(197,526)	(125,826)	(17,917)	(12,447)	(4,515)
Other expenses	*6*	(540,828)	(43,227)	(9,020)	(2,881)	(2,193)
Allowances for loans and interest receivable	*7*	(768)	(50,645)	(32,419)	—	—
Change in fair value of conversion option of unlisted convertible note	*17(iii)*	(5,953)	—	76,959	—	(39,743)
(Loss)/profit from operations	*8*	(387,804)	50,808	85,104	48,914	(23,446)
Finance cost	*10*	(104,335)	(34,096)	(1,491)	(932)	—
Gain (loss) on disposal/dilution of interests in associates		17,876	—	57,542	—	(2,763)
Loss on deemed disposal of associate		—	(36,480)	—	—	—
Share of results of associates		(99,670)	(175,697)	(37,521)	(52,235)	21,419
Allowance on receivables advanced to an associate		(10,686)	(12,712)	—	—	—
Gain (loss) on disposal of interests in subsidiaries		64,193	12,309	(5,265)	—	—
(Loss) profit before taxation		(520,426)	(195,868)	98,369	(4,253)	(4,790)
Taxation	*11*	(12,250)	(10,934)	(5,257)	(585)	—
(Loss) profit for the year/period		(532,676)	(206,802)	93,112	(4,838)	(4,790)
(Loss) profit attributable to:						
Equity holders of the parent		(296,388)	(216,323)	21,619	(18,455)	2,467
Minority interests		(236,288)	9,521	71,493	13,617	(7,257)
(Loss) profit for the year/period		(532,676)	(206,802)	93,112	(4,838)	(4,790)

I. FINANCIAL INFORMATION *(Cont'd)*

COMBINED BALANCE SHEETS

	Notes	GDI Group				GDI
		As at 31 December			As at 30 April	As at 30 April
		2002	2003	2004	2005	2005
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS						
Property, plant and equipment	*13*	738,941	36,074	220	522	—
Deposit paid for acquisition of interest in properties	*14*	—	—	47,012	54,524	—
Payment for acquisition of subsidiaries	*15*	—	—	40,000	40,000	—
Goodwill	*16*	30,953	9,325	—	—	—
Interests in associates	*17*	845,290	828,784	497,116	575,995	—
Receivables — due after one year	*18*	—	—	28,283	—	—
Investment in securities	*19*	34,009	26,164	71,959	90,729	—
Deferred tax assets	*20*	13,454	—	—	—	—
		1,662,647	900,347	684,590	761,770	—
CURRENT ASSETS						
Other asset	*22*	—	226,718	227,167	229,287	—
Inventories	*23*	827,744	66,976	—	—	—
Trade debtors	*24*	533,959	13,718	—	—	—
Receivables due from associates	*17*	55,073	129	54,373	61,526	—
Receivables — due within one year	*18*	425,681	251,691	540,931	298,638	—
Other receivables, deposits and prepayments		249,878	35,861	79,800	50,152	—
Income and other tax recoverable		—	—	—	—	—
Investment in securities	*19*	1,834	1,142	—	—	—
Receivables due from former fellow subsidiaries	*21*	526,969	756,570	878,028	845,958	—
Pledged bank deposits		24,839	—	—	—	—
Bank balances and cash		356,829	310,946	72,481	157,675	—
		3,002,806	1,663,751	1,852,780	1,643,236	—
CURRENT LIABILITIES						
Creditors, other payables and accrued charges	*25*	792,296	78,834	25,497	30,577	—
Payables — due within one year	*26*	44,040	29,180	444	583	—
Payables due to associates	*17*	—	—	673	800	—
Income and other tax payable		52,694	3,150	8,144	8,060	—
Payables due to former fellow subsidiaries	*21*	2,659,472	3,040,386	3,064,980	2,888,796	—
Bank loans and other borrowings — due within one year	*27*	940,065	26,014	—	—	—
		4,488,567	3,177,564	3,099,738	2,928,816	—
NET CURRENT LIABILITIES		(1,485,761)	(1,513,813)	(1,246,958)	(1,285,580)	—
		176,886	(613,466)	(562,368)	(523,810)	—
CAPITAL AND RESERVES						
Capital	*28*	10,777	10,777	10,777	10,777	—
Reserves		(643,093)	(874,892)	(893,489)	(847,682)	—
Minority interest		722,277	249,327	320,344	313,095	—
		89,961	(614,788)	(562,368)	(523,810)	—
NON-CURRENT LIABILITIES						
Bank loans and other borrowings — due after one year	*27*	86,925	129	—	—	—
Payables — due after one year	*26*	—	1,193	—	—	—
		86,925	1,322	—	—	—
		176,886	(613,466)	(562,368)	(523,810)	—

I. FINANCIAL INFORMATION *(Cont'd)*

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Contributions from Shareholders	Goodwill on consolidation	Exchange reserve	Other non-distributable reserve	Accumulated losses	Sub-total	Minority interest	Total
	HK$'000	*HK$'000* *(Note a)*	*HK$'000* *(Note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
GDI GROUP									
At 1 January 2002	10,777	191,479	188,534	(1,365)	33,449	(690,800)	(267,926)	1,373,273	1,105,347
Exchange adjustment	—	—	—	(326)	—	—	(326)	—	(326)
Share of reserves movement of associates	—	—	—	43	5,855	—	5,898	—	5,898
Acquisition of subsidiaries	—	—	—	—	—	—	—	1,529	1,529
Realised on disposed/dilution of interests in associates	—	—	3,543	(1,322)	—	—	2,221	—	2,221
Realised on disposed/dilution of interests in subsidiaries	—	—	(71,028)	(2,190)	(2,577)	—	(75,795)	(411,777)	(487,572)
Appropriated from retained profits	—	—	—	—	3,215	(3,215)	—	—	—
Dividend paid to minority interests	—	—	—	—	—	—	—	(4,460)	(4,460)
Loss for the year	—	—	—	—	—	(296,388)	(296,388)	(236,288)	(532,676)
At 31 December 2002	10,777	191,479	121,049	(5,160)	39,942	(990,403)	(632,316)	722,277	89,961
Exchange adjustment	—	—	—	301	—	—	301	553	854
Share of reserves movement of associates	—	—	—	2,090	(172)	—	1,918	—	1,918
Acquisition from minority interests	—	—	—	—	—	—	—	(410)	(410)
Dividend paid to minority interests	—	—	—	—	—	—	—	(1,431)	(1,431)
Realised on disposed/dilution of interests in associates	—	—	(20,333)	(128)	(238)	—	(20,699)	—	(20,699)
Realised on disposed/dilution of interests in subsidiaries	—	—	6,852	(3,848)	(17,863)	17,863	3,004	(481,183)	(478,179)
Appropriation	—	—	—	—	1,339	(1,339)	—	—	—
Loss for the year	—	—	—	—	—	(216,323)	(216,323)	9,521	(206,802)
At 31 December 2003	10,777	191,479	107,568	(6,745)	23,008	(1,190,202)	(864,115)	249,327	(614,788)
Exchange adjustment	—	—	—	(611)	—	—	(611)	(476)	(1,087)
Share of reserves movement of associates	—	—	—	(99)	9,531	—	9,432	—	9,432
Realised on disposed/dilution of interests in associates	—	—	(48,225)	(825)	—	—	(49,050)	—	(49,050)
Realised on disposed/dilution of interests in subsidiaries	—	—	—	13	—	—	13	—	13
Profit for the year	—	—	—	—	—	21,619	21,619	71,493	93,112
At 31 December 2004	10,777	191,479	59,343	(8,267)	32,539	(1,168,583)	(882,712)	320,344	(562,368)
Release of negative goodwill previously included in interest in associates in accordance with HKFRS 3	—	—	—	—	—	47,058	47,058	—	47,058
Restatement is in accordance with HKFRS 3	—	—	(59,343)	—	—	59,343	—	—	—
Exchange adjustment	—	—	—	(1,920)	—	—	(1,920)	8	(1,912)
Share of reserves movement of associates	—	—	—	—	(1,798)	—	(1,798)	—	(1,798)
Loss for the period	—	—	—	—	—	(2,467)	(2,467)	(7,257)	(4,790)
At 30 April 2005	10,777	191,479	—	(10,187)	30,741	(1,059,715)	(836,905)	313,095	(523,810)

I. FINANCIAL INFORMATION *(Cont'd)*

COMBINED STATEMENTS OF CHANGES IN EQUITY *(Cont'd)*

	Share capital	Contributions from Shareholders	Goodwill on consolidation	Exchange reserve	Other non-distributable reserve	Accumulated losses	Sub-total	Minority interest	Total
	HK$'000	*HK$'000* *(Note a)*	*HK$'000* *(Note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unaudited									
At 1 January 2004	10,777	191,479	107,568	(6,745)	23,008	(1,190,202)	(864,115)	249,327	(614,788)
Exchange adjustment	—	—	—	(1,291)	—	—	(1,291)	(1,432)	(2,723)
Share of reserves movement of associates	—	—	—	—	(3)	—	(3)	—	(3)
Profit for the period	—	—	—	—	—	(18,455)	(18,455)	13,617	(4,838)
At 30 April 2004	10,777	191,479	107,568	(8,036)	23,005	(1,208,657)	(883,864)	261,512	(622,352)

Note:

(a) The amount represents the investments in subsidiaries contributed to GDI Group by the Company pursuant to the Group Reorganisation on the basis that the Group Reorganisation had been effected on 1 January 2002 and it represents the investment costs made by the Company in companies grouped under GDI in previous years.

I. FINANCIAL INFORMATION *(Cont'd)*

COMBINED CASH FLOW STATEMENTS

		Year ended 31 December			Four months ended 30 April	
		2002	**2003**	**2004**	**2004**	**2005**
	Notes	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000 (Unaudited)*	*HK\$'000*
OPERATING ACTIVITIES						
Profit (loss) from operations		(387,804)	50,808	85,104	48,914	(23,446)
Adjustments for:						
Dividend income		(1,989)	(60)	—	—	(172)
Interest income		(15,018)	(33,202)	(46,147)	(24,786)	(15,509)
Depreciation of property, plant and equipment		135,702	57,576	2,031	2,000	22
Amortisation of goodwill		1,634	1,628	155	155	—
Unrealised holding loss (gain) on investments in securities		69,703	8,121	(70)	37	926
Loss (gain) on disposal of investments in securities		448	1,774	(2,959)	(20,844)	1,218
Loss on disposal of investment properties		2,000	—	—	—	—
Impairment loss on property, plant and equipment		345,761	—	—	—	—
Impairment loss on investment properties		9,069	—	—	—	—
Allowances on properties held on sale		1,185	—	—	—	—
Allowances for bad and doubtful debts		85,742	6,919	1,724	1,400	49
Allowances for amounts due from associates		—	2,458	4,099	—	—
Impairment loss of goodwill on acquisition of subsidiaries		—	20,387	—	—	—
Allowances for inventories		20,347	4	—	—	—
Allowances for loans and interest receivable		768	50,645	32,419	—	—
Change in fair value of call option		5,953	—	(76,959)	—	39,743
Gain on disposal of property, plant and equipment		(78)	(15,995)	—	—	—
Operating cash flows before movements in working capital		273,423	151,063	(603)	6,876	2,831
(Increase) decrease in inventories		(103,859)	22,997	17,657	17,658	—
Decrease (increase) in trade debtors		(175,541)	(10,287)	(118)	206	—
Decrease in properties held for sale		51,796	—	—	—	—
Decrease (increase) in other receivables, deposits and prepayments		23,209	(214)	(41,655)	(66,343)	29,599
Increase (decrease) in creditors, other payables and accrued charges		234,894	43,903	(10,021)	(11,946)	5,080
(Increase)/decrease in amounts due from associates		—	(29,065)	(4,097)	125	—
Increase (decrease) in amounts due to associates		—	—	673	11,825	127
Increase in other asset		—	(226,718)	(449)	(312)	(2,120)
Increase in advance to contractors		9,439	—	—	—	—
Increase/(decrease) in income and other tax payable		5,112	(19,493)	—	—	—
Net cash in(out)flow from operations		318,473	(67,814)	(38,613)	(41,911)	35,517
Tax paid in other jurisdictions		(2,948)	(7,420)	(233)	(493)	(84)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		315,525	(75,234)	(38,846)	(42,404)	35,433

I. FINANCIAL INFORMATION *(Cont'd)*

COMBINED CASH FLOW STATEMENTS *(Cont'd)*

		Year ended 31 December			Four months ended 30 April	
		2002	**2003**	**2004**	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
INVESTING ACTIVITIES						
Repayment from third parties		476,687	697,425	160,903	125,010	281,811
Repayment from associates		—	92,267	143,214	95,208	65,058
Proceeds from disposal of investments in securities		19,031	16,711	152,642	25,717	57,545
Proceeds from disposal of property, plant and equipment		77,573	25,994	771	529	—
Increase in pledged bank deposits		(16,412)	(45,259)	—	—	—
Interest received		6,716	4,506	7,200	8,652	3,420
Proceeds from disposal/dilution of interests in associates		9,116	23,887	110,341	—	—
Proceeds from disposal/dilution of subsidiaries (net of cash and cash equivalents disposed of)	*29*	(38,485)	(58,564)	13,324	—	—
Dividend received from investments in securities		1,989	60	—	—	172
Amount advanced to third parties		(1,002,984)	(553,342)	(501,146)	(198,848)	—
Amount advanced to associates		(47,013)	(260,373)	(163,828)	(64,720)	(47,875)
Purchase of investments in securities		(32,630)	(23,278)	(26,250)	(3,037)	(78,459)
Purchase of property, plant and equipment		(331,353)	(268,682)	(1,864)	(1,370)	(324)
Purchase of properties held for development		(3,760)	—	—	—	—
Deposit paid for acquisition of interests in subsidiaries		(75,000)	—	—	—	—
Purchase of subsidiaries (net of cash and cash equivalents acquired)	*30*	(511)	(785)	—	—	—
Investments in associates		(538,122)	—	—	—	(78,199)
Repayment from loans to minority shareholders		5,357	—	—	—	—
Payment for acquisition of interests in properties		—	—	(326)	—	(7,512)
(Increase) decrease in amounts due from former fellow subsidiaries		(526,969)	(229,601)	(121,456)	(7,918)	32,070
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(2,016,770)	(579,034)	(226,475)	(20,777)	227,707

I. FINANCIAL INFORMATION *(Cont’d)*

COMBINED CASH FLOW STATEMENTS *(Cont’d)*

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$’000	*HK$’000*	*HK$’000*	*HK$’000* *(Unaudited)*	*HK$’000*
FINANCING ACTIVITIES					
Proceeds from issue of convertible bonds	66,000	—	—	—	—
Advance from third parties/ related parties	628,560	29,193	13,000	60,000	139
New bank loans and other borrowings raised	1,414,478	994,271	39,033	—	—
Increase/(decrease) in payables due to former fellow subsidiaries	961,023	380,907	24,596	(152,661)	(176,184)
Repayment of bank loans and other borrowings	(1,269,574)	(721,048)	(4,827)	(25,609)	—
Repayment of third parties/ related parties	(321,686)	(44,108)	(43,537)	(30,863)	—
Advance from (repayment to) associates	(146)	—	—	—	—
Dividend paid to minority interests	(4,285)	(1,431)	—	—	—
Repayment of loans from minority shareholders	(43,104)	—	—	—	—
Advance from deposit received	10,795	—	—	—	—
Repayment of obligations under finance leases	(3)	(181)	(1)	(32)	—
Interest paid	(89,951)	(32,848)	(883)	(327)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	1,352,107	604,755	27,381	(149,492)	(176,045)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(349,138)	(49,513)	(237,940)	(212,673)	87,095
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	706,209	356,829	310,944	310,944	72,481
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(242)	3,628	(523)	(2,254)	(1,901)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	356,829	310,944	72,481	96,017	157,675
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	356,829	310,946	72,481	96,047	157,675
Bank overdrafts	—	(2)	—	(30)	—
	356,829	310,944	72,481	96,017	157,675

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The combined income statements, combined statements of changes in equity, and combined cash flow statements of the companies comprising the Distributing Business for the Relevant Periods and for the four months ended 30 April 2004 are prepared as if they had been formed as a single reporting entity throughout the Relevant Periods, or since the respective dates of incorporation or acquisition or up to the effective dates of disposal, where this is a shorter period of the individual company. The combined balance sheets as at 31 December 2002, 2003, 2004 and 30 April 2005 have been prepared to present the assets and liabilities of companies comprising the Distributing Business as at the respective dates as if they had been formed as a single reporting entry as at those dates.

The financial information has been prepared on the basis of the financial support provided by CSH to the companies comprising the Distributing Business and therefore the financial information was prepared on going concern basis.

All significant intra-group transactions and balances have been eliminated on combination.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost convention as modified for the revaluation of investments in securities, and in accordance with the principal accounting policies set out below which conform with Hong Kong Accounting Standards and in Hong Kong Financial Reporting Standards ("HKFRSs").

Recognition of revenue

Revenue of the GDI Group for the Relevant Periods is recognised on the following bases:

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

Hotel revenue from rooms and other ancillary services are recognised when the services are rendered.

Sale of completed properties is recognised on the execution of a binding sale and purchase agreement.

Dividend income from investments in securities is recognised when the GDI Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Toll revenue is recognised on a receipt basis.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Business combination

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the GDI Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associates at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life until 31 December 2004. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the combined balance sheet.

HKFRS 3 "Business Combination" has been adopted for business combinations for which the agreement date is on or after 1 January 2005. After initial recognition, HKFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. HKFRS 3 prohibits the amortisation of goodwill. Prior to 1 January 2005, the GDI Group carried goodwill in its balance sheet at cost less accumulated amortisation and accumulated impairment losses.

In accordance with the transitional rules of HKFRS 3, the GDI Group has applied the revised accounting for goodwill prospectively from 1 January 2005, to goodwill acquired in business combinations for which the agreement date was after 1 January 2005. From 1 January 2005, the GDI Group has discontinued amortising such goodwill and has tested the goodwill for impairment.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserve is included in the determination of the profit or loss on disposal.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Business combination *(Cont'd)*

(ii) Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill).

Negative goodwill represents the excess of the GDI Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

HKFRS 3 requires that, after assessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in profit or loss. HKFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

In accordance with the transitional rules of HKFRS 3, the GDI Group has applied the revised accounting policy for negative goodwill prospectively after 1 January 2005 to negative goodwill acquired in business combinations for which agreements date was after 1 January 2005. From 1 January 2005, the GDI Group has discontinued releasing such negative goodwill. Therefore, the change has had no impact on amounts reported for the three years ended 31 December 2004.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Interests in associates

The combined income statement includes the GDI Group's share of the post-acquisition results of its associates for the Relevant Periods. In the combined balance sheets, interests in associates are stated at the GDI Group's share of the net assets of the associates, less any identified impairment loss.

Impairment

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

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

Property, plant and equipment

Properties under construction and construction in progress

Properties under construction and construction in progress are stated at cost, which includes land cost and the related construction cost and borrowing costs capitalised in accordance with the GDI Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment *(Cont'd)*

Construction in progress

Construction in progress are stated at cost, which includes land cost, the related construction costs and borrowing of costs capitalised in accordance with the GDI Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

Other property, plant and equipment

Property, plant and equipment, other than properties under construction and construction in progress is stated at cost less depreciation, amortisation and accumulated impairment losses.

Depreciation of toll highway is calculated to write off their costs, commencing from the date of commencement of commercial operation of the toll highway, based on the ratio of actual traffic volume compared to the total expected traffic volume over the remaining period of the respective joint venture period of the relevant company in which the toll highway operates as estimated by management or by reference to traffic projection reports prepared by independent traffic consultants.

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

Depreciation and amortisation is provided to write off the cost of the assets over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land and land use rights	Over the term of the lease or land use rights
Buildings	2% or the term of the lease or land use rights, if shorter
Hotel property	2% or, over the remaining unexpired terms of the leases, whichever the shorter
Furniture and fixtures	10% - 25%
Machinery and equipment	10% - 20%
Motor vehicles	12.5% - 25%

Assets held under finance lease are depreciated over the estimated useful lives on the same basis as assets owned by the GDI Group.

I. FINANCIAL INFORMATION *(Cont’d)*

NOTES TO THE FINANCIAL INFORMATION *(Cont’d)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont’d)*

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, which are assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the Relevant Periods in which they are incurred.

Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the GDI Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the original principal at the inception of the respective leases, are charged to the combined income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each of the Relevant Periods.

All other leases are classified as operating leases and the annual rentals are charged to the combined income statement on a straight-line basis over the relevant lease term.

Other asset

Other asset are stated at the lower of cost and net realisable value.

Foreign currencies

The Financial Information is presented in Hong Kong Dollar since that is the currency in which the majority of the GDI Group’s transaction are denominated.

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the Relevant Periods.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies *(Cont'd)*

On combination, the assets and liabilities of the GDI Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the Relevant Periods. Exchange differences arising, if any, are classified as equity and transferred to the GDI Group's translation reserve. Such translation differences are recognised as income or as expenses in the Relevant Periods in which the operation is disposed of.

Share-based payment

HKFRS 2 "Share-based payment" requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of HKFRS 2, the GDI Group did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of HKFRS 2, it has been applied retrospectively to all grants of equity instruments after 14 November 2002 that were unvested as of 1 January 2005, and to liabilities for share-based transactions existing at 1 January 2005.

GDI Group did not have unvested outstanding share options as of 1 January 2005 and therefore, HKFRS 2 did not have any impact on the GDI Group for the Relevant Periods.

Pension/retirement benefits costs

The pension costs/retirement benefit scheme contributions relating to the defined contribution scheme/ mandatory provident fund scheme charged to the income statement represents contributions payable to the schemes by the GDI Group at rates specified in the rules of the schemes. The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are charged to the income statement.

Financial instruments

Financial assets and financial liabilities are recognised on the GDI Group's balance sheet when the GDI Group becomes a party to the contractual provisions of the instrument.

Trade receivables, other receivables, deposits and prepayments and receivables due from former fellow subsidiaries

Trade receivables, other receivables, deposits and prepayments and receivables due from former fellow subsidiaries are measured at initial recognition at fair value, are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated recoverable amount are recognised in profit or less when there is objective objective evidence that the assets is impaired.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Investments

Investments are recognised and derecognised on a trade date basis where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Impairment losses recognised in profit or loss for equity investment classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Bank and other borrowings

Interest-bearing bank and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis to the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year which they arise.

Trade payables, other payables, deposits received and accruals and payables due to former fellow subsidiaries

Trade payables, other payables, deposits and accruals and payables due to former fellow subsidiaries are stated at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Taxation

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

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

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

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

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

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

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

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

3. TURNOVER

Turnover represents the net amount received and receivable from outside customers net of sales and business tax during the Relevant Periods and for the four months ended 30 April 2004 and is analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Sales of goods, net of returns and sales taxes	3,435,370	2,884,493	96,262	96,262	—
Toll highway operation	66,418	—	—	—	—
Sale of properties	51,231	—	—	—	—
Hotel operation	42,378	—	—	—	—
Rental income	6,338	—	—	—	—
	3,601,735	2,884,493	96,262	96,262	—

4. SEGMENT INFORMATION

Business segments

Pursuant to the Group Reorganisation, companies carrying on manufacturing and marketing of tire products, business of providing package tour, travel and other related services and property development will be grouped under the GDI Group, which represent the GDI Group's current main business segment.

During the Relevant Periods, certain companies under GDI Group had been engaged in the operations of manufacturing and trading of chinese and western medicine products, tire operation, toll highway operation, consumer goods, electronic products, property investment, hotel operation and heavy industry which were discontinued upon the disposal of these operations held by these companies. Details of these discontinuing operation are set out below.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

An analysis of the GDI Group's turnover and contribution to operating results and segmental assets and liabilities by business segments is presented below:

	Discontinuing operations									Continuing operations				
	Tires *HK$'000*	Toll highway operation *HK$'000*	Consumer goods *HK$'000*	Electronic products *HK$'000*	Property investment *HK$'000*	Hotel operation *HK$'000*	Heavy industry *HK$'000*	Pharmaceutical products *HK$'000*	Sub-total *HK$'000*	Investments in securities and advance *HK$'000*	Others *HK$'000*	Sub-total *HK$'000*	Elimination *HK$'000*	Combined *HK$'000*
For the year ended 31 December 2002														
REVENUE														
External	3,045,641	66,418	—	—	57,569	42,378	129,407	260,322	3,601,735	—	—	—	—	3,601,735
Inter-segment	—	—	—	—	—	—	—	—	—	—	1,840	1,840	(1,840)	—
	3,045,641	66,418	—	—	57,569	42,378	129,407	260,322	3,601,735	—	1,840	1,840	(1,840)	3,601,735
RESULT														
Segment result	(73,789)	(78,737)	—	—	(14,351)	(300)	6,532	18,058	(142,587)	(129,682)	47,351	(82,331)	(984)	(225,902)
Unallocated corporate expenses														(172,956)
Finance costs														(104,335)
Interest income														15,018
Dividend income														1,989
Change in fair value of conversion option of unlisted convertible note	—	—	—	—	—	—	—	—	—	—	(5,953)	(5,953)	—	(5,953)
Gain (loss) on disposal dilution of interests in subsidiaries	—	32,768	(29,188)	(9,002)	—	—	11,491	—	6,069	—	58,124	58,124	—	64,193
Gain on disposal/dilution of interests in associates	—	—	—	—	—	—	—	—	—	—	17,876	17,876	—	17,876
Share of results of associates	(94,415)	—	—	—	—	(151)	—	—	(94,566)	(43,190)	38,086	(5,104)	—	(99,670)
Allowance on receivables advanced to an associate	—	—	—	—	—	—	—	—	—	(10,686)	—	(10,686)	—	(10,686)
Loss before taxation														(520,426)
Taxation														(12,250)
Loss for the year														(532,676)
Assets and liabilities at 31 December 2002														
ASSETS														
Segment assets	2,064,209	—	—	—	—	—	—	114,115	2,178,324	15,791	265,166	280,957	—	2,459,281
Interests in associates	238,730	—	—	—	—	306,326	—	—	545,056	135,935	164,299	300,234	—	845,290
Unallocated total assets														1,360,882
Consolidated total assets														4,665,453
LIABILITIES														
Segment liabilities	(838,339)	—	—	—	—	—	—	(96,221)	(934,560)	—	(10,592)	(10,592)	—	(945,152)
Unallocated corporate liabilities														(3,630,340)
Consolidated total liabilities														(4,575,492)
Other information for the year ended 31 December 2002														
Capital expenditure														
— Property, plant and equipment	272,142	1,240	—	—	7,830	9,691	3,191	40,205	334,299	—	—	—	—	334,299
— Properties under/held for development	—	—	—	—	3,760	—	—	—	3,760	—	—	—	—	3,760
Depreciation and amortisation	97,402	23,784	—	—	1,659	1,338	2,063	9,456	135,702	—	—	—	—	135,702
Impairment loss	275,294	70,467	—	—	10,254	—	—	—	356,015	—	—	—	—	356,015
Allowances for loans and interest receivable	—	—	—	—	—	—	—	—	—	11,454	—	11,454	—	11,454
Allowances for bad and doubtful debts	21,884	—	—	—	—	—	—	302	22,186	—	63,556	63,556	—	85,742
Unrealised holding loss on investments in securities	—	—	—	—	—	—	—	—	—	69,703	—	69,703	—	69,703
Allowances for inventories	20,347	—	—	—	—	—	—	—	20,347	—	—	—	—	20,347
Loss on disposal of investments in securities	—	—	—	—	—	—	—	—	—	448	—	448	—	448
Gain on disposal of property, plant and equipment	—	—	—	—	—	—	—	—	—	—	78	78	—	78
Loss on disposal of investment property	—	—	—	—	—	—	—	—	—	—	2,000	2,000	—	2,000

Inter-segment revenue are charged at terms determined and agreed between the GDI Group's companies.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinuing operation			Continuing operation			
	Tires	**Pharmaceutical products**	**Sub-total**	**Investments in securities and advance**	**Others**	**Sub-total**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2003							
REVENUE							
External	2,635,235	249,258	2,884,493	—	—	—	2,884,493
Inter-segment	—	—	—	—	—	—	—
	2,635,235	249,258	2,884,493	—	—	—	2,884,493
RESULT							
Segment result	95,847	154	96,001	44,958	(21,618)	23,340	119,341
Unallocated corporate expenses							(101,795)
Finance costs							(34,096)
Interest income	4,457	49	4,506	25,175	3,521	28,696	33,202
Dividend income	—	—	—	60	—	60	60
Gain on disposal/dilution of interests in subsidiaries	3,711	8,587	12,298	—	11	11	12,309
Loss on disposal/liquidation of interests in associates	—	—	—	(36,480)	—	(36,480)	(36,480)
Share of results of associates	14,188	2	14,190	(202,262)	12,375	(189,887)	(175,697)
Allowance on receivables advanced to an associate	—	—	—	(12,712)	—	(12,712)	(12,712)
Loss before taxation							(195,868)
Taxation							(10,934)
Loss for the year							(206,802)

Inter-segment revenue are charged at terms determined and agreed between the GDI Group's companies.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinuing operation			Continuing operation			
	Tires	Pharmaceutical products	Sub-total	Investments in securities and advance	Others	Sub-total	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities at 31 December 2003							
ASSETS							
Segment assets	—	88,395	88,395	1,335,051	70,324	1,405,375	1,493,770
Interests in associates	—	15,416	15,416	—	813,368	813,368	828,784
Unallocated total assets							241,544
Consolidated total assets							2,564,098
LIABILITIES							
Segment liabilities	—	(56,505)	(56,505)	(4,110)	(16,232)	(20,342)	(76,847)
Unallocated corporate liabilities							(3,102,039)
Consolidated total liabilities							(3,178,886)
Other information for the year ended 31 December 2003							
Capital expenditure — Property, plant and equipment	260,872	7,978	268,850	—	—	—	268,850
Depreciation and amortisation	47,750	11,454	59,204	—	—	—	59,204
Impairment loss of goodwill	—	—	—	—	20,387	20,387	20,387
Allowances for loans and interest receivable	—	—	—	50,645	—	50,645	50,645
Allowances on receivables advanced to an associate	—	—	—	12,712	—	12,712	12,712
Allowance for bad and doubtful debts	—	—	—	—	6,919	6,919	6,919
Unrealised holding loss on investments in securities	—	—	—	8,121	—	8,121	8,121
Allowances for amounts due from associates	2,458	—	2,458	—	—	—	2,458
Allowances for inventories	—	4	4	—	—	—	4
Loss on disposal of investments in securities	—	—	—	1,774	—	1,774	1,774

Inter-segment revenue are charged at terms determined and agreed between the GDI Group's companies.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinuing operation	Continuing operation				
	Pharmaceutical products	Investments in securities and advance	Others	Sub-total	Elimination	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2004						
TURNOVER						
External	96,262	—	—	—	—	96,262
Inter-segment	—	—	1,200	1,200	(1,200)	—
	96,262	—	1,200	1,200	(1,200)	96,262
RESULT						
Segment result	6,778	(26,934)	(2,750)	(29,684)	—	(22,906)
Unallocated corporate expenses						(15,096)
Interest income						46,147
Finance costs						(1,491)
Change in fair value of conversion option of unlisted convertible note	—	—	76,959	76,959	—	76,959
Loss on disposal/dilution of interests in subsidiaries	(5,265)	—	—	—	—	(5,265)
Gain on disposal/liquidation of interests in associates	—	—	57,542	57,542	—	57,542
Share of results of associates	(618)	—	(36,903)	(36,903)	—	(37,521)
Profit before taxation						98,369
Taxation						(5,257)
Profit for the year						93,112

Inter-segment sales are charged at terms determined and agreed between the GDI Group's companies.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinuing operation	Continuing operation			
	Pharmaceutical products	**Investments in securities and advance**	**Others**	**Sub-total**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities at 31 December 2004					
ASSETS					
Segment assets	—	300,009	231,803	531,812	531,812
Interests in associates	—	—	497,116	497,116	497,116
Unallocated total assets					1,508,442
Consolidated total assets					2,537,370
LIABILITIES					
Segment liabilities	—	(580)	(25,590)	(26,170)	(26,170)
Unallocated corporate liabilities					(3,073,568)
Consolidated total liabilities					(3,099,738)
Other information for the year ended 31 December 2004					
Capital expenditure					
— Property, plant and equipment	1,370	—	494	494	1,864
— Deposit paid for acquisition of interest in properties	—	—	47,012	47,012	47,012
Depreciation and amortisation	2,000	—	31	31	2,031
Allowances for loans and interest receivable	—	32,419	—	32,419	32,419
Allowance for bad and doubtful debts	—	—	1,724	1,724	1,724
Allowances for amounts due from associates	—	—	4,099	4,099	4,099
Loss on disposal of interests in subsidiaries	5,265	—	—	—	5,265

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

	Investments in securities and advance *HK$'000*	Others *HK$'000*	Combined *HK$'000*
For the four months ended 30 April 2005			
TURNOVER			
External	—	—	—
Inter-segment	—	—	—
	—	—	—
RESULT			
Segment result	3,313	8,159	11,472
Unallocated corporate expenses			(10,856)
Interest income			15,509
Dividend income			172
Change in fair value of conversion option of unlisted convertible note	—	(39,743)	(39,743)
Finance costs			—
Loss on disposal/dilution of interests in subsidiaries			—
Gain on disposal/liquidation of interests in associates			(2,763)
Share of results of associates			21,419
Loss before taxation			(4,790)
Taxation			—
Net loss for the period			(4,790)

Inter-segment sales are charged at terms determined and agreed between the GDI Group's companies.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

	Investments in securities and advance	**Others**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities at 30 April 2005			
ASSETS			
Segment assets	432,135	393,243	825,378
Interests in associates	—	575,995	575,995
Unallocated total assets			1,003,633
Consolidated total assets			2,405,006
LIABILITIES			
Segment liabilities	—	(40,020)	(40,020)
Unallocated corporate liabilities			(2,888,796)
Consolidated total liabilities			(2,928,816)

	Investments in securities and advance	**Others**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Other information for the four months ended 30 April 2005			
Capital expenditure			
— Property, plant and equipment	—	324	324
— Deposit paid for acquisition of interests in properties	—	7,512	7,512
Depreciation and amortisation	—	22	22
Allowance for bad and doubtful debts	—	49	49
Loss on disposal of investments in securities	1,218	—	1,218
Unrealised holding loss on investment in securities	926	—	926
Loss on disposal/dilution of interest in associates	—	2,763	2,763

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

For the four months ended 30 April 2004 *(unaudited)*

	Discontinuing operation	Continuing operation				
	Pharmaceutical products	Investments in securities and advance	Others	Sub-total	Elimination	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the four months ended 30 April 2004						
TURNOVER						
External	96,262	—	—	—	—	96,262
Inter-segment	—	—	—	—	—	—
	96,262	—	—	—	—	96,262
RESULT						
Segment result	5,442	20,844	3,445	24,289	—	29,731
Unallocated corporate expenses						(5,603)
Interest income						24,786
Finance costs						(932)
Share of results of associates						(52,235)
Loss before taxation						(4,253)
Taxation						(585)
Net loss for the period						(4,838)

Inter-segment sales are charged at terms determined and agreed between the GDI Group's companies.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

For the four months ended 30 April 2004 *(unaudited)*

	Discontinuing operation	Continuing operation			
	Pharmaceutical products	Investments in securities and advance	Others	Sub-total	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other information for the four months ended 30 April 2004					
Capital expenditure — Property, plant and equipment	1,370	—	—	—	1,370
Depreciation and amortisation	2,155	—	—	—	2,155
Allowance for bad and doubtful debts	—	—	1,400	1,400	1,400
Unrealised holding loss on investments in securities	—	—	37	37	37

An analysis of the GDI Group's turnover by geographical market, irrespective of the origin of the goods and services is presented below:

	Year ended 31 December			Four months ended 30 April	
	2002	2003	2004	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
PRC	2,624,238	2,683,004	—	—	—
Hong Kong	246,372	172,080	96,262	96,262	—
Overseas	731,125	29,409	—	—	—
	3,601,735	2,884,493	96,262	96,262	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

4. SEGMENT INFORMATION *(Cont'd)*

Business and Geographical Segments

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

	Carrying amount of assets				Capital additions				
	As at 31 December			As at 30 April	Year ended 31 December			Four months ended 30 April	
	2002	2003	2004	2005	2002	2003	2004	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
PRC	2,447,005	752,431	—	—	279,094	260,872	47,012	—	—
Hong Kong	2,199,244	1,638,133	2,371,568	2,238,520	58,965	7,978	1,864	1,370	7,836
Overseas	19,204	173,534	165,802	166,486	—	—	—	—	—
	4,665,453	2,564,098	2,537,370	2,405,006	338,059	268,850	48,876	1,370	7,836

5. OTHER OPERATING INCOME

	Year ended 31 December			Four months ended 30 April	
	2002	2003	2004	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest income from loans receivable	8,108	28,451	38,637	12,463	11,408
Interest income from banks	5,318	3,908	3,213	8,881	2,383
Interest income from unlisted convertible notes	1,592	843	4,297	3,442	1,718
Net exchange gain	8,700	23,108	3,072	3,592	4,701
Unrealised holding gain on investments in securities	—	—	70	—	—
Gain on disposal of investments in securities	—	—	2,959	20,844	—
Dividend income from listed investments	1,989	60	—	—	172
Gain on disposal of property, plant and equipment	78	15,995	—	—	—
Sale of scrap materials	18,052	—	—	—	—
Others	12,685	8,778	428	195	2,623
	56,522	81,143	52,676	49,417	23,005

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

6. OTHER EXPENSES

		Year ended 31 December			Four months ended 30 April	
	Notes	**2002**	**2003**	**2004**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Impairment loss on:						
Property, plant and equipment						
— toll highway	*(i)*	70,467	—	—	—	—
— construction in progress	*(ii)*	45,354	—	—	—	—
— land and buildings	*(ii)*	64,404	—	—	—	—
— machinery and equipment	*(iii)*	164,304	—	—	—	—
— motor vehicles	*(ii)*	1,232	—	—	—	—
		345,761	—	—	—	—
Investment properties	*(iv)*	9,069	—	—	—	—
Properties held for sale		1,185	—	—	—	—
Goodwill on acquisition of subsidiaries	*(v)*	—	20,387	—	—	—
Allowances for bad and doubtful debts		85,742	6,919	1,724	1,400	49
Unrealised holding loss on investments in securities		69,703	8,121	—	37	926
Loss on disposal of investment in securities		448	1,774	—	—	1,218
Allowances for amounts due from associates		—	2,458	4,099	—	—
Allowances for inventories		20,347	4	—	—	—
Loss on disposal of investment property		2,000	—	—	—	—
Staff redundancy cost		—	1,938	—	—	—
Others		6,573	1,626	3,197	1,444	—
		540,828	43,227	9,020	2,881	2,193

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

6. OTHER EXPENSES *(Cont'd)*

Notes:

(i) The GDI Group reviewed the carrying amount of toll highway with reference to the selling price for the disposal of toll highway. An impairment loss of approximately HK$70,467,000 has been identified which has been recognised in the combined income statement during the year ended 31 December 2002.

(ii) The GDI Group also reviewed the carrying amount of land and buildings, motor vehicles and construction in progress held by certain subsidiaries with reference to the estimated net selling prices. An impairment loss of approximately HK$110,990,000 was identified which has been recognised in the combined income statement during the year ended 31 December 2002.

(iii) In addition, due to recurring losses suffered by a tire factory subsidiary in the PRC, the GDI Group reviewed the carrying amount of machinery and equipment with reference to the estimated value determined under the discounted cash flow method, an impairment loss of approximately HK$164,304,000 was identified which has been recognised in the combined income statement during the year ended 31 December 2002.

(iv) During the year ended 31 December 2002, the GDI Group identified an impairment loss of HK$9,069,000 on an investment property with reference to the selling prices and has been charged to the combined income statements.

(v) On 19 March, 2004, the GDI Group entered into a conditional agreement on 19 March, 2004 to dispose of its entire interests in Tung Fong Hung Investment Limited ("Tung Fong Hung") to a third party subsequent to 31st December, 2003. The directors have considered the consideration receivable from the said disposal and have identified the impairment loss attributable to the goodwill arising from acquisition of Tung Fong Hang amounting to approximately HK$20 million the amount was charged to the combined income statement accordingly.

7. ALLOWANCES FOR LOANS AND INTEREST RECEIVABLE

The amount represents allowance made on loans and interest receivable with reference to the (i) market value of the collateral secured to the GDI Group and (ii) difference between the repayment amount received by the GDI Group and the overdue amount of loans receivable and interest receivables subsequent to balance sheet date.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

8. PROFIT (LOSS) FROM OPERATIONS

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit (loss) from operations has been arrived at after charging:					
Staff costs					
— directors' remuneration *(note 9(a))*	78	77	117	26	52
— other staff costs *(note 9(b))*	312,769	145,055	12,237	2,679	—
— retirement benefits scheme contributions, excluding directors	24,679	26,948	495	144	—
— redundancy payment	—	1,938	—	—	—
Total staff costs	337,526	174,018	12,849	2,849	52
Auditors' remuneration					
Current year	6,007	3,899	3,713	782	928
Underprovision in prior years	516	—	382	—	(265)
Depreciation and amortisation of property, plant and equipment	135,702	57,576	2,031	2,000	22
Amortisation of goodwill included in administrative expenses	1,634	1,628	155	155	—
and after crediting:					
Net rental income in respect of premises after outgoings of approximately HK$1,110,000	12,272	—	—	—	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

9. DIRECTORS' AND EMPLOYEE'S REMUNERATION

(a) Directors' remuneration

The emoluments of the directors for the Relevant Periods are as follows:

	Year ended 31 December			**Four months ended 30 April**	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Fees	—	—	—	26	52
Basic salaries and allowance	78	77	117	—	—
Bonus	—	—	—	—	—
	78	77	117	26	52
Name of director					
Yap, Allan	78	77	117	26	52
Lui Siu Tsuen, Richard	—	—	—	—	—
	78	77	117	26	52

The directors' emoluments are presented as if the directors of GDI had been appointed throughout the Relevant Periods, or since their respective dates of appointment, where this is a shorter period, and the emoluments had been paid for their appointment as GDI's directors.

During the Relevant Periods, no emoluments were paid by the GDI Group to any director as an inducement to join or upon joining the GDI Group or as compensation for loss of office.

None of the directors waived any emoluments during the Relevant Periods.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

9. DIRECTORS' AND EMPLOYEE'S REMUNERATION *(Cont'd)*

(b) Employees' remuneration

No directors were included in the five highest paid individuals for each of the three years ended 31 December 2004 and the four months ended 30 April 2004 and 2005, respectively. The emoluments of the five highest paid individuals for each of the three years ended 31 December 2004 and for the four months ended 30 April 2004 and 2005, respectively, are as follows:

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and other benefits	5,722	4,732	3,535	1,292	941
Retirement benefit scheme	—	—	20	20	20
Bonus	942	—	—	—	—
	6,664	4,732	3,555	1,312	961

	Number of employees				
	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
				(Unaudited)	
Nil to HK$1,000,000	5	5	5	5	5

During the Relevant Periods, no emoluments were paid by the GDI Group to the five highest paid individuals as an inducement to join or upon joining the GDI Group or as compensation for loss of office.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

10. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on:					
Bank borrowings wholly repayable within five years	57,839	32,839	482	403	—
Other borrowings and payables	14,330	1,249	1,009	529	—
Obligations under finance leases	7	8	—	—	—
	72,176	34,096	1,491	932	—
Interest on bank borrowings not wholly repayable within five years	36,443	—	—	—	—
	108,619	34,096	1,491	932	—
Less: Amount capitalised in construction in progress/ toll highway	(4,284)	—	—	—	—
	104,335	34,096	1,491	932	—

11. TAXATION

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
The charge (credit) comprises:					
Taxation in other jurisdictions					
— Current year	18,041	11,466	1,340	585	—
— Underprovision in prior years	—	238	—	—	—
Hong Kong Profits Tax	—	—	3,917	—	—
Deferred tax credit *(note 20)*	(5,791)	(770)	—	—	—
Taxation attributable to the GDI Group	12,250	10,934	5,257	585	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

11. TAXATION *(Cont'd)*

Hong Kong Profits Tax was calculated at 16% of the estimated assessable profit for the year ended 31 December 2002 and 17.5% of the estimated assessable profit for the year ended 31 December 2003, 2004 and for the four months ended 30 April 2005. No provision for Hong Kong Profits Tax was made in the financial statements for the year ended 31 December 2002 and 2003 as GDI and companies comprising the GDI Group had no assessable profit for those years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain companies comprising the GDI Group are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years ("Tax Reduction"). Since these companies were disposed of during the year ended 31 December 2003, no companies comprising the GDI Group were exempted from Tax Reduction.

The tax charge for the year/period can be reconciled to the (loss) profit before taxation as per the combined income statements as follows:

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
(Loss) profit before taxation	(520,426)	(195,868)	98,369	(4,253)	(4,790)
Tax at the average income tax rate *(Note a)*	(154,462)	(59,388)	18,523	(794)	(869)
Tax effect of share of results of associates	15,947	30,747	5,899	10,873	(3,748)
Tax effect of income not taxable in determining taxable profit	(34,832)	(5,654)	(51,334)	(12,424)	(7,927)
Tax effect of expenses not deductible for tax purpose	174,165	44,145	29,896	3,089	12,338
Underprovision in respect of prior year	—	238	—	—	—
Tax effect of tax losses not recognised	4,475	2,201	2,767	258	206
Utilisation of tax losses previously not recognised	—	(1,088)	—	—	—
Effect of tax exemption granted to PRC subsidiaries	(22,738)	(13,104)	(485)	(485)	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	29,887	12,054	(193)	(252)	—
Others	(192)	783	184	320	—
Tax expense for the year/period	12,250	10,934	5,257	585	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

11. TAXATION *(Cont'd)*

Notes:

(a) The average income tax rate for the Relevant Periods and for the four months ended 30 April 2004 represents the weighted average income tax rate of the operations in different jurisdictions on the basis of the relative amounts of net profits before taxation and the related statutory rates.

(b) As at 31 December 2002, 2003, 2004 and 30 April 2005, the GDI Group had unused tax loss of approximately HK$190,333,000, HK$106,158,000, HK$9,317,000 and HK$9,318,000 respectively available to offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams.

(c) As at 31 December 2002, 2003, 2004 and 30 April 2005, the GDI Group had deductible temporary differences in respect of allowances on doubtful debts of approximately HK$24,768,000, HK$66,589,000, HK$77,118,000 and HK$72,544,000. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

12. LOSS PER SHARE

Loss per share had not been presented as such information is not required for disclosure for a private company.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building *HK$'000*	Furniture and fixtures *HK$'000*	Machinery and equipment *HK$'000*	Motor vehicles *HK$'000*	Toll highway *HK$'000*	Hotel properties *HK$'000*	Properties under construction *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
COST									
At 1 January 2002	392,941	25,179	976,422	40,180	1,170,838	225,000	404,089	151,980	3,386,629
Currency realignment	(176)	(2)	(487)	(13)	—	—	—	(16)	(694)
Acquired on acquisition of subsidiaries	—	—	219	—	—	—	—	—	219
Additions	6,727	32,117	56,766	4,805	—	—	7,760	225,905	334,080
Transfer	17,262	32,643	126,449	—	—	—	—	(176,354)	—
Reclassification	1	(1)	—	—	—	—	—	—	—
Disposals	(12,862)	(20,327)	(92,917)	(2,809)	—	—	—	—	(128,915)
Eliminated on disposal of subsidiaries	(121,950)	(11,356)	(195,349)	(9,245)	(1,170,838)	(225,000)	(411,849)	(82,582)	(2,228,169)
At 31 December 2002	281,943	58,253	871,103	32,918	—	—	—	118,933	1,363,150
Currency realignment	(1,301)	682	(3,514)	72	—	—	—	(419)	(4,480)
Reclassification	138	1,602	—	—	—	—	—	(1,740)	—
Additions	1,778	5,902	8,368	2,329	—	—	—	250,473	268,850
Transfer	29,417	—	127,136	—	—	—	—	(156,553)	—
Disposals	(132)	(4,728)	(27,883)	(1,209)	—	—	—	—	(33,952)
Disposal of subsidiaries	(307,253)	(30,105)	(973,696)	(31,262)	—	—	—	(209,934)	(1,552,250)
At 31 December 2003	4,590	31,606	1,514	2,848	—	—	—	760	41,318
Currency realignment	—	8	—	—	—	—	—	—	8
Additions	—	828	12	837	—	—	—	187	1,864
Reclassification	—	205	—	—	—	—	—	(205)	—
Disposals	—	(1,258)	—	—	—	—	—	—	(1,258)
Disposal of subsidiaries	(4,590)	(31,389)	(1,526)	(3,191)	—	—	—	(742)	(41,438)
At 31 December 2004	—	—	—	494	—	—	—	—	494
Additions	—	—	11	313	—	—	—	—	324
Disposals	—	—	—	—	—	—	—	—	—
At 30 April 2005	—	—	11	807	—	—	—	—	818
DEPRECIATION, AMORTISATION AND IMPAIRMENT									
At 1 January 2002	67,487	10,923	327,917	26,989	360,272	25,000	63,257	61,493	943,338
Currency realignment	(223)	(2)	(210)	(10)	—	—	—	—	(445)
Provided for the year	20,043	10,489	78,600	3,231	23,339	—	—	—	135,702
Impairment loss for the year	64,404	—	164,304	1,232	70,467	—	—	45,354	345,761
Eliminated on disposals	(8,986)	(16,150)	(24,015)	(2,269)	—	—	—	—	(51,420)
Eliminated on disposal of subsidiaries	(30,450)	(1,812)	(104,735)	(7,902)	(454,078)	(25,000)	(63,257)	(61,493)	(748,727)
At 31 December 2002	112,275	3,448	441,861	21,271	—	—	—	45,354	624,209
Currency realignment	(485)	724	(1,880)	(65)	—	—	—	—	(1,706)
Provided for the year	9,115	7,930	38,700	1,831	—	—	—	—	57,576
Eliminated on disposals	(5,199)	(4,020)	(14,315)	(419)	—	—	—	—	(23,953)
Disposal of subsidiaries	(115,328)	(5,356)	(463,927)	(20,917)	—	—	—	(45,354)	(650,882)
At 31 December 2003	378	2,726	439	1,701	—	—	—	—	5,244
Provided for the year	24	1,822	44	141	—	—	—	—	2,031
Eliminated on disposals	—	(487)	—	—	—	—	—	—	(487)
Disposal of subsidiaries	(402)	(4,061)	(483)	(1,568)	—	—	—	—	(6,514)
At 31 December 2004	—	—	—	274	—	—	—	—	274
Provided for the period	—	—	1	21	—	—	—	—	22
Impairment loss for the period	—	—	—	—	—	—	—	—	—
Eliminated on disposals	—	—	—	—	—	—	—	—	—
At 30 April 2005	—	—	1	295	—	—	—	—	296
NET BOOK VALUES									
At 30 April 2005	—	—	10	512	—	—	—	—	522
At 31 December 2004	—	—	—	220	—	—	—	—	220
At 31 December 2003	4,212	28,880	1,075	1,147	—	—	—	760	36,074
At 31 December 2002	169,668	54,805	429,242	11,647	—	—	—	73,579	738,941

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

At 31 December 2002 and 2003, the land and buildings of the GDI Group were held under medium-term land use rights in the PRC.

The net book value of motor vehicles and furniture and fixtures as at 31 December 2002, 31 December 2003 included an amount of approximately HK$11,000 and HK$154,000 respectively in respect of assets held under finance leases.

14. DEPOSITS PAID FOR ACQUISITION OF INTEREST IN PROPERTIES

During the year ended 31 December 2004, the GDI Group entered into a conditional agreement with a third party ("Vendor") to acquire the properties interest in a parcel of land situated in Shanghai, the PRC (the "Land") and the 24-storey building being erected upon the land together with 2 levels of underground carparks (the "Building") (collectively referred to as to the "Properties") for a consideration of RMB450,000,000 (approximately HK$424,528,000). A deposit of RMB50,000,000 (HK$47,012,000) was paid upon the entering into the conditional agreement.

According to the conditional agreement, prior to the completion of acquisition, the Vendor should (i) obtain the certificate in respect of the land use rights of the Land and the ownership of the Building; (ii) obtain an approval from 上海市計劃委員會 that the use of the Properties be changed from office to both commercial and residential and that all relevant fee and charges arising from the sale of the Land payable to the relevant authorities including 上海市國土局 having been settled in full; (iii) agree with the GDI Group on the specification of installation, fixtures and furniture and other internal decoration of the Properties; (iv) procure all the contractors engaged in the development/construction of the Properties to enter into agreements with the GDI Group to bind these contractors with obligations to the GDI Group to rectify all defects of the Properties which may arise after the completion of the development/construction; and (v) procure the granting of a loan ("Loan") to be granted by PRC banks to the GDI Group to finance the remaining consideration.

Provided that if the conditions are not fulfilled on or before 1 June 2005, the GDI Group shall agree to a further extension of not less than 60 days without imposing any fine on the Vendor. If the conditions are not fulfilled within the extended period, the GDI Group shall be entitled to terminate the agreement and the Vendor shall refund the deposit to the GDI Group together with interests accrued during the period from the date of the agreement to the date the deposit is refunded and calculated on the relevant prevailing market interest rate.

It is one of the conditions for completion of the acquisition that the Vendor should obtain approval for the change of use of the Properties from office to both commercial and residential. Should the Vendor fail to obtain such approval within 150 days from the date of the agreement, the GDI Group is entitled to either (i) to proceed with the agreement in accordance with the existing terms and conditions; or (ii) to acquire the 1st to 7th floors and the 23rd floor of the Properties together with the two levels underground carparks for a consideration of RMB70,000,000 (HK$65,817,000).

I. FINANCIAL INFORMATION *(Cont’d)*

NOTES TO THE FINANCIAL INFORMATION *(Cont’d)*

14. DEPOSITS PAID FOR ACQUISITION OF INTEREST IN PROPERTIES *(Cont’d)*

The remaining consideration will be settled upon the grant of the Loan and the transfer of the ownership of the Land and Buildings to the GDI Group.

However, the conditions stated above for the change of the use of the Properties might not be fulfilled within the said period and accordingly the Vendor and the GDI Group had entered into another agreement dated 3 February 2005 pursuant to which, among other things, (i) the GDI Group will pay, on behalf of the Vendor, RMB22,000,000 (equivalent to approximately HK$20,560,000) to the main contractor of the Properties (the “Main Contractor”); and (ii) the amount paid by the GDI Group in (i) will be deducted from the sales consideration of the Properties.

Further, the GDI Group had advanced an additional RMB8,000,000 (equivalent to approximately HK$7,477,000) to the Vendor pursuant to this additional agreement and the aggregate sum paid by the GDI Group to the Vendor amounted to RMB58,000,000 (equivalent to approximately HK54,524,000) as of 30 April 2005.

In June 2005, the GDI Group had commenced legal proceedings against the Vendor, among other things, to demand the Vendor to fulfill its obligations under the above two agreements and applied to a PRC court an injunction order on the Properties to stop the Properties from being transferred (the “Injunction Order(s)”). It had also come to the attention of the GDI Group that one of the three secured creditors of the Vendor and the Main Contractor had already applied and being granted the Injunction Orders and they, together with the other two secured creditors, had priority over the GDI Group on the Properties.

As a condition precedent to the application of the Injunction Order, the GDI Group had issued a counter guarantee of RMB402,000,000 (equivalent to approximately HK$377,500,000) to an institution in the PRC which provided a guarantee of the same amount to the PRC court on behalf of the GDI Group.

At the same time, the directors of the GDI Group are also in discussion with the Vendor for settlement of the above matters; however, there can be no assurance that such matters can be resolved and settled with the Vendor eventually. Despite the above developments, the directors of the GDI Group have consulted its legal counsel and decided to proceed with the acquisition of the Properties in consideration of the following:

(a) the legal title of the Properties can be transferred to the GDI Group when the debts of the Vendor owed to the three secured creditors and the Main Contractor are settled by the GDI Group;

(b) the usage of the Properties can be changed to both commercial and residential when the GDI group obtains the legal title of the Properties and makes application to the relevant authority;

(c) the acquisition of the Properties, on a completion basis, is expected to bring economic benefits to the GDI Group taking into account of the estimated market value of the Properties as of 30 June 2005; and

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

14. DEPOSITS PAID FOR ACQUISITION OF INTEREST IN PROPERTIES *(Cont'd)*

(d) the ability of the GDI Group to meet the cash flow requirements to finance the acquisition and completion of the Properties, given the current financial position of the GDI Group and financial resources available to the GDI Group from internally generated funds, advances from its holding companies and/or financial institutions.

15. PAYMENT FOR ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2004, the GDI Group entered into conditional agreements with third parties ("Vendor Parties") to acquire the entire interest in 廣州耀陽實業有限公司 ("廣州耀陽") and 88% interest in 東莞市江海貿易有限公司 ("東莞市江海") for consideration of approximately RMB27,300,000 (approximately HK$25,756,000) and RMB25,700,000 (approximately HK$24,244,000) respectively. 廣州耀陽 and 東莞市江海 are companies incorporated in the PRC and engaged in the business of sand mining. As one of the conditions according to the conditional agreements, the Vendor Parties should procure the GDI Group to obtain all necessary approval from relevant government authorities for the proper transfer of ownership in 廣州耀陽 and 東莞市江海. Deposits of RMB21,200,000 (approximately HK$20,000,000) and RMB21,200,000 (approximately HK$20,000,000) were paid upon entering into the conditional agreements. If the conditions are not fulfilled, the GDI Group shall be entitled to terminate the agreements and the Vendor Parties shall refund the deposit to the GDI Group. Subsequent to 30 April 2005, the conditions have been fulfilled and the transaction has been completed.

廣州耀陽and東莞市江海are companies engaged in sand mining business. The directors are of the view that is impracticable to disclose the revenue and the result of廣州耀陽and東莞市江海for the period ended 30 April, 2005 as if the acquisition had been effected at the beginning of the period since such financial information was not provided by the Vendor Parties.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

16. GOODWILL

	HK$'000
COST	
At 1 January 2002	33,203
Disposal of subsidiaries	(121)
At 31 December 2002	33,082
Arising from acquisition of subsidiaries	387
At 31 December 2003	33,469
Disposal of subsidiaries	(33,469)
At 31 December 2004 and 30 April 2005	—
AMORTISATION AND IMPAIRMENT	
At 1 January 2002	495
Provided for the year	1,634
At 31 December 2002	2,129
Provided for the year	1,628
Impairment loss recognised	20,387
At 31 December 2003	24,144
Provided for the year	155
Eliminated on disposal of subsidiaries	(24,299)
At 31 December 2004 and 30 April 2005	—
NET BOOK VALUES	
At 31 December 2004 and 30 April 2005	—
At 31 December 2003	9,325
At 31 December 2002	30,953

Goodwill was amortised on a straight-line basis and the amortisation period for goodwill is 20 years.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

17. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interests in associates				
Share of net assets	724,089	537,692	354,201	505,616
Goodwill *(Note (i))*				
At beginning year/period	20,137	91,785	91,785	2,006
Accumulated amortisation as beginning year/period	—	(1,148)	(10,326)	—
Arising from acquisition of associates	91,784	—	3,931	12,207
Less: amortisation provided for the year	(1,148)	(9,178)	(3,059)	—
Realised upon dilution of interest in associates	(20,136)	—	(80,325)	(2,220)
As at year/period ended	90,637	81,459	2,006	11,993
Negative goodwill *(note (i))*				
At beginning year/period	—	(123,379)	(123,379)	(69,994)
Accumulated release of negative goodwill at beginning year/period	—	—	12,338	22,936
Release of negative goodwill during the year/period	—	12,338	10,598	—
Release of negative goodwill to retained profit as at 1 January 2005	—	—	—	47,058
Arising from acquisition of associates	(123,379)	—	—	—
Release upon disposal/dilution of interests in associates	—	—	53,385	—
As at year/period ended	(123,379)	(111,041)	(47,058)	—
Unlisted convertible notes due from an associate *(note ii)*	80,306	83,760	41,717	—
Derivative instrument *(note iii)*	—	—	64,410	—
Loans receivables due from associates *(note iv)*	84,323	260,312	81,840	58,386
Less: Allowance	(10,686)	(23,398)	—	—
	153,943	320,674	187,967	58,386
	845,290	828,784	497,116	575,995

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

17. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont'd)*

Notes:

(i) Prior to 1 January 2005 Goodwill was amortised on a straight-line basis and the amortisation period for goodwill is 10 years. Negative goodwill was released to income over 10 years. No amortisation of goodwill or release of negative goodwill is provided for on or after 1 January 2005.

(ii) The carrying value of the unlisted convertible notes as at 31 December 2002 and 31 December 2003 represented investments in convertible note issued by Wing On Travel (Holdings) Limited ("Wing On") ("Wing On Note"). The Wing On Note bore interest at 2% per annum and was due for redemption on 19 April 2004 at HK$84,800,000 with accrued interest. It also entitled the holders at any time after the date of the issuance of the Wing On Note and up to 19 April 2004 to convert the Wing On Note into shares of Wing On at an initial conversion price of HK$0.032 per share (subject to adjustment).

In January 2004, the GDI Group entered into a new convertible note agreement with Wing On pursuant to which Wing On issued the convertible notes with principal amount of HK$155,000,000 ("New Wing On Note") to the GDI Group, of which HK$84,800,000 were used to settle Wing On Note and HK$70,200,000 were used to settle the receivables due from Wing On. The New Wing On Note bears interest at 2% per annum and is due for redemption on 14 June 2007 at HK$155,000,000 with accrued interest. The New Wing On Note entitles the holders at any time after the date of the issuance of the New Wing On Note and up to 14 June 2007 to convert the New Wing On Note into shares in Wing On at an initial conversion price of HK$0.020 per share (subject to adjustment).

In October and November 2004, the GDI Group converted HK$100,000,000 convertible notes of Wing On into ordinary shares of HK$0.01 each in Wing On at the conversion price of HK$0.020 per share. Certain convertible notes holders also converted their convertible notes of Wing On into ordinary shares of HK$0.01 each in Wing On at conversion price of HK$0.020 per share. The interest in Wing On held by the GDI Group was increased from approximately 32.21% to approximately 38.16% upon the conversion of the convertible notes into shares of HK$0.01 each in Wing On by the GDI Group and other convertible note holder. The GDI Group also disposed of approximately 7.88% interest in Wing On for a consideration of approximately HK$45 million and the interest in Wing On held by the GDI Group was decreased to approximately 30.28%.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

17. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont'd)*

Notes: (Cont'd)

On 30 November 2004, the GDI Group further entered into two placing and subscription agreements with Wing On and placing agent pursuant to which the placing agent agreed to place 6,000 million ordinary shares of HK$0.01 each in Wing On on behalf of the GDI Group at the price of HK$0.028 per share and the GDI Group would subscribe up to 6,000 million new ordinary shares in Wing On at HK$0.028 per share. The placing of 6,000 million ordinary shares of HK$0.01 each in Wing On and subscription of 3,660 million new ordinary shares of HK$0.01 each in Wing On were completed in December 2004 and the GDI Group's interest in Wing On was decreased to approximately 19.58% as at 31 December 2004.

The GDI Group further subscribed 8,740 million new ordinary shares of HK$0.01 each in Wing On in January and February 2005 and the GDI Group's interest was increased to approximately 21.1%. In April 2005, the GDI Group further acquired 6,967,700 ordinary shares of HK$0.01 each in Wing On and further converted HK$55,000,000 convertible notes of Wing On into ordinary shares of HK$0.01 each in Wing On at the conversion price of HK$0.020 per share and the interest in Wing On held by the GDI Group was increased to approximately 27.74%.

(iii) In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by HKICPA, the conversion option element of the Wing On Note and New Wing On Note represents an embedded derivative instrument which must be accounted for separately from the unlisted convertible notes and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option, representing a discount on subscription of the Wing On Note and the New Wing On Note, was estimated using the Black-Scholes option pricing model at the date of subscription of the Wing On Note and the New Wing On Note, and as at 31 December 2002, 2003 and 2004. The impact of changes in fair value of this conversion option, taking into account the portion of the conversion option exercised during the year ended 31 December 2002, 2003, 2004 and the four months ended 30 April 2005, was loss of HK$5,953,000, $Nil, gain of HK$76,959,000 and loss of HK$39,743,000 respectively, which have been recognised in the combined income statement.

(iv) The amounts are unsecured, carry interest at the prevailing market date and will not be repayable within one year from the balance sheet date.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

17. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont'd)*

Notes: (Cont'd)

(v) In March 2004, Pacific Century Premium Development Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited whose shares are listed on the Hong Kong Stock Exchange), a then 43.06% owned associate of the GDI Group, entered into agreements with PCCW Limited ("PCCW", a company whose shares are listed on the Hong Kong Stock Exchange) to acquire various property interests from PCCW for a consideration of approximately HK$6,557 million which was satisfied by the issue of new shares and convertible notes by PCPD to PCCW or as it may direct. The above transaction was completed in May 2004 and the GDI Group's interest in PCPD was decreased from 43.06% to 2.83% and PCPD ceased to be an associate of the GDI Group accordingly. The GDI Group further disposed of all its 2.83% interest in PCPD and no interest in PCPD was held by the GDI Group as at 31 December 2004.

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Receivables due from associates	55,073	129	54,373	61,526
Payables due to associates	—	—	673	800

During the year ended 31 December 2002, 2003, all receivables due from associates are unsecured, non-interest bearing and repayable on demand. During the year ended 31 December 2004 and for the four months ended 30 April 2005, except for amount due from an associate of approximately HK$54,247,000 and HK$61,526,000 respectively are interest bearing, all remaining amounts due from associates were non-interest bearing. The amounts due to associates are unsecured, non-interest bearing and repayable on demand for at the respective balance sheet dates.The directors consider that the carrying amount of receivables due from associates approximates their fair value.

Particulars of the principal associates to be grouped under GDI according to the proposed Group Reorganisation are as follows:

Name of associate	**Place of the incorporation/ registration/ establishment**	**Place of operation**	**Proportion of nominal value of issued share capital/registered capital held indirectly by the GDI Group** %	**Principal activities**
China Velocity Group Limited ("China Velocity", formerly known as Rosedale Hotel Group Limited and China Land Group Limited) *(notes a and b)*	Bermuda	Hong Kong and PRC	22.7	Property investment and development in the PRC

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

17. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont'd)*

Name of associate	Place of the incorporation/ registration/ establishment	Place of operation	Proportion of nominal value of issued share capital/registered capital held indirectly by the GDI Group %	Principal activities
Wing On (formerly known as Ananda Wing On Travel (Holdings) Limited) *(notes a and b)*	Bermuda	Hong Kong	27.74	Business of providing package tours, travel and other related services
Hangzhou Zhongce Rubber Company Limited ("HZ Rubber") *(note c)*	PRC	PRC	26.0	Manufacturing of tires

Notes:

(a) The shares of China Velocity and Wing On are listed on the Hong Kong Stock Exchange.

(b) These companies are a limited liability company incorporated in the respective jurisdiction.

(c) This is a sino-foreign equity joint venture.

The following is a summary of the most recent published financial information and unaudited management account of the principal associates held by the GDI Group at the balance sheet dates:

Consolidated results of the principal associates for the Relevant Periods and for the four months ended 30 April 2004:

	1.4.2002 to 30.9.2002	1.1.2002 to 31.12.2002	1.1.2002 to 31.12.2002	Year ended 31 December 2003				2004			Four months ended 30 April 2004	2005
	PCPD	China Velocity	Wing On	PCPD	China Velocity	Apex Quality Group Limited	Wing On	HZ Rubber	China Velocity	Wing On	Subtotal *(Note)*	Subtotal *(Note)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Turnover	79,456	181,692	1,323,286	124,088	132,583	7,850	1,416,235	4,784,903	12,605	1,722,177	1,958,763	2,442,446
Net (loss) profit for the year/period	(43,357)	(99,810)	(302,917)	(88,435)	(170,207)	(1,403)	(370,972)	97,940	(235,515)	35,377	(11,946)	47,404
Net (loss) profit for the year/period attributable to the GDI Group since date of acquisition	(3,275)	(1,600)	(87,751)	(38,080)	(48,604)	(317)	(106,078)	25,464	(53,344)	10,614	(1,861)	13,467

I. FINANCIAL INFORMATION *(Cont’d)*

NOTES TO THE FINANCIAL INFORMATION *(Cont’d)*

17. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES *(Cont’d)*

Consolidated financial position:

	At 30.9.2002	At 31.12.2002	At 31.12.2002	As at 31 December 2003				As at 31 December 2004			As at 30 April 2005		
	PCPD	China Velocity	Wing On	PCPD	China Velocity	Apex Quality Group Limited	Wing On	HZ Rubber	China Velocity	Wing On		Subtotal *(Notes)*	
	HK$’000	*HK$’000*	*HK$’000*	*HK$’000*	*HK$’000*	*HK$’000*	*HK$’000*	*HK$’000*	*HK$’000*	*HK$’000*		*HK$’000*	
Non-current assets	149,078	2,126,452	901,106	245,434	576,167	1,592,960	462,838	1,286,257	151,929	2,037,951		3,548,207	
Current assets	534,215	166,972	536,923	454,057	37,515	84,038	644,513	1,753,486	81,482	564,490		2,888,193	
Current liabilities	(402,524)	(186,306)	(478,490)	(525,958)	(122,951)	(143,811)	(554,689)	(2,180,756)	(120,665)	(581,588)		(3,022,189)	
Non-current liabilities	(3,220)	(1,056,027)	(298,248)	—	(126,638)	(1,018,106)	(229,563)	(90,165)	(667)	(1,075,940)		(1,123,409)	
Minority interests	(24,606)	(103,766)	—	(15,132)	(30,930)	(72,058)	(29,778)	(24,109)	(14,430)	(312,171)		(450,165)	
Net assets	252,943	947,325	661,291	158,401	333,163	443,023	293,321	744,713	97,649	632,742		1,840,637	
											HZ Rubber	China Velocity	Wing On
											HK$’000	*HK$’000*	*HK$’000*
Share of net assets attributable to the GDI Group:													
As at 31 December/ 30 April	105,642	305,039	213,002	68,207	75,461	100,325	114,041	190,893	22,117	123,890	198,951	21,557	281,732
Market value of interest held by the GDI Group	300,000	178,643	88,500	135,000	72,245	N/A	118,000	N/A	52,770	258,710	N/A	58,424	230,634

Note:

The amount represents the pro forma combined financial information of the associates at 30 April 2005 and for the four months ended 30 April 2004 and for the four months ended 30 April 2005.

18. RECEIVABLES

	As at 31 December 2002	As at 31 December 2003	As at 31 December 2004	As at 30 April 2005
	HK$’000	*HK$’000*	*HK$’000*	*HK$’000*
Loan and interest receivables				
— secured *(note a)*	108,800	114,784	120,819	122,809
— unsecured *(note b)*	320,062	190,723	558,038	285,472
Receivable due from related companies *(note c)*	—	10	—	—
	428,862	305,517	678,857	408,281
Less: Allowances	(3,181)	(53,826)	(109,643)	(109,643)
	425,681	251,691	569,214	298,638
Less: Amounts due within one year and shown under current assets	(425,681)	(251,691)	(540,931)	(298,638)
Amounts due after one year	—	—	28,283	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

18. RECEIVABLES *(Cont'd)*

Notes:

The directors consider that the carrying of amount receivables due after one year approximates their fair value.

(a) The secured loan and interest receivables represented the amount due from Lucklong Venture Limited ("Lucklong"). Ms. Chan Mei Wah, Rosanna, director of the CSH, was also a director of Lucklong during the year ended 31 December 2002 and 2003. Allowances made in the loans receivables due from Luckong as at 31 December 2003, 31 December 2004 and 30 April 2005 were approximately HK$24,000,000, HK$50,619,000 and HK$50,619,000 respectively with reference to the market value of the collateral secured to the GDI Group. Shares in certain property holding companies were pledged to the GDI Group as securities to the loans receivables.

(b) The amount carry interest at the prevailing market rate.

(c) Details of the receivable due from related companies are as follows:

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Paul Y. — ITC Construction Holdings Limited	—	5	—	—
ITC Corporation Limited	—	5	—	—
	—	10	—	—

The amounts were unsecured, non-interest bearing and were repayable on demand.

Paul Y. — ITC Construction Holdings Limited ("Paul Y. — ITC") is a substantial shareholder of CSH and ITC Corporation Limited is a shareholder of Paul Y. — ITC.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

19. INVESTMENTS IN SECURITIES

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities:				
Listed	20,501	2,761	2,252	20,826
Unlisted	7,342	125	43,623	43,819
	27,843	2,886	45,875	64,645
Debt securities:				
Unlisted	8,000	24,420	26,084	26,084
Total	35,843	27,306	71,959	90,729
Total and reported as:				
Listed				
Hong Kong	4,729	835	—	19,250
Elsewhere	15,772	1,926	2,252	1,576
	20,501	2,761	2,252	20,826
Unlisted	15,342	24,545	69,707	69,903
	35,843	27,306	71,959	90,729
Classified under				
Current	1,834	1,142	—	—
Non-current	34,009	26,164	71,959	90,729
	35,843	27,306	71,959	90,729
Market value of listed securities	20,501	2,761	2,252	20,826

The carrying value of unlisted securities in Hong Kong at 31 December 2004 included an amount of HK$43,498,000, representing 9.77% interest in Apex Quality Group Limited ("Apex"). Apex is incorporated in the British Virgin Islands and engaged in hotel and leisure related business. Apex was a 22.65% associate of the GDI Group as at 31 December 2003. Upon the completion of disposal of approximately 12.88% interest of Apex by the GDI Group in September 2004, Apex ceased to be the GDI Group's associate during the year ended 31 December 2004. The directors consider that the carrying amount of unlisted debt securities approximates their fair value.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

20. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movement during the Relevant Periods:

	Bad and doubtful debts and allowance
	HK$'000
At 1 January 2002	7,663
Credit to the combined income statement	5,791
At 31 December 2002	13,454
Credit to the combined income statement	770
	14,224
Realised on disposal of subsidiaries	(14,224)
At 31 December 2003, 31 December 2004 and 30 April 2005	—

21. RECEIVABLES DUE FROM (TO) FORMER FELLOW SUBSIDIARIES

Following the completion of the Group Reorganisation, CSH remains as the holding company of the companies carrying on manufacturing and trading of batteries products and investment in securities. The amounts due from (to) former fellow subsidiaries represent balances due from (to) the subsidiaries held under CSH and are investing in nature. All amounts are unsecured, non-interest bearing and repayable on demand.

The amounts due from (to) former fellow subsidiaries will be assigned to GDI upon the completion of the Group Reorganisation.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

22. OTHER ASSET

The amount represents cost incurred in connection with a land development project in the PRC. The project is a land development of 珠海市龍山智業產業園 located in Long Shan Development Area, Doumen District, Zhuhai City and is to be jointly developed with 珠海市龍山工業區管理委員會. The GDI Group is entitled to the exclusive development right to the project and also the right to obtain the land for the development ("Other Asset"). The GDI Group is also entitled to sell the Other Asset to investors at consideration to be agreed among themselves.

The amount of approximately HK$226,596,000, HK$227,045,000 and HK$229,287,000 as at 31 December 2003, 2004 and 30 April 2005 respectively was paid by the GDI Group for obtaining the exclusive development right to the project and in obtaining certain parts of the right for land development.

As the directors of CSH are of the opinion that the Other Asset is held for sale, the cost incurred for the Other Asset is included in current asset accordingly.

At respective balance sheet dates, the directors of CSH has assessed the carrying value of the Other Asset with reference to the valuation performed by Norton Appraisal Limited, an independent valuer, on open market value basis and no impairment loss is identified during the Relevant Periods.

23. INVENTORIES

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	330,660	12,146	—	—
Work in progress	21,414	163	—	—
Finished goods	475,670	54,667	—	—
	827,744	66,976	—	—

Included above are raw materials of approximately HK$330,660,000 and HK$12,146,000 as at 31 December 2002 and 2003 respectively which were carried at their net realisable value.

Included above were finished goods of approximately HK$475,670,000 and HK$54,667,000 as at 31 December 2002 and 2003 respectively which were carried at net realisable value.

The cost of inventories recognised as an expense during the year ended 31 December 2002 and 2003, were approximately HK$3,052,768,000 and HK$2,459,991,000 respectively.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

24. TRADE DEBTORS

The GDI Group allows its trade customers with credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the balance sheet dates is as follows:

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-90 days	387,848	12,011	—	—
91-180 days	89,724	762	—	—
Over 180 days	56,387	945	—	—
	533,959	13,718	—	—

The directors consider that the carrying amount of trade debtors approximates their fair value.

25. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

Included in creditors, other payables and accrued charges are creditors with the following aged analysis:

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-90 days	219,156	39,468	—	—
91-180 days	48,641	1,413	—	—
Over 180 days	109,345	622	293	293
	377,142	41,503	293	293
Add: Other payables and accrued charges	415,154	37,331	25,204	30,284
	792,296	78,834	25,497	30,577

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

26. PAYABLES

Details of the payables are as follows:

		As at 31 December			As at 30 April
		2002	**2003**	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Payables due to related companies	*(a)*	44,040	3,181	417	556
Payables due to third parties	*(b)*	—	27,192	27	27
		44,040	30,373	444	583
Less: Amounts shown under current liabilities		(44,040)	(29,180)	(444)	(583)
		—	1,193	—	—

Notes:

(a) Details of the payables due to related companies are as follows:

		As at 31 December			As at 30 April
		2002	**2003**	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hanny Magnetics Limited	*(i)*	1,138	—	—	—
ITC Management Limited	*(i)*	42,902	—	—	—
Paul Y. — ITC Management Limited	*(i)*	—	450	—	—
Micro Tech Limited	*(i)*	—	—	—	—
Cycle Company Limited and Gunnell Properties Limited	*(i)*	—	693	417	556
ITC Corporation Limited	*(ii)*	—	744	—	—
Paul Y. — ITC (E&M) Company Limited	*(i)*	—	1,014	—	—
Paul Y. — ITC (E&M) Contractors Limited	*(i)*	—	280	—	—
		44,040	3,181	417	556

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

26. PAYABLES *(Cont'd)*

Notes:

(i) The companies are wholly-owned subsidiaries of substantial shareholders of CSH.

(ii) ITC Corporation Limited is a shareholder of the CSH's substantial shareholder.

The amounts are unsecured and carry interest at prevailing market rate.

Except for the payable of HK$1,193,000 as at 31 December 2003 which were repayable after one year from the balance sheet date, all remaining balances are repayable on demand.

(b) The amounts are unsecured, carry interest at prevailing market rate and are repayable on demand.

27. BANK LOANS AND OTHER BORROWINGS

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	1,026,851	12,990	—	—
Obligations under finance leases *(note a)*	139	151	—	—
Bank overdrafts	—	2	—	—
Other borrowings *(note b)*	—	13,000	—	—
	1,026,990	26,143	—	—
Secured	168,392	151	—	—
Unsecured	858,598	25,992	—	—
	1,026,990	26,143	—	—
Repayable as follows:				
Within one year	940,065	26,014	—	—
Between one and two years	41,728	21	—	—
Between two and five years	45,197	108	—	—
	1,026,990	26,143	—	—
Less: Amount due within one year included under current liabilities	(940,065)	(26,014)	—	—
Amount due after one year	86,925	129	—	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

27. BANK LOANS AND OTHER BORROWINGS *(Cont'd)*

Notes:

(a)

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December			As at 30 April	As at 31 December			As at 30 April
	2002	2003	2004	2005	2002	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:								
Within one year	143	31	—	—	139	20	—	—
In the second to fifth years inclusive	—	147	—	—	—	131	—	—
	143	178	—	—	139	151	—	—
Less: Future finance charges	(4)	(27)	—	—	—	—	—	—
Present value of lease obligations	139	151	—	—	139	151	—	—
Less: Amount due within one year					(139)	(22)	—	—
Amount due after one year					—	129	—	—

The average lease term is five years. The average effective borrowing rate was 6% and 6.7% for the year ended 31 December 2002 and 2003 respectively. Interest rate was fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The GDI Group's obligations under finance leases contract are secured by the lessor's charge on the hired assets.

(b) The amounts carrying interest at prevailing market rate.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

28. SHARE CAPITAL

For the purpose of the preparation of the combined balance sheets, the balances of share capital at 31 December 2002, 2003, 2004 and 30 April 2005, respectively represent share capital of companies now comprising the GDI Group.

29. DISPOSAL/DILUTION OF INTERESTS IN SUBSIDIARIES

Year ended 31 December 2002

The GDI Group entered into an agreement with Vision Century Corporation Limited ("Vision Century") to acquire a 65% interest in Wintime Property Developments Limited ("Wintime") and the shareholder's loan of approximately HK$131,000,000 for a total consideration of HK$43,200,000 and to dispose of the GDI Group's entire interest in Tenways Investments Limited together with the shareholder's loan of approximately HK$44,500,000 to Vision Century for a total consideration of HK$43,200,000. The principal asset of Wintime is residential properties situated in Tuen Mun, Hong Kong.

The GDI Group also entered into an agreement to dispose of its 60% interest in Shenzhen Longchen Xinyuan Industrial Co., Ltd. ("Longchen Xinyuan") to an independent third party for a consideration of approximately HK$60,000,000. Longchen Xinyuan is principally engaged in the operation of a toll highway in Shenzhen, the PRC.

In addition, the GDI Group disposed of its interests in certain PRC subsidiaries at an aggregate consideration of HK$41,000,000.

Year ended 31 December 2003

The GDI Group disposed of its 51% interest in Yinchuan C.S.I. (Greatwall) Rubber Company Limited, 25% interest in Hangzhou Zhongce Rubber Company Limited (a 51% owned subsidiary of GDI Group) and 50% interest in Pacific Wins Development Ltd. at an aggregate consideration of approximately HK$206,000,000.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

29. DISPOSAL/DILUTION OF INTERESTS IN SUBSIDIARIES *(Cont'd)*

Year ended 31 December 2004

The GDI Group disposed of its 100% interest in Tung Fong Hung Investment Limited for a consideration of HK$42,000,000.

Details of the assets and liabilities of the subsidiaries disposed of during the Relevant Periods were as follows:

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Net assets disposed of:					
Investment properties	28,272	—	—	—	—
Property, plant and equipment	1,479,442	901,368	34,924	—	—
Properties held under development	140,760	—	—	—	—
Goodwill	121	—	—	—	—
Deferred tax assets	—	14,224	—	—	—
Interests in associates	—	103,064	14,808	—	—
Receivables due from associates	—	81,551	—	—	—
Loans to minority shareholders	21,408	—	—	—	—
Deposits paid for acquisition of subsidiaries	75,000	—	—	—	—
Properties held for sale	31,793	—	—	—	—
Investments in securities	7,379	5,216	—	—	—
Inventories	46,412	737,767	49,319	—	—
Trade debtors	51,083	530,528	12,112	—	—
Receivables — due within one year	43,119	—	—	—	—
Other receivables, deposits and prepayments	69,098	207,315	8,435	—	—
Income and other tax receivable	3,077	—	—	—	—
Pledged bank deposits	—	70,098	—	—	—
Bank balances and cash	113,992	282,356	22,176	—	—
Trade creditors, other payables and accrued charges	(461,875)	(757,376)	(43,316)	—	—
Income and other taxes payable	(3,523)	(34,335)	(30)	—	—
Bank loans and other borrowings	(613,258)	(1,274,058)	(60,197)	—	—
Obligations under finance leases	(2,727)	—	(149)	—	—
Deposits received	(87,433)	—	—	—	—
Loans from minority shareholders	(375)	—	—	—	—
Convertible note	(66,000)	—	—	—	—
Minority interests	(411,778)	(481,186)	—	—	—
	463,987	386,532	38,082	—	—
Less: Interest retained as interests in associates	(307,518)	(178,053)	—	—	—
	156,469	208,479	38,082	—	—
Goodwill realised	—	6,852	9,170	—	—
Negative goodwill reserve realised	(71,028)	—	—	—	—
Exchange reserve realised	(2,190)	(3,848)	—	—	—
Other non-distributable reserve realised	(2,577)	—	13	—	—
	80,674	211,483	47,265	—	—
Gain (loss) on disposal/dilution	64,193	12,309	(5,265)	—	—
	144,867	223,792	42,000	—	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

29. DISPOSAL/DILUTION OF INTERESTS IN SUBSIDIARIES *(Cont'd)*

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Satisfied by:					
Cash	75,507	223,792	35,500	—	—
Interest in a subsidiary	43,199	—	—	—	—
Promissory note included in receivables	26,161	—	6,500	—	—
	144,867	223,792	42,000	—	—
Analysis of the net (outflow) inflow of cash and cash equivalents in connection with the disposal/ dilution of subsidiaries:					
Cash consideration received	75,507	223,792	35,500	—	—
Bank balances and cash disposed of	(113,992)	(282,356)	(22,176)	—	—
Net (outflow) inflow of cash and cash equivalents	(38,485)	(58,564)	13,324	—	—

The subsidiaries disposed of during the Relevant Periods contributed the following approximately amount to the GDI Group's turnover and the GDI Group's loss from operations:

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Amount contributed to the GDI Group's turnover	298,640	2,653,540	92,262	—	—
(Loss) profit contributed to the GDI Group's loss from operations	(42,597)	(90,362)	6,778	—	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

30. PURCHASE OF SUBSIDIARIES

During the year ended 31 December 2002, the GDI Group entered into an agreement with Vision Century Corporation Limited ("Vision Century") to acquire a 65% interest in Wintime Property Developments Limited ("Wintime") and the shareholder's loan of approximately HK$131,000,000 for a total consideration of HK$43,200,000 and to dispose of the GDI Group's entire interest in Tenways Investments Limited together with the shareholder's loan of approximately HK$44,500,000 to Vision Century for a total consideration of HK$43,200,000. The principal asset of Wintime is residential properties situated in Tuen Mun, Hong Kong. Details of the assets and liabilities acquired during the Relevant Periods were as follows:

	Year ended 31 December			Four months ended 30 April	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net assets acquired:					
Property, plant and equipment	219	—	—	—	—
Properties held for sale	51,893	—	—	—	—
Investment in securities	—	—	—	—	—
Interests in associates	—	—	—	—	—
Inventories	356	—	—	—	—
Trade debtors	14,219	—	—	—	—
Other receivables, deposits and prepayments	12,725	—	—	—	—
Bank balances and cash	422	—	—	—	—
Creditors, other payables and accrued charges	(25,905)	(12)	—	—	—
Income and other tax payable	(193)	—	—	—	—
Bank loans	—	—	—	—	—
Minority interests	(1,529)	410	—	—	—
	52,207	398	—	—	—
Interest acquired in prior year recognised as interests in associates	(8,075)	—	—	—	—
Goodwill arising on acquisition	—	387	—	—	—
	44,132	785	—	—	—
Satisfied by:					
Cash	933	785	—	—	—
Interest in a subsidiary	43,199	—	—	—	—
	44,132	785	—	—	—
Analysis of the net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries:					
Cash consideration paid	(933)	(785)	—	—	—
Bank balances and cash acquired	422	—	—	—	—
Net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries	(511)	(785)	—	—	—

The subsidiaries acquired during the year ended 31 December 2002 contributed approximately HK$107,020,000 to the GDI Group's turnover, and approximately HK$2,645,000 to the GDI Group's loss from operations.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

31. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2002, the major non-cash transactions were as follows:

(a) Finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the leases of approximately HK$2,727,000.

(b) Increase in other receivable, deposits and repayment of approximately HK$10,000,000 as a result of the disposal of investment properties.

(c) Repayment of loan receivables of HK$286,767,000 was satisfied by the same amount of loan payables under a deed of novation dated 30 September 2003 entered into by the GDI Group and relevant parties.

(d) Repayment of loan receivables of HK$22,928,000 was satisfied by the same amount of loan payables under four deed of assignments dated 31 December 2003 entered into by the GDI Group and the relevant parties.

During the year ended 31 December 2003, the major non-cash transaction were as follows:

(a) Finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the leases of approximately HK$168,000.

During the year ended 31 December 2004, the major non-cash transactions were as follows:

(a) Addition to deposit paid for acquisition of interest in properties of approximately HK$46,686,000 were repayments of loans receivables due from associates.

(b) Addition to investment in securities of approximately HK$43,588,000 were as result of disposal/dilution of interests in associates.

(c) Loan receivables due from associates of HK$70,200,000 were settled by the issuance of convertible notes by the associates included in interests in associates.

(d) Additions to deposits paid for acquisition of subsidiaries of HK$40,000,000 were repayments from receivables.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

32. COMMITMENTS

At the balance sheet date, the GDI Group had the following capital commitments:

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted for but not provided in the financial statements in respect of				
(i) Acquisition of interest in properties *(note 14)*	—	—	377,516	377,500
(ii) Other assets	—	91,489	91,981	91,981
(iii) Acquisition of subsidiaries *(note 15)*	—	—	10,000	10,000
(iv) Property, plant and equipment	137,061	—	—	—
(v) Construction in progress	15,531	—	—	—
	152,592	91,489	479,497	479,481

33. OPERATING LEASE COMMITMENTS

Lessee

The GDI Group made minimum lease payments in respect of office premises of approximately HK$36,088,000, HK$25,707,000, HK$7,460,000 and $ Nil under operating leases for the year ended 31 December 2002, 2003, 2004 and for the four months ended 30 April 2005, respectively.

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

	As at 31 December			As at 30 April
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	24,322	15,639	—	—
In the second to fifth year inclusive	36,517	16,930	—	—
Over five years	155	—	—	—
	60,994	32,569	—	—

Leases were negotiated for an average term of one year and rentals were fixed for an average of one year.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

34. CONTINGENT LIABILITIES

		As at 31 December			As at 30 April
		2002	**2003**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a)	Corporate guarantee given by the GDI Group for banking facilities granted to:				
	(i) subsidiaries	—	—	—	—
	(ii) associates	—	—	—	—
	Other guarantees issued to associates	169,635	—	—	—
(b)	Counter guarantee *(Note 14)*	—	—	—	377,500
		169,635	—	—	377,500

35. PLEDGE OF ASSETS

As at 30 April 2005 and 31 December 2004, the GDI Group had no pledge of assets.

As at 31 December 2003:

(a) Interests in an associates with net assets value attributable to the GDI Group of approximately HK$83,622,000 were pledged to secure credit facilities granted to the associates of the GDI Group.

(b) Investment in securities with a carrying value of HK$29,046,000 were pledged to secure margin account credit facilities and banking facilities granted to the GDI Group.

The margin loan facility amounting to HK$2,000 included in bank loans and other borrowings were utilised by the GDI Group.

As at 31 December 2002:

(a) Certain property, plant and equipments with carrying value of HK$219,532,000, bank deposits of HK$24,676,000 and all assets of a subsidiary of the GDI Group with a consolidated net assets value of HK$45,746,000 were pledged to secure credit facilities granted to the GDI Group.

(b) Investment in securities with a carrying value of HK$68,706,000 were pledged to secure margin account credit facilities and banking facilities granted to the GDI Group.

The margin loan facility amounting to HK$2,000 in bank loans and other borrowings were utilised by the GDI Group.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

36. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the GDI Group entered into the following significant transactions with related parties:

Name of company	Nature of transactions	*Notes*	Year ended 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Year ended 31 December 2004 HK$'000	Four months ended 30 April 2004 HK$'000 (Unaudited)	Four months ended 30 April 2005 HK$'000
Lucklong	Loan interest income received and receivable by the GDI Group	*(a)*	6,120	5,984	—	—	—
Hanny Magnetics Limited	Sale of goods made by the GDI Group	*(b)*	—	63	—	—	—
Paul Y. — ITC Management Limited	Loan interest paid and payable by the GDI Group	*(b)*	—	1,193	—	—	—
	Sales of goods by the GDI Group		—	687	3	—	—
Paul Y. — ITC (E & M) Company Limited	Repair and maintenance fee paid and payable by the GDI Group	*(b)*	369	58	42	—	—
	Purchase of property, plant and equipment by the GDI Group		14	—	—	—	—
	Consultancy fee paid and payable by the GDI Group		327	—	—	—	—
	Secondment fee paid and payable by the GDI Group		500	—	—	—	—
	Project management fee paid and payable by the GDI Group		109	872	—	—	—
	Mechanical and electrical service fee paid and payable by the GDI Group		800	7	—	—	—
Paul Y. — ITC Construction Limited	Interest paid and payable by the GDI Group	*(b)*	410	—	—	—	—
	Project management fee paid and payable by the GDI Group		550	—	—	—	—
Cycle Company Limited and Gunnell Properties Limited	Rental expenses paid and payable by the GDI Group	*(b)*	2,129	554	553	182	136
Paul Y. — ITC Interior Contractors Limited	Project management fee paid and payable by the GDI Group	*(b)*	39	15	—	—	—
	Leasehold improvement paid and payable by the GDI Group		400	—	—	—	—
Paul Y. — ITC (E&M) Contractors Limited	Management fee paid and payable by the GDI Group	*(b)*	154	—	—	—	—
Paul Y. — ITC Plant Hire Limited	Hiring of plant and equipment	*(b)*	59	—	—	—	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

36. RELATED PARTY TRANSACTIONS *(Cont'd)*

Name of company	Nature of transactions	*Notes*	Year ended 31 December 2002 *HK$'000*	2003 *HK$'000*	2004 *HK$'000*	Four months ended 30 April 2004 *HK$'000* *(Unaudited)*	2005 *HK$'000*
ITC Management Limited	Loan interest income received and receivable by the GDI Group	*(c)*	1,735	—	—	—	—
Millennium Target Holdings Limited	Loan interest income received and receivable by the GDI Group	*(d)*	130	31	—	—	—
Wing On	Loan interest income received and receivable by the GDI Group	*(e)*	761	2,198	1,466	227	—
China Velocity	Loan interest income received and receivable by the GDI Group	*(e)*	280	3,249	—	—	—
Rosedale Hotel International Limited	Management fee paid and payable by the GDI Group	*(g)*	730	—	—	—	—
Rosedale Park Limited	Sale of goods made by the GDI Group	*(g)*	—	11	—	—	—
	Hotel expense paid and payable by the GDI Group		—	14	—	—	—
Hong Kong Wing On Travel Service Limited	Air ticketing and travel service expenses paid and payable by the GDI Group	*(d)*	248	73	260	80	—
	Sale of goods made by the GDI Group		—	209	—	—	—
Apex	Loan interest income received and receivable by the GDI Group	*(f)*	—	248	3,280	1,874	—
Chief Altantic Profits Limited	Loan interest income received and receivable by the GDI Group	*(h)*	—	306	303	303	—

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

36. RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes:

(a) Ms. Chau Mei Wah, Rosanna ("Ms. Chau"), a director of CSH, ceased to be a director of Lucklong during the year ended 31 December 2004. Mr. Lau Ko Yuen, the former alternate director to Ms. Chau, is a director of substantial shareholder of CSH and a director of Lucklong.

(b) Hanny Magnetics Limited, Paul Y. ITC Management Limited, Paul Y. — ITC (E & M) Company Limited, Paul Y. — ITC Construction Limited, Cycle Company Limited and Gunnell Properties Limited, Paul Y. — ITC Interior Contractors Limited, Paul Y. — ITC (E & M) Contractors Limited, Paul Y. — ITC Plant Hire Limited are wholly-owned subsidiaries of a substantial shareholder of CSH.

(c) ITC Management Limited is the shareholder of a substantial shareholder of CSH.

(d) Millennium Target Holdings Limited and Hong Kong Wing On Travel Service Limited are wholly-owned subsidiaries of Wing On.

(e) Wing On and China Velocity are associates of the GDI Group.

(f) Apex ceased to be associate of the GDI Group during the year ended 31 December 2004.

(g) Rosedale Hotel International Limited and Rosedale Park Limited are wholly-owned subsidiaries of Apex.

(h) China Altantic Profits Limited is a wholly owned subsidiary of PCPD and PCPD ceased to be an associate of GDI Group during the year ended 31 December 2004.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in note 17, 18 and 26.

In the opinion of the directors of CSH, the above transactions were undertaken in the ordinary course of business transactions and the terms were mutually agreed between the GDI Group and the related parties.

I. FINANCIAL INFORMATION *(Cont'd)*

NOTES TO THE FINANCIAL INFORMATION *(Cont'd)*

37. RETIREMENT BENEFIT SCHEME

The GDI Group/CSH operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the GDI Group, in funds under the control of trustees. The GDI Group and employees each contribute 5% of the relevant payroll costs to the Scheme.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the GDI Group at rates specified in the rules of the schemes.

The employees in the joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture companies are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the GDI Group with respect to the pension scheme is to make the required contributions under the scheme. The amount of contributions payable to the pension schemes are charged to the income statement.

At the balance sheet dates, there were no significant forfeited contributions which arose upon employees leaving the scheme prior to their interests in the GDI Group's contributions becoming fully vested and which are available to reduce the contributions payable by the GDI Group in future years.

II. DISTRIBUTABLE RESERVES

GDI was incorporated on 1 March 2005 and accordingly, GDI has no reserve available for distribution to the shareholders as at 30 April 2005.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the GDI Group, GDI or any of its subsidiaries have been prepared in respect of any period subsequent to 30 April 2005.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA ASSETS AND LIABILITIES STATEMENT OF THE GDI GROUP UPON COMPLETION OF GROUP REORGANISATION

(A) Introduction

The unaudited pro forma assets and liabilities statement of the GDI Group has been prepared giving effect to the Group Reorganisation.

The unaudited pro forma assets and liabilities statement of the GDI Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the GDI Group Reorganisation as if the Group Reorganisation taken place on 30 April 2005.

The unaudited pro forma assets and liabilities statement of the GDI Group is based upon the combined balance sheet of the GDI Group as at 30 April 2005, which has been extracted from the accountants report of GDI for the three years ended 31 December 2004 and the four months ended 30 April 2005, after giving effect to the pro forma adjustments of the Group Reorganisation that are (i) directly attributable to the transaction; and (ii) factually supportable, are summarized in the accompany notes.

The unaudited pro forma assets and liabilities statement of the GDI Group is based on a number of assumptions, estimates, uncertainties, the accompanying unaudited pro forma assets and liabilities of the GDI Group does not purport to describe the actual financial position of the GDI Group that would have been attained had the Group Reorganisation been completed on 30 April 2005. The unaudited pro forma assets and liabilities statement of the GDI Group does not purport to predict the future financial position of the GDI Group.

The unaudited pro forma assets and liabilities statement of the GDI Group should be read in conjunction with the historical information of GDI as set out in the accountants report of GDI for the three years ended 31 December 2004 and the four months ended 30 April 2005 and other financial information included elsewhere in this circular.

(B) Unaudited Pro Forma Asset and Liabilities Statement

As at 30 April 2005

	Audited *HK$'000*	**Pro Forma Adjustments** *HK$'000* *(Note 1)*	**Pro Forma Adjustments** *HK$'000* *(Note 2)*	**Proforma GDI Group** *HK$'000*
Non-Current Assets				
Properties, plant and equipment	522	272		794
Deposit paid for acquisition of interest in properties	54,524			54,524
Payment for acquisition of subsidiaries	40,000			40,000
Goodwill	—			—
Interests in associates	575,995			575,995
Receivables-due after one year	—			—
Investment in securities	90,729			90,729
Investments in subsidiaries	—			—
	761,770			762,042
Current Assets				
Other assets	229,287			229,287
Inventories	—			—
Trade debtors	—			—
Receivables due from associates	61,526			61,526
Receivables-due within one year	298,638			298,638
Other receivables, deposit and prepayments	50,152	19,578		69,730
Tax recoverable	—	88		88
Investments in securities	—			—
Receivable due from former fellow subsidiaries	845,958	(79,390)	(766,568)	—
Pledged bank deposits	—			—
Bank balance and cash	157,675	257,913		415,588
	1,643,236			1,074,857
Current Liabilities				
Creditors, other payables and accrued charges	(30,577)	(2,536)		(33,113)
Payables — due within one year	(583)	(195,916)		(196,499)
Payable due to associates	(800)			(800)
Income and other taxes payable	(8,060)			(8,060)
Oligations under finance leases	—	(9)		(9)
Payables due to former fellow subsidiaries	(2,888,796)		2,888,796	—
	(2,928,816)			(238,481)
Net Current (Liability) Assets	(1,285,580)			836,376
Non-Current Liabilities				
Bank loans and other borrowings — due after one year	—			—
Payables — due after one year	—			—
	—			—
	(523,810)			1,598,418
Capital and Reserves				
Capital	10,777			10,777
Reserves	(847,682)		2,122,228	1,274,546
Minority Interests	313,095			313,095
	(523,810)			1,598,418

Notes to unaudited pro forma assets and liabilities statement of the GDI Group

Pursuant to the Group Reorganisation, all subsidiaries of the Company carrying on property development and investment holding business and all associates of the Company carrying on manufacturing and marketing of tires products, business of providing package tour, travel and other related services ("Distributing Business") will be grouped under Group Dragon Investments Limited (hereinafter collectively referred to as "GDI Group") and will be continued to be operated by the existing management of the Company. Group Dragon Investments Limited ("GDI"), a wholly owned subsidiary of the Company, will become the holding company of GDI Group which comprises of companies carrying on Distributing Business, and the issued shares of GDI will be distributed as dividend in specie to the shareholders of the Company, details of which are set out under section "Letter from the Board" of the Circular. The Company will continue to be a public listed company with its subsidiaries concentrating on the business of manufacturing and trading of batteries products and investment in securities (hereinafter collectively referred to as "Remaining Group"). The Group Reorganization will be subject to the approval by the shareholders of the Company in an extraordinary general meeting to be held on 6 October 2005.

The statement has been prepared by the directors of the Company for illustrative purposes only and because of their nature, it may not give a true picture of financial position of the GDI Group following completion of the Group Reorganisation.

(1) These adjustments reflect the transfer of assets of approximately HK$277,851,000 and liabilities of approximately HK$198,461,000 from Remaining Group to GDI Group following completion of the Group Reorganisation.

(2) The adjustment reflects the transfer of intragroup balances between GDI Group and the Remaining Group to be taken place purusant to the Group Reorganisation as set out below:

   (a) the intragroup amount due to member of the Remaining Group by members of the GDI Group will be assigned to GDI; and

(b) the intragroup amount due to members of the GDI Group by members of the Remaining Group will be assigned to the Company.

The effect of such loan agreement will be no intra-group balances between the GDI Group and the Remaining Group upon completion of the Group Reorganisation.

(C) Comfort Letter

Deloitte.
德勤

德勤‧關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

10 September 2005

The Directors
China Strategic Holdings Limited
8/F, Paul Y. Centre
51 Hung To Road
Kwun Tong
Hong Kong

Dear Sirs,

We report on the pro forma assets and liabilities statement of Group Dragon Investments Limited ("GDI") and the companies which will become subsididaries of GDI pursuant to the proposed group reorganization (hereinafter collectively referred to as the "GDI Group") set out in Section 1 of Appendix IV ("Pro Forma Assets and Liabilities Statement") to the circular (the "Circular") dated 10 September 2005 issued by China Strategic Holdings Limited (the "Company") in connection with group reorganization, capital reorganization and change of board lot size of the Company (collectively referred as to the "Group Reorganisation"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purposes only, to provide information about how the Group Reorganisation have affected the assets and liabilities of the GDI Group as if the Group Reorganisation has taken place on 30 April 2005.

Responsibilities

It is the responsibility solely of the Directors to prepare the Pro Forma Assets and Liabilities Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Assets and Liabilities Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Assets and Liabilities Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practice Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Assets and Liabilities Statement with the Directors.

The Pro Forma Assets and Liabilities Statement has been compiled in accordance with the basis that the Group Reorganisation had been completed as at 30 April 2005 for illustrative purposes only and because of its nature, it may not give an indicative financial position of the GDI Group:

(a) at 30 April 2005; or

(b) at any future date.

Opinion

In our opinion:

a. the Pro Forma Assets and Liabilities Statement has been properly compiled on the basis stated;

b. such basis is consistent with the accounting policies of the GDI Group; and

c. the adjustments are appropriate for the purposes of the Pro Forma Assets and Liabilities Statement as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Set out below are the texts of the letter, summary of values and valuation certificate received from Norton Appraisals, an independent property valuer, in connection with its valuation as at 30 June 2005 of the property interest of Group excluding Distributed Business (on pro forma basis).

Norton Appraisals
Registered Professional Surveyors, Valuers & Property Advisers

Room 3830-32, Sun Hung Kai Centre
30 Harbour Road
Wanchai Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

10 September 2005

The Directors
China Strategic Holdings Limited
8th Floor, Paul Y. Centre
No. 51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

We refer to the instructions from China Strategic Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") for us to value the property interests (as more particularly described in the attached Summary of Values) in the People's Republic of China (the "PRC"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 30 June 2005 ("the date of valuation").

Our valuations are our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion."

In the course of our valuations, we have assumed that the owners have valid and enforceable title to the property interests which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the land use terms granted to subject to the payment of land use fees and all requisite land premium/purchase consideration payable have been fully settled.

In valuing the property interests, we have adopted Direct Comparison Approach assuming such property interests are capable of being sold in their existing states on a strata-titled basis with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets.

Our valuations have been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred terms contract, leaseback, management agreement or any similar arrangement which could serve to affect the values of such property interests.

No title search has been made for properties which are located in the PRC. We have relied to a considerable extent on the information provided to us by the Group and the legal opinion of the Group's PRC legal adviser, GFE Law Office (廣東恒益律師事務所), regarding the titles to the property interests.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the Group, and have accepted advice given to us on such matters as easements, tenures, tenancy details, site and floor areas and other relevant matters. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the document provided to us by the Group and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

We have inspected the exterior and, where possible the interior of the properties. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In our valuations, we have complied with all the requirements contained in the Codes on Takeovers and Mergers and Share Repurchases issued by The Securities and Futures Commission and the Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition) published by The Hong Kong Institute of Surveyors ("HKIS").

Unless otherwise stated, all sums stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuations is approximately HK$1 = RMB1.06 which was approximately the prevailing exchange rate as at the date of valuation.

Our summary of values and valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
Norton Appraisals Limited
M. K. Wong
MRICS, MHKIS, RPS (G.P.)
Director

Note: Mr. M. K. Wong is a Registered Professional Surveyor who has more than 12 years' experience in valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

	Property	Capital value as at 30 June 2005 *HK$*	Attributable Interest to the Group in percentage	Capital Value Attributable to the Group as at 30 June 2005 *HK$*
Group I: Property interest held by the Group for future development in the PRC				
1	A development site located at the eastern side of Zhugang Road in the Sancun Industrial District, Doumen District, Zhuhai City, Guangdong Province, the PRC	20,200,000	80%	16,160,000
Group II: Property interest held and occupied by the Group in the PRC				
2	Unit 28 on 9th Floor, Beijing Huapu International Plaza, Chaoyangmenwaidajei, Chaoyang District, Beijing, the PRC	5,750,000	100%	5,750,000
	Total:	**25,950,000**		**21,910,000**

VALUATION CERTIFICATE

Group I: Property interest held by the Group for future development in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2005
1 A development site located at the eastern side of Zhugang Road in the Sancun Industrial District, Doumen District, Zhuhai City, Guangdong Province, the PRC	The property comprises a roughly rectangular-shaped vacant site with an area of approximately 133,716.17 sq.m. (1,439,321 sq.ft.) within the Zhuhai Hanny Industrial Park (the "Development"). The property is planned to be developed into a comprehensive industrial complex with a total gross floor area of approximately 133,700 sq.m.. The land use rights of the property are to be granted for a term of 50 years for industrial use.	The construction works for site formation and provisions of servicing/ utilities of the property are in progress.	$20,200,000 (80% interest attributable to the Group: $16,160,000)

Notes:

1 Pursuant to the Contract for Grant of State-owned Land Use Rights entered into between 珠海三村工業區管理委員會(Zhuhai City Sancun Industrial District Administration Committee) (hereinafter referred to as "Party A") and 珠海超量電池有限公司 (Super Energy Group Limited), a subsidiary of the Company, (hereinafter referred to as "Party B") on 4 January 2004, Party A agreed to grant the land use rights of the property to Party B and the salient conditions are summarized as follows:

i)	Location	:	Sancun Industrial District
ii)	Site area	:	133,716.17 sq.m.
iii)	Use	:	Industrial
iv)	Terms	:	50 years
v)	Plot ratio	:	not exceeding 1.0
vi)	Site coverage	:	not exceeding 35%
vii)	Height restriction	:	not exceeding 24 metres
viii)	Greenery ratio	:	not less than 30%
ix)	Building covenant	:	1st phase to be completed before 30 April 2005 2nd phase to be completed before 30 April 2006
x)	Responsibilities	:	Party A is responsible for the provisions of the ancillary facilities (ie. road, electricity and water) to the Development, whereas the provisions of the public utility and ancillary facilities to the property are responsible by Zhuhai Hanny Property Investment Limited.

VALUATION CERTIFICATE *(Cont'd)*

2 As advised by the Group that the land premium for the property has been fully paid by Talent Cosmos Limited as at the date of valuation.

3 As confirmed by the Group that 80% equity interest of Super Energy Group Limited is currently held by the Group.

4 The capital value when completed of the development is approximately HK$109,000,000. As advised by the Group, the estimated total outstanding construction cost to complete the development was approximately HK$70,000,000 as at the date of our valuation.

5 We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

i) Pursuant to the Contract for Grant of owned Land Use Rights as stated in Note 1 above, Party A should assist Super Energy Group Limited for the application of the Certificate for state-owned Land Use Rights of the property.

ii) The land use rights of the property can be freely transferable by way of transfer, mortgage or letting upon the Certificate for State-owned Land Use Rights has been issued by relevant authority or department in the PRC.

6 We have based on the legal opinion of the Group's PRC legal adviser and prepared our valuation on the following assumptions and basis:

i) Super Energy Group Limited is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

ii) The design and construction of the proposed development are in compliance with local planning regulations and have been approved by the relevant authorities.

iii) The property, whether as a whole or on strata-titled basis, may be disposed of freely to both local and overseas purchasers.

7 As advised by the Group that the potential tax payable by the Group for the disposal of the property as at the date of valuation is estimated to be HK$2,176,325.

VALUATION CERTIFICATE

Group II: Property interest held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2005
2	Unit 28 on 9th Floor, Beijing Huapu International Plaza, Chaoyangmenwaidajei, Chaoyang District, Beijing, the PRC	The property comprises an office unit on the 9th Floor of a 14-storey (plus basement levels) commercial building completed in about 1996. The gross floor area of the property is 338.57 sq.m. (3,644 sq.ft.). The land use right of the building have been granted for a term of 50 years expiring on 20 January 2044.	The property is currently occupied by the Group as office.	$5,750,000 (100% interest attributable to the Group: $5,750,000)

Notes:

1 According to a Deed of Pre-sale entered into between 北京華普國際大廈有限公司(Beijing Huapu International Plaza Co., Ltd.) and 中策集團有限公司(China Strategic Holdings Limited) on 24 January 1996 and an Amendment Agreement dated 28 September 1996, the property was pre-sold to China Strategic Holdings Limited.

2 We have been provided with a legal opinion on the property prepared by the Group's legal adviser, which contains, inter alia, the following information:

i) The Deed of Pre-sale and the Amendment Agreement as stated in Note 1 above are valid and legally binding.

ii) The application for the Building Ownership Certificate of the property is in process and the land use rights of the property can be freely transferable by way of transfer, mortgage or letting upon the Building Ownership Certificate has been issued by relevant authority or department in the PRC.

3 We have based on the legal opinion of the Group's legal advisor and prepared our valuation on the following assumptions:

i) China Strategic Holdings Limited is in possession of proper legal title to the property and is entitled to transfer the property with the residual term at no extra premium or other onerous charges payable to the government;

ii) All consents, approval and licences required for the subject development have been granted by the relevant government and authorities without any onerous conditions or undue delay; and

iii) The property, whether as a whole or on strata-title-basis, may be disposed of freely to both the local and overseas purchasers.

4 As advised by the Group that the potential tax payable by the Group for the disposal of the property as at the date of valuation is estimated to be HK$2,826.

Set out below are the texts of the letters, summary of value and valuation certificate received from Norton Appraisals, an independent property valuer, in connection with their valuations as at 30 June 2005 of the property interests of the Distributed Business (on pro forma basis).

Norton Appraisals
Registered Professional Surveyors, Valuers & Property Advisers

Room 3830-32, Sun Hung Kai Centre
30 Harbour Road
Wanchai Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

10 September 2005

The Directors
China Strategic Holdings Limited
8th Floor, Paul Y. Centre
No. 51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

We refer to the instructions from China Strategic Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") for us to value the property interests (as more particularly described in the attached Summary of Values) to be held by Group Dragon Investments Limited and its subsidiaries (hereinafter together referred to as the "GDI Group") upon completion of the Group Reorganisation. We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 30 June 2005 ("the date of valuation").

Our valuations are our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion."

In the course of our valuations, we have assumed that the owners have valid and enforceable title to the property interests which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the land use terms granted to subject to the payment of land use fees and all requisite land premium/purchase consideration payable have been fully settled.

In valuing the property interests, we have adopted Direct Comparison Approach assuming such property interests are capable of being sold in their existing states on a strata-titled basis with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. In valuing the property interest in Group II, the "capital value when completed" represents our opinion of the aggregate selling prices of the development assuming that it would have been completed at the date of valuation.

Our valuations have been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred terms contract, leaseback, management agreement or any similar arrangement which could serve to affect the values of such property interests.

No title search has been made for properties which are located in the People's Republic of China (the "PRC"). We have relied to a considerable extent on the information provided to us by the Group and the legal opinion of the Group's PRC legal advisers, GFE Law Office (廣東恆益律師事務所)and Shanghai JoinWay Law Firm (上海中匯律師事務所), regarding the title to the property interests in Groups I and II respectively.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the Group, and have accepted advice given to us on such matters as easements, tenures, tenancy details, site and floor areas and other relevant matters. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the document provided to us by the Group and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

We have inspected the exterior and, where possible the interior of the properties. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In our valuations, we have complied with all the requirements contained in the Codes on Takeovers and Mergers and Share Repurchases issued by The Securities and Futures Commission and the Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition) published by The Hong Kong Institute of Surveyors ("HKIS").

Unless otherwise stated, all sums stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuations is approximately HK$1 = RMB1.06 which was approximately the prevailing exchange rate as at the date of valuation.

Our summary of values and valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
Norton Appraisals Limited
M. K. Wong
MRICS, MHKIS, RPS (G.P.)
Director

Note: Mr. M. K. Wong is a Registered Professional Surveyor who has more than 12 years' experience in valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

	Property	Capital value as at 30 June 2005	Attributable Interest to the Group in percentage	Capital Value Attributable to the Group as at 30 June 2005
		HK$		*HK$*
Group I: Property interest held by the Group for future development in the PRC				
1	A development site located at the junction of Zhugang Road and Huangyang Road in the Longshan Industrial District, Doumen District, Zhuhai City, Guangdong Province, the PRC	417,000,000	100%	417,000,000
Group II: Property interest contracted to be acquired by the Group in the PRC				
2	The proposed building located at Nos. 219 and 229 Jiangning Road, Jingan District, Shanghai, the PRC	591,000,000	55.22%	326,350,200
	Total:	**1,008,000,000**		**743,350,200**

VALUATION CERTIFICATE

Group I: Property interest held by the Group for future development in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2005
1 A development site located at the junction of Zhugang Road and Huangyang Road in the Longshan Industrial District, Doumen District, Zhuhai City, Guangdong Province, the PRC	The property, known as Longshan China Strategic Industrial Park, comprises a roughly triangular-shaped vacant site with an area of approximately 7,000,000 sq.m. (75,348,000 sq.ft.). As advised by the Group, no development plan for the property is designated. The land use rights of the property are assumed to have been granted for a term of 50 years for industrial use.	The preparation works for site formation and provisions of servicing/ utilities for phases 1 and 2 of Stage 1 of the property are in progress and are scheduled to be completed by end 2005 whilst the remaining portions are vacant.	$417,000,000 (100% interest attributable to the Group: $417,000,000)

Notes:

1 Pursuant to the Co-operation Agreement entered into between 珠海市龍山工業區管理委員會(Zhuhai City Longshan Industrial District Administration Committee) (hereinafter referred to as "Party A") and Talent Shop Investment Limited, a wholly-owned subsidiary of the Company, (hereinafter referred to as "Party B") on 28 January 2003, both parties agreed to develop the property, the salient conditions are summarized as follows:

i)	Location	:	Longshan Industrial District		
ii)	Site area	:	7,000,000 sq.m.		
iii)	Use	:	Industrial		
iv)	Terms	:	50 years		
v)	Phasing	:	1st Stage	:	3 phases (each phase 1,000,000 sq.m.)
			2nd Stage	:	To be confirmed
vi)	Building covenant	:	the development should be completed within 5 years		
vii)	Responsibilities	:	Party A	:	responsible for the provisions of the ancillary facilities to the subject site
			Party B	:	responsible for the provisions of the site formation and basic facilities within the subject site and marketing
viii)	Profit sharing	:	1st Stage (3 phases)	:	Party B (100%)
			2nd Stage	:	Party A (20%) Party B (80%)

VALUATION CERTIFICATE *(Cont'd)*

2 As confirmed by the Group, the total land premium of the property is approximately RMB136,500,000 of which RMB39,000,000 for phases 1 and 2 have been paid as at the date of valuation. As instructed, we have valued the property on the basis that all the land premium and the profit (as stated in note 1 (viii) above) payable to Party A have been fully settled as at the date of valuation.

3 We have been provided with a legal opinion on the property prepared by the Group's legal adviser, which contains, inter alia, the following information:

i) The said agreement as stated in the Note 1 above is valid and legally binding.

ii) For obtaining the Certificate for State-owned Land Use Rights of the property, Talent Shop Investment Limited should make application and pay the outstanding land premium and other related costs, if any, to the authority/government.

iii) Pursuant to the agreement as stated in Note 1 and subject to the fulfillment of Note 3 ii) above, the land use rights of the property can be freely transferable by way of transfer, mortgage or letting.

4 We have based on the legal opinion of the Group's legal adviser and prepared our valuation on the following assumptions and basis:

i) Talent Shop Investment Limited is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

ii) The property, whether as a whole or on strata-titled basis, may be disposed of freely to both local and overseas purchasers.

5 As advised by the Group, the potential tax payable by the Group for the disposal of the property as at the date of valuation is estimated to be HK$80,166,298.

VALUATION CERTIFICATE

Group II: Property interest contracted to be acquired by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value when completed as at 30 June 2005
2 The proposed building located at Nos. 219 and 229 Jiangning Road, Jingan District, Shanghai, the PRC	The property comprises a proposed 24-storey commercial building (the "Proposed Building") of the development known as "香樟花園" erected upon a piece of land with a site area of approximately 5,493.50 sq.m. (59,132 sq.ft.). As provided by the Company, the Proposed Building is designated for serviced apartment use and has a total gross floor area of approximately 37,060.43 sq.m. (398,919 sq.ft.) and the area breakdown is listed as follows:	The property is under construction and is scheduled to be completed by the end of 2005.	$591,000,000 (55.22% interest attributable to the Group: $326,350,200) *(see Note 6 below)*

Level	Use	Gross Floor Area *(sq.m.)*
B1 & B2	150 Car parks and plant room	6,380.34
L1 — L3	Commercial	5,608.22
L4	Club house and ancillary facilities	2,228.27
L5 — L24	Serviced apartment	22,843.60
	Total:	**37,060.43**

Notes:

1 Pursuant to the Certificate for Real Estate Ownership No. 滬房地靜字(2004)第004245號 dated 21 May 2004 issued by Shanghai Housing and Land Resources Administration Bureau, the title of the property is vested in 上海久盛投資有限公司 (hereinafter referred to as "Shanghai Jiusheng") and the salient conditions are listed as follows:

i) Location : Nos. 219 and 229 Jiangning Road

ii) Site area : 5,493.50 sq.m.

VALUATION CERTIFICATE *(Cont'd)*

iii) Use : Office

iv) Land Use Terms : Unspecified

v) Remarks : The total gross floor area of the Proposed Building is 37,060.43 sq.m.

2 Pursuant to the Sales and Purchase Contract entered into between Shanghai Jiusheng and Manwide Holdings Ltd. on 16 June 2004, Shanghai Jiusheng agreed to sell and Manwide Holdings Limited agreed to purchase the interest of the property with the provision that Shanghai Jiusheng is responsible to apply for the change of existing use of the property into residential/commercial uses within 150 days from the signing of the contract and all costs incurred for the said application are borne by Shanghai Jiusheng. Further, Shanghai Jiusheng agreed that all the rights and responsibilities of Manwide Holdings Limited as stated in the said contract will be transferred to the Rosedale Luxury Hotel & Suites Limited (hereinafter referred to as "Rosedale Luxury"), a wholly owned subsidiary of Manwide Holdings Ltd., upon the establishment of Rosedale Luxury.

3 As confirmed by the Group that 55.22% equity interest of Manwide Holdings Ltd. is currently held by the Group.

4 Pursuant to the Certificate of Construction Permit No. 952EL002D01 dated 14 April 2004 issued by the Jingan District, Shanghai Construction Committee, the construction works of the development is approved to be commenced.

5 Pursuant to the area calculation issued by Jingan District Land Survey Office in 1997, the total gross floor area of the Proposed Building is 37,060.43 sq.m..

6 As instructed, we have valued the property on its completion basis and have assumed that the property has been granted for commercial/residential uses and all the land premium, if any, for such change of use has been fully settled as at the date of valuation.

7 We have been provided with a legal opinion on the property prepared by the Group's legal adviser, which contains, inter alia, the following information:

i) Shanghai Jiusheng is duly established and is validly existing under the PRC law.

ii) Shanghai Jiusheng legally owns the land use rights of the property with a site area of 5,493.50 sq.m. and a gross floor area of 37,060.43 sq.m. for office use. The origin of the land use rights of the property is transfer. According to the relevant PRC law, the land use term for office use is 50 years.

iii) Shanghai Jiusheng has obtained the relevant approval for the land use, planning, construction and selling of the property.

iv) Shanghai Jiusheng has the right to transfer and mortgage the property and would pay the supplemental land premium for the change of land use from office to commercial/residential uses, if any.

v) The property is subject to two mortgages in favour of China Construction Bank Beijing Chaoyang Branch and China Mensheng Bank Stock Company Limited respectively.

8 Pursuant to the supplementary legal opinion prepared by the Group's legal adviser, which contains, inter alia, the following information;

i) Shanghai Jiusheng is currently under litigation in connection to the following parties:

a) 浙江舜杰建築集團股份有限公司 - as the preferential creditor for the construction fees,

b) China Construction Bank Beijing Chaoyang Branch - as the secondary creditor for the loan amount of RMB170,000,000 plus the interest incurred,

c) China Mensheng Bank Stock Company Limited - as the third creditor for the loan amount of RMB203,600,000 plus the interest incurred,

d) China Construction Bank Jinshan Shihua Branch - as the fourth creditor for the loan amount of RMB40,000,000 plus the interest incurred and

e) Rosedale Luxury - as the fifth creditor.

ii) Upon the final decision of the Peoples' Court for the execution of the Sales and Purchase Contract by Shanghai Jiusheng, Rosedale Luxury is entitled to obtain the title of the property after the settlement of the debt amounts to the preferential creditor, secondary creditor, third creditor and fourth creditor in lieu of Shanghai Jiusheng.

9 We have based on the legal opinion of the Group's legal adviser and prepared our valuation on the following assumptions and basis:

i) Subject to the completion of the Sales and Purchase Contract as stated in note 2 above, Rosedale Luxury Ltd. is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

ii) The design and construction of the proposed building are in compliance with local planning regulations and have been approved by the relevant authorities.

iii) The property, whether as a whole or on strata-titled basis, may be disposed of freely to both local and overseas purchasers.

10 As advised by the Group, the potential tax payable by the Group for the disposal of the property as at the date of valuation is estimated to be HK$29,368,342.

Set out below is a summary of certain provisions of the new Articles of Association (the "Articles") of GDI (referred to as the "Company" for the purpose of the summary below) to be adopted immediately before completion of the Group Reorganisation.

(a) Directors of the Company ("Director(s)")

(i) Power to allot and issue shares and warrants

Subject to the provisions of the International Business Act 1984 of the British Virgin Islands (the "IBC Act") and the Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the IBC Act, the memorandum of association of the Company and the Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the IBC Act and the Articles and any direction that may be given by the Company in general meeting and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries save as to requirements for approval of members in certain circumstances disclosed in paragraph (r) below. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the IBC Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditors of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the IBC Act and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract, transaction, arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract, transactions, arrangement or proposal for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract, transaction, arrangement or proposal for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract, transaction, arrangement or proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract, transaction, arrangement or proposal in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(ee) any contract, transaction, arrangement or proposal concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates is beneficially interested in five (5) percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Directors, provided that the same shall be consistent with the level of remuneration paid to the directors of China Strategic Holdings Limited as described in its annual reports published prior to the date of adoption of the Articles or as may otherwise have been approved by the Minority Shareholders as provided below, and shall be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. Any material variation of such remuneration shall be subject to the approval of the Minority Shareholders (as defined in the Articles) in general meeting.

The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the board whereupon the board resolves to accept such resignation;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law; and

(ff) if he ceases to be a Director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the IBC Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The IBC Act and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the British Virgin Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association of the Company (save as described in (c) below), to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution amend its memorandum of association to alter the conditions of its memorandum of association to:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the Directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association of the Company, subject nevertheless to the provisions of the IBC Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the IBC Act reduce its share capital or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the IBC Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by a representative duly authorised shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting) or a period of 18 months from the date of incorporation unless otherwise resolved by the members at a general meeting at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the IBC Act and in accordance with the generally accepted accounting principles and practices in Hong Kong or as may be necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including the notes thereto and every document required by law to be annexed thereto), prepared in accordance with the generally accepted accounting principles in Hong Kong, which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall be sent to every person entitled thereto within the time prescribed under the Listing Rules (as defined in the Articles); however, subject to compliance with all applicable laws, the Company may instead send to such persons a summary financial statement derived from the Company's annual accounts and the Directors' report provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statements and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards applicable in Hong Kong and the report of the auditors shall be sent to the members within the time prescribed under the Listing Rules (as defined in the Articles).

There are no provisions relating to preparation of interim financial reports.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the Directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the Directors and of the auditors.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the British Virgin Islands or such other place at which the principal register is kept in accordance with the IBC Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register a transfer of any share to more than four joint holders or any transfer of any share issued for a promissory note or other binding obligation to contribute money or property or a contribution thereof to the Company on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share, the instrument of transfer is lodged at the relevant registration office or registered office or such other place at which the principal or (as the case may be) branch register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do) or, if applicable, the instrument of transfer is duly and properly stamped.

The registration of transfers may be suspended and the register closed on giving notice by advertisement in the appointed newspaper or by other means as set out in the Articles, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

Subject to the IBC Act, the memorandum of association of the Company and the Articles, the Company shall have all the powers conferred upon it by the IBC Act to purchase or otherwise acquire its own shares and such power shall be exercisable by the board in such manner, upon such terms and subject to such conditions as it thinks fit, including but not limited to, the purchase of shares at a price lesser than fair value.

Shares that the Company purchases, redeems or otherwise acquires pursuant to the Articles may be cancelled or held as treasury shares unless the shares are purchased, redeemed or otherwise acquired by virtue of a reduction in capital in a manner that would be a contravention of the requirements of section 35(3) of the IBC Act, in which case they shall be cancelled but they shall be available for reissue. Upon the cancellation of a Share, the amount included as capital of the Company with respect to that Share shall be deducted from the capital of the Company.

Where Shares are held by the Company as treasury shares or are held by another company of which the Company holds, directly or indirectly, Shares having more than fifty (50) percent of the votes in the election of directors of the other company, such Shares are not entitled to vote or to have dividends paid thereon and shall not be treated as outstanding for any purpose except for purposes of determining the capital of the Company.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the IBC Act, for so long as the Company has profits, the Directors may declare and pay to all members on a pro rata basis in respect of each financial year a dividend after making such provisions for the general working capital requirement of the Company as the board may, subject to review by the auditors, determine.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Whenever the board has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Forfeiture of shares

When shares issued for a promissory note or other written obligation for payment of a debt have been issued subject to forfeiture, the following provisions shall apply.

Written notice specifying a date for payment to be made and the shares in respect of which payment is to be made shall be served on the member who defaults in making payment pursuant to a promissory note or other written obligation to pay a debt.

The written notice specifying a date for payment shall:

(a) name a further date not earlier than the expiration of 14 days from the date of service of the notice on or before which payment required by the notice is to be made; and

(b) contain a statement that in the event of non-payment at or before the time named in the notice the shares, or any of them, in respect of which payment is not made will be liable to be forfeited.

Where a written notice has been issued and the requirements have not been complied with within the prescribed time, the Directors may at any time before tender of payment forfeit and cancel the shares to which the notice relates.

The Company is under no obligation to refund any monies to the member whose shares have been forfeited and cancelled. Upon forfeiture and cancellation of the shares, the member is discharged from any further obligation to the Company with respect to the shares forfeited and cancelled.

When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidate by any omission or neglect to give such notice.

The board may accept the surrender of any share liable to be forfeited and, in such case, references in the Articles to forfeiture will include surrender.

A declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration shall (subject to the execution of an instrument of transfer by the Company if necessary) constitute a good title to the share, and the person to whom the share is disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the share. When any share shall have been forfeited, notice of the declaration shall be given to the member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.

Notwithstanding any such forfeiture as aforesaid, the board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as it thinks fit.

(p) Inspection of share register

Pursuant to the Articles, the register and branch share register shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the IBC Act or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Reserved matters

Notwithstanding any provision contained in the Articles, the following transactions shall require the approval of a simple majority of votes cast by the Minority Shareholders (as defined in the Articles) who will be independently advised by financial advisers as, being entitled so to do, vote in person or, in the case of any member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen (14) clear days' notice has been duly given:

(a) any acquisition or disposal of assets with an aggregate value or attributable turnover or net profit before taxation of more than 75% of total assets, total turnover or net profit before taxation of the Company and its subsidiaries as shown in the latest audited consolidated balance sheet or (as the case may be) the latest audited profit and loss statement of the Company, in any financial year or until such accounts are available, the unaudited pro forma statement of assets and liabilities or (as the case may be) the unaudited pro forma income statement of the Company and its subsidiaries as contained in this circular, calculations to be made in such a manner or with such adjustments as required under the Listing Rules;

(b) any connected transaction/of the Company falling within the definition of the Listing Rules (as defined in the Articles) as if the Company were a listed issuer other than the connected transactions which do not require independent/shareholders' approval under the Listing Rules (as defined in the Articles);

(c) any issue or allotment of shares or securities of the Company save with respect to an offer of shares in the capital of the Company or an offer or issue of warrants or options or similar instruments to subscribe for shares in the capital of the Company open for a period fixed by the Directors to members whose names appear on the Company's register of members on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations in any territory outside Hong Kong applicable to the Company and made in furtherance of the objectives of the Company) or otherwise as may be approved by shareholders in general meeting;

(d) the borrowing or raising or securing of the payment of money unless it is for the furtherance of the objectives of the Company; and

(e) the making of any investment that is outside the scope of the objectives of the Company.

Notwithstanding any provision contained in the Articles, the following transactions shall require the approval by ordinary resolution of shareholders of the Company in general meeting:-

(a) any acquisition or disposal of assets with an aggregate value or with attributable total turnover or net profit before taxation of more than 25% of the latest published total assets, total turnover or net profit before taxation of the GDI Group (or before any publication of results, as shown in the pro forma financial statements set out in this Circular); and

(b) the granting of general authority to Directors for any issue of shares or other securities of the Company (which are convertible into or have rights attached for the subscription of shares of the Company) once every financial year of the Company, provided that such general authority may not allow the number of shares which fall to be issued by the Company under such proposal (including, in the case of securities, the number of shares which fall to be issued at the initial conversion or subscription price) to exceed 20% of the number of shares of the Company then in issue.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the IBC Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has given notice to, and caused advertisement in the appointed newspaper to be made of its intention to sell such shares and a period of three (3) months, has elapsed since such advertisement. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

RESPONSIBILITY STATEMENT

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

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

The information in this circular relating to the Offeror and Hanny Group (including Well Orient), Paul Y and ITC have been extracted or summarised from the Announcement and their respective annual reports. The Directors have made all reasonable enquiries and jointly and severally accept responsibility for the correctness and fairness of its reproduction or presentation and the accuracy of extracts or summaries of such information.

DISCLOSURE OF INTERESTS

I. Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in the ordinary Shares

Name of Directors	Long position/ Short position	Capacity	Nature of interest	Number of Shares	Approximate percentage of shareholding
Dr. Chan Kwok Keung, Charles *(Note)*	Long position	Interest held by controlled corporation	Corporate interest	258,819,795	29.36%

Note: Dr. Chan Kwok Keung, Charles owns the entire interest of Chinaview International Limited ("Chinaview") which in turn owns the entire interest in Galaxyway Investments Limited ("Galaxyway"). Galaxyway owns more than one-third of the entire issued ordinary share capital of ITC. ITC owns the entire interest of ITC Investment Holdings Limited ("ITC Investment"). ITC Investment owns the entire interest in Hollyfield Group Limited ("Hollyfield"). Hollyfield owns more than one-third of the entire issued share capital of Paul Y. Paul Y owns the entire interest of Paul Y. — ITC Investments Group Limited ("PYITCIG"). PYITCIG owns the entire interest of Great Decision Limited ("GDL") which in turn owns the entire interest in Calisan Developments Limited ("Calisan"). Accordingly, GDL, PYITCIG, Paul Y, Hollyfield, ITC Investment, ITC, Galaxyway, Chinaview and Dr. Chan Kwok Keung, Charles are deemed to be interested 258,819,795 Shares which are held by Calisan.

(b) Interests in associated corporation

Name of Directors	Name of associated corporation	Long position/ Short position	Capacity	Nature of interest	Number of Shares	Approximate percentage of shareholding
Dr. Chan Kwok Keung, Charles	Wing On Travel (Holdings) Limited	Long position	Beneficial owner	Personal interest	172,800	0.039%

II. Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:—

(a) Interests in the Shares

Name	Long position/ Short position	Capacity	*Notes*	Nature of interest	Number of Shares	Approximate percentage of shareholding
Calisan	Long position	Beneficial owner	*1*	Personal interest	258,819,795	29.36%
GDL	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
PYITCIG	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
Paul Y	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
Hollyfield	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
ITC Investment	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
ITC	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%

Name	Long position/ Short position	Capacity	*Notes*	Nature of interest	Number of Shares	Approximate percentage of shareholding
Galaxyway	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
Chinaview	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
Dr. Chan Kwok Keung, Charles	Long position	Interest held by controlled corporation	*1*	Corporate interest	258,819,795	29.36%
Ms. Ng Yuen Lan, Macy	Long position	Interest held by family	*2*	Family interest	258,819,795	29.36%
Well Orient	Long position	Beneficial Owner	*3*	Personal interest	258,819,794	29.36%
Powervote Technology Limited	Long position	Interest held by controlled corporation	*3*	Corporate interest	258,819,794	29.36%
Hanny Magnetics (B.V.I.) Limited	Long position	Interest held by controlled corporation	*3*	Corporate interest	258,819,794	29.36%
Hanny	Long position	Interest held by controlled corporation	*3*	Corporate interest	258,819,794	29.36%
Kingston Finance Limited	Long position	Beneficial Owner	*4*	Personal interest	123,819,794	14.04%
Ms. Chu Yuet Wah	Long position	Interest held by controlled corporation	*4*	Corporate interest	123,819,794	14.04%
Ms. Ma Siu Fong	Long position	Interest held by controlled corporation	*4*	Corporate interest	123,819,794	14.04%
The Offeror	Long position	Beneficial Owner	*5*	Personal interest	270,000,000	30.63%
Mr. Gao Yang	Long position	Interest held by controlled corporation	*5*	Corporate interest	270,000,000	30.63%

Notes:

1. Dr. Chan Kwok Keung, Charles owns the entire interest of Chinaview which in turn owns the entire interest in Galaxyway. Galaxyway owns more than one-third of the entire issued ordinary share capital of ITC. ITC owns the entire interest of ITC Investment. ITC Investment owns the entire interest in Hollyfield. Hollyfield owns more than one-third of the entire issued share capital of Paul Y. Paul Y owns the entire interest of PYITCIG. PYITCIG owns the entire interest of GDL which in turn owns the entire interest in Calisan. Accordingly, GDL, PYITCIG, Paul Y., Hollyfield, ITC Investment, ITC, Galaxyway, Chinaview and Dr. Chan are deemed to be interested 258,819,795 Shares which are held by Calisan.

2. Ms. Ng Yuen Lan, Macy is the spouse of Dr. Chan Kwok Keung, Charles and deemed to be interested in 258,819,795 Shares held by Calisan.

3. Well Orient is wholly-owned by Powervote Technology Limited ("PTL") which is in turn owned by Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics"). Hanny Magnetic is wholly-owned by Hanny. PTL, Hanny Magnetics and Hanny were deemed to be interested in 258,819,794 Shares which were held by Well Orient.

4. Ms. Chu Yuet Wah ("Ms. Chu") and Ms. Ma Siu Fong ("Ms. Ma") are deemed to be interested in 123,819,794 Shares through the interest in Kingston Finance Limited which is a company beneficially owned by Ms. Chu and Ms. Ma.

5. The 270,000,000 Shares represent the Shares agreed to be sold to the Offeror pursuant to the Share Sale Agreement. Mr. Gao Yang is beneficially interested in the entire issued share capital of the Offeror. Accordingly, he is deemed to be interested in the Shares agreed to be acquired by the Offeror under the SFO.

(b) Substantial Shareholders of other members of the Group

So far as is known to the Directors or chief executive of the Company, the following person(s) is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the other members of the Group as at the Latest Practicable Date:—

Name of subsidiary	**Name of shareholder**	**Percentage of shareholding (No. of shares)**	
		The Group	**Other shareholder(s)**
China Telecom International Limited	China Telecom Investment Corporation	51% 510 shares	49% 490 shares
Earnfull Industrial Limited	Wang Ming Jan	90% 9,000,000 shares	10% 1,000,000 shares

Name of subsidiary	Name of shareholder	Percentage of shareholding (No. of shares) The Group	Other shareholder(s)
Orion (B.V.I.) Tire Corporation	Coronada Holding Limited	60% 60 shares	40% 40 shares
Orion Tire Corporation	Coronada Holding Limited	60% 60 shares	40% 40 shares
Principal Diamond Limited	Wonder Wealth Limited	80% 8 shares	20% 2 shares
Ruby Uniforms Limited	Frederick Poon Chuan Ki	90% 900 shares	10% 100 shares
Talent Cosmos Limited		80%	20%
	Cheung Kwok Keung, So So	10,400 shares	246 shares
	Chung Tat Yan		163 shares
	Wong Leung Ngai		328 shares
	Happy Trade Ltd.		1,534 shares
	Wong Kwok Chu		129 shares
	Power Guard Holdings Limited		200 shares
Dongguen Shi Jiang Hai Trading Company		88%	
	黃麗萍		8%
	朗晨		4%
		(Note 1)	*(Note 1)*

Note 1: The percentage is based on their respective capital contribution of RMB500,000.

Save as disclosed above, the Directors or chief executive of the Company are not aware that there is any other persons who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meeting of any other members of the Group or had any options in respect of such shares.

III. Directors' interests in competing business

The interests of Directors in competing businesses as at the Latest Practicable Date required to be disclosed pursuant to rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Name of competing business	Nature of interest
Dr. Chan Kwok Keung, Charles	Paul Y and its subsidiaries	Property investment in the PRC	As substantial shareholder and non-executive director of Paul Y
	Hanny and its subsidiaries	Property development and investment in the PRC	As substantial shareholder, chairman and executive director of Hanny
Dr. Yap, Allan	Hanny and its subsidiaries	Property development and investment in the PRC	As managing director of Hanny
	Wing On Travel (Holdings) Limited ("Wing On") and its subsidiaries	Property investment in the PRC	As executive director of Wing On
Ms. Chau Mei Wah, Rosanna	Paul Y and its subsidiaries	Property investment in the PRC	As executive director of Paul Y
Ms. Chan Ling, Eva	Wing On and its subsidiaries	Property investment in the PRC	As director of subsidiaries of Wing On
Mr. Chan Kwok Hung	Hanny and its subsidiaries	Property development and investment in the PRC	As executive director of Hanny
Mr. Lui Siu Tsuen, Richard	Hanny and its subsidiaries	Property development and investment in the PRC	As deputy managing director of Hanny
	Wing On and its subsidiaries	Property investment in the PRC	As executive director of Wing On

SERVICE CONTRACT

None of the Directors has any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

CONSENTS AND QUALIFICATION

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
Dao Heng Securities	a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities
Hercules	a licensed corporation under the SFO permitted to carry out type 6 of the regulated activities for the purposes of the SFO
Norton Appraisals	independent property valuer
Deloitte Touche Tohmatsu	certified public accountant
廣東恆益律師事務所 (GFE Law Office) ("GFE")	PRC lawyers
上海中滙律師事務所 (Shanghai JoinWay Law Firm) ("SJW")	PRC lawyers

Dao Heng Securities, Hercules, Norton Appraisals, Deloitte Touche Tohmatsu, GFE and SJW have given and have not withdrawn their respective written consents to the issue of this document with the inclusion herein of copies of their respective letters, reports and/or references to their names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Dao Heng Securities, Hercules, Norton Appraisals, Deloitte Touche Tohmatsu, GFE and SJW was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company (i.e. the annual report of the Company for the year ended 31 December 2004) were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

LITIGATIONS AND CLAIMS

Other than the legal proceedings commenced by the GDI Group against a third party in June 2005 in relation to certain property interests of the GDI Group, the details of which are set out under the paragraph "14. Deposits paid for acquisition of interest in properties" in the Notes to the Financial Information contained in Appendix III to this circular, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by members of the Group within the two years immediately preceding the date of this circular which are, or may be, material:

(a) an agreement dated 10 June 2003 entered into between Million Good Limited ("Million Good") and Wing On in respect of the provision of loan facility for the amount of HK$25,000,000 by Million Good for working capital of Wing On. The loan was unsecured, bore interest at Hong Kong Dollars prime rate and was repayable within two years from the date of this agreement. A supplemental agreement dated 21 October 2003 entered into between Million Good and Wing On in respect of the change of the amount of the loan to HK$100,000,000;

(b) an agreement dated 30 September 2003 entered into between Vision Leader Limited, a wholly-owned subsidiary of the Company, and an independent third party in relation to the sale and purchase of the entire issued share capital of Zhuhai Zhongce Property Investment Limited (formerly known as Talent Shop Investment Limited) for the consideration of HK$190,000,000. Completion of the transaction took place in October 2003;

(c) an agreement dated 16 December 2003 and a supplemental agreement dated 2 January 2004 entered into between Future Returns Limited ("Future Returns") and Apex Quality Group Limited ("Apex Quality") in respect of the loan facility for the amount of HK$76,215,406.33. The loan was unsecured, bore interest at 2% over and above Hong Kong Dollars prime rate per annum and was repayable on 2 January 2006;

(d) an agreement dated 16 December 2003 and supplemental agreement dated 2 January 2004 entered into between Future Returns and Apex Quality in respect of the loan facility for the amount of RMB5,544,065.68. The loan was unsecured, bore interest rate of 6% per annum and was repayable on 2 January 2006;

(e) a conditional agreement dated 13 January 2004 entered into between CEL and Wing On, in respect of the subscription of convertible note in the amount of HK$155,000,000 attaching with conversion rights to convert the note into shares of Wing On at an initial conversion price of HK$0.02 per share by CEL. Completion of the transaction took place in May 2004;

(f) a subscription agreement dated 2 February 2004 entered into among Grotto Profits Limited ("Grotto Profits"), a wholly-owned subsidiary of the Company, SIIS Treasury Limited and Softbank Investment International (Strategic) Limited ("Softbank") in respect of the subscription of the 5% convertible guarantee note in the amount of HK$3,000,000 attaching with conversion rights to convert the note into shares of Softbank at an initial conversion price of HK$0.10 per share by Grotto Profits. Completion of the transaction took place in February 2004;

(g) on 18 March 2004, the Company entered into a sale and purchase agreement in respect of the disposal of 12.88% interests in the share capital of Apex Quality at a consideration of HK$10,722,600. On 5 August 2004, the Company entered into a supplemental agreement to extend the completion date of transaction. The disposal was completed in September 2004;

(h) a sale and purchase agreement dated 19 March 2004 entered into between the Company and Cheung Tai Hong (BVI) Limited in relation to the disposal of the entire issued shares capital of Tung Fong Hung Investment Limited by the Company for a consideration of HK$42,000,000. Completion of the transaction took place in May 2004;

(i) a sale and purchase agreement dated 30 March 2004 entered into among Deep Growth Investments Limited ("Deep Growth"), a wholly-owned subsidiary of the Company, Cheung Kwok Keung, So So, Chung Tat Yan, Wong Leung Ngai, Happy Trade Ltd, Wong Kwok Chu and Power Guard Holdings Limited in relation to the acquisition of 80% issued share capital of and shareholder's loan to Talent Cosmos Limited by Deep Growth for a consideration of HK$30,000,000. The transaction has been completed;

(j) an agreement dated 30 March 2004 entered into among Group Dragon Limited ("Group Dragon"), a wholly-owned subsidiary of the Company, and independent third parties relating to the acquisition of the entire issued share capital of Asso Limited by Group Dragon for a consideration RMB219,000,000, subject to the condition of due diligence results being satisfactory and acceptable to Group Dragon. The condition was not fulfilled on or before the agreed long stop date, i.e. 31 July 2004, and the agreement was therefore lapsed;

(k) the sale and purchase agreement dated 16 June 2004 entered into between Manwide Holdings Limited and Shangai Jiu Sheng Investment Company Limited in respect of the acquisition of the interest in the land situated at Nos. 219 and 229, Jiang Ning Road, Jing An District, Shanghai, the PRC and the building being erected thereon which comprises two levels of underground carparks and a 24-storey building for a consideration of RMB450 million;

(l) an agreement dated 4 October 2004 entered into between Widecheer Limited, a wholly-owned subsidiary of the Company, and 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, for a consideration of approximately RMB27,300,000;

(m) an agreement dated 6 October 2004 entered into between Shine Brilliant Limited, a wholly-owned subsidiary of the Company, and 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), company incorporated in the PRC, for a consideration of approximately RMB25,700,000;

(n) two placing and subscription agreements dated 30 November 2004 entered into among CEL, Wing On and placing agent in relation to the placing of 6,000 million shares of Wing On by placing agent on behalf of CEL at the price of HK$0.028 per share and the subscription of 6,000 million new shares of Wing On at HK$0.028 per share. The placing and subscription were completed in January 2005; and

(o) a placing and subscription agreement dated 4 February 2005 entered into among CEL, Wing On and placing agent in relation to the placing of 6,400 million shares of Wing On at the price of HK$0.022 and the subscription of 6,400 million new shares of Wing On at HK$0.022 per share. The placing and subscription were completed in February 2005.

MISCELLANEOUS

(a) The secretary of the Company is Ms. Chan Yan Yan, Jenny, who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

(b) The qualified accountant of the Company is Ms. Cheung Sze Man, who is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

(c) The registered office of the Company is situated at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(d) The Company's share registrar is Standard Registrars at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(e) The executive Directors include 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) and Mr. Lui Siu Tsuen, Richard (alternate to Dr. Yap, Allan). The independent non-executive Directors include Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai.

(f) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office of the Company, at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong during normal business hours on any weekday (public holidays excepted) until and including 26 September 2005:

(a) the memorandum of association and articles of association of the Company;

(b) the existing memorandum and the articles of association of GDI and the new articles of association of GDI;

(c) the annual reports of the Company for each of the three financial years ended 31 December 2004;

(d) the letter from the Independent Board Committee to the Independent Shareholders dated 10 September 2005, the text of which set out on page 53 to this circular;

(e) the letter of advice from Hercules to the Independent Board Committee and the Independent Shareholders dated 10 September 2005, the text of which set out on pages 54 to 101 to this circular;

(f) the written consents referred to in the section headed "Consents and qualification'' in this appendix;

(g) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(h) the comfort letters from Deloitte Touche Tohmatsu as contained in Appendix II and IV to this circular;

(i) the comfort letter from Dao Heng Securities as contained in Appendix II to this circular;

(j) the accountants' report on the GDI Group as contained in Appendix III to this circular; and

(k) the letters, summary of valuations and valuation certificates from Norton Appraisals, the texts of which are set out in Appendix V and VI to this circular.

CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司

(Incorporated in Hong Kong with limited liability)

Stock code: 235

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Strategic Holdings Limited (the **"Company"**) will be held at 11:00 a.m. on Thursday, 6 October 2005 at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modification, each of the following resolutions as a special resolutions of the Company:

SPECIAL RESOLUTIONS

1. "**THAT** conditional upon:—

(A) the sanction of the Capital Reduction (as defined hereinafter) and the Reduction of Share Premium Account (as defined hereinafter) by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (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 (Chapter 32 of the Laws of Hong Kong); and

(B) the granting of the listing of, and permission to deal in, the Consolidated Shares (as defined hereinafter) by the Listing Committee of The Stock Exchange of Hong Kong Limited,

the reorganisation of the share capital of the Company in the following manner (the "**Capital Reorganisation**") be and is hereby approved:—

(i) the nominal value of each of the shares of HK$0.10 each in the capital of the Company be and is hereby reduced by cancelling the paid-up capital to the extent of HK$0.05 on each of such shares to the effect that each issued share in the capital of the Company will be treated as one fully paid-up ordinary share of HK$0.05 each in the capital of the Company (the "**Capital Reduction**");

(ii) each of the authorised but unissued shares of HK$0.10 each in the capital of the Company be and is hereby subdivided into 2 shares of HK$0.05 each (the "**Subdivision**");

(iii) the entire amount standing to the credit of the share premium account of the Company as at the date on which the Capital Reorganisation becoming effective be and is hereby reduced to zero (the "**Reduction of Share Premium**");

(iv) the credit arising from the Capital Reduction and the Reduction of Share Premium be and is hereby transferred to the special capital reserve account of the Company and the directors of the Company be and are hereby authorised, to the extent permitted by the Court and subject to any conditions which the Court may impose, to apply an amount standing to the credit of the special reserve account towards the elimination of the accumulated deficit of the Company;

(v) subject to and forthwith upon the Capital Reduction and the Subdivision having become effective, every 2 shares of HK$0.05 each in the capital of the Company (whether issued or unissued) be and are hereby consolidated (the "**Share Consolidation**") into a share of HK$0.10 each (the "**Consolidated Shares**"); and

(vi) any director of the Company be and is hereby authorised to do all acts and things which in his opinion are appropriate, desirable or necessary to give effect to and implement any of the foregoing."

2. "**THAT** subject to:—

(A) the Capital Reorganisation (as defined in resolution numbered 1 of the notice of the meeting of which this resolution forms part) having become effective;

(B) the agreement of the creditors of the Company and its subsidiaries (the "**Group**"), if required, to the release of guarantees given by the Company and/or any of its subsidiaries (other than Group Dragon Investments Limited ("**GDI**"), a wholly-owned subsidiary of the Company as at the date hereof, and its subsidiaries (the "**GDI Group**")) on the obligation of any members of the GDI Group following the implementation of the Group Reorganisation (as hereinafter defined); and

(C) the obtaining of any other third-party consents or approvals, including all regulatory consents, required to give effect to the Group Reorganisation (as hereinafter defined), the reorganisation of the Group in the following manner (the "**Group Reorganisation**") be and is hereby approved and adopted:—

(i) GDI will acquire all interests of the Group relating to the Distributed Business (as defined in the circular of the Company dated 10 September 2005 (the "**Circular**")), such acquisition to be effected by (i) GDI acquiring a number of subsidiaries and associated companies from the Company; (ii) the assignment of various intragroup loans between members of the Group (excluding the GDI Group) and the GDI Group; and (iii) the transfer of various intragroup assets and liabilities between members of the Group (excluding the GDI Group) and the GDI Group as further described and explained in the Circular and, in consideration of and in exchange for such acquisition, GDI will allot and issue such number of shares in GDI (the "**GDI Shares**"), credited as fully paid, to the Company so that the total number of GDI Shares to be in issue is equal to the number of Consolidated Shares (as defined in resolution numbered 1 of the notice of the meeting of which this resolution forms part) in issue on the Record Date (as defined in the Circular);

(ii) immediately after transfer of the interests of the Group to GDI as set out in paragraph (i) above, the shares in GDI will be distributed to the shareholders of the Company whose names are registered at the close of business on the Record Date (as defined in the Circular, in the register of members of the Company on a one-for-one basis by a distribution from the special capital reserve account of the Company as further described and explained in the Circular; and

(iii) the directors of the Company be and are hereby authorised generally to take any and all steps and to do and, or procure to be done any and all acts and things, and to approve, sign and execute any documents which in their absolute discretion consider to be necessary, desirable or expedient to implement and carry into effect the Group Reorganisation."

By order of the Board
China Strategic Holdings Limited
Chan Yan Yan, Jenny
Company Secretary

Hong Kong, 10 September 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered office:
8th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

As at the date hereof, 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), Mr. David Edwin Bussmann, Mr. Wong King Lam, Joseph and Mr. Sin Chi Fai are directors of the Company.

Notes:

1. Any member of the Company entitled to attend and vote at the meeting to be convened by the above notice is entitled to appoint another person(s) as his proxy(ies) to attend and vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy in respect of the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are requested to duly complete, sign and return the form of proxy in accordance with the instructions printed thereon.

3. To be valid, the form of proxy, together with any power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority must be lodged at the Hong Kong branch share registrars of the Company, Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the meeting or any adjournment thereof.

4. Where there are joint registered holders of any share(s) of the Company, any one of such joint holders may vote at the meeting either personally or by proxy in respect of such share(s) as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such joint holders so present whose name stands first on the register of members of the Company in respect of such share(s) shall alone be entitled to vote in respect thereof.

5. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or any adjourned meeting should he so wish and, in such event, the instrument appointing a proxy shall be deemed to have been revoked.