THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this composite document 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 composite document and the accompanying form of acceptance and transfer to the purchaser or the transferee, or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司
(Incorporated in Hong Kong with limited liability)
Stock code: 235

NATION FIELD LIMITED
(Incorporated in the British Virgin Islands with limited liability)

MANDATORY UNCONDITIONAL CASH OFFER MADE BY KINGSTON SECURITIES LIMITED ON BEHALF OF NATION FIELD LIMITED TO ACQUIRE ALL THE ISSUED SHARES IN CHINA STRATEGIC HOLDINGS LIMITED OTHER THAN THOSE ALREADY OWNED BY NATION FIELD LIMITED AND PARTIES ACTING IN CONCERT WITH IT

Financial adviser to China Strategic Holdings Limited

道亨證券有限公司
DaoHeng Securities Ltd.
A Member of the Guoco Group

Financial adviser to Nation Field Limited

KINGSTON CORPORATE FINANCE LIMITED

Independent financial adviser to the Independent Board Committee

Hercules
Hercules Capital Limited

A letter from the Independent Board Committee containing its recommendation in respect of the China Strategic Offer is set out on page 27 of this composite document. A letter from Hercules Capital Limited, the independent financial adviser to the Independent Board Committee, containing its recommendation in respect of the China Strategic Offer to the Independent Board Committee is set out on pages 28 to 46 of this composite document.

The procedures for acceptance and settlement of the China Strategic Offer are set out on pages 47 to 53 in Appendix I to this composite document and in the accompanying form of acceptance and transfer. Acceptances of the China Strategic Offer should be received by China Strategic Holdings Limited's share registrar, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 16th June, 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

26th May, 2006

CONTENTS

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

"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"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
"BVI"	the British Virgin Islands
"Credit Facility I"	the credit facility of up to HK$31,300,000 made available to the Offeror by Kingston Securities to satisfy part of the consideration for the acquisition of Shares by the Offeror under the Share Sale pursuant to an agreement dated 19th April, 2005 and a supplemental agreement dated 30th December, 2005
"Credit Facility II"	the credit facility of up to HK$50,000,000 made available to the Offeror by Kingston Securities for financing the China Strategic Offer pursuant to an agreement dated 17th March, 2005
"Capital Reorganisation"	the capital reorganisation of the Company which became effective on 19th May, 2006, details of which are set out in the circular of the Company dated 10th September, 2005 and the Joint Announcement
"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 mandatory unconditional cash offer made by Kingston Securities on behalf of the Offeror to acquire all issued Shares not already owned by the Offeror and parties acting in concert with it at a price of HK$0.386 per Share in cash, details of which are set out in this composite document
"Company"	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"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 is 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
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
"Form of Acceptance"	the form of acceptance and transfer of Shares in respect of the China Strategic Offer
"GDI"	Group Dragon Investments Limited, a company incorporated in the BVI with limited liability
"GDI Group"	GDI and its subsidiaries
"GDI Offer"	the voluntary unconditional offer made by Somerley on behalf of Well Orient to acquire all the GDI Shares not already held by Well Orient and parties acting in concert with it (other than Paul Y), the terms of which are set out in a separate offer document to shareholders of GDI dated 26th May, 2006

"GDI Share(s)"	ordinary share(s) of US$0.01 each in the share capital of GDI
"Group"	the Company and its subsidiaries and where upon completion of the Group Reorganisation, excluding members comprising the GDI Group
"Group Reorganisation"	the internal group reorganisation of the Company completed on 19th May, 2006 which resulted 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 Share
"Hanny"	Hanny Holdings Limited, a company incorporated in Bermuda with limited liability and the issued 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 one of the options of the GDI Offer, which can 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 fifth anniversary from its date of issue
"Hanny Conversion Share(s)"	new Hanny Share(s) to be allotted and issued by Hanny upon conversion of the Hanny Bond
"Hanny Group"	Hanny and its subsidiaries
"Hanny Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of Hanny
"Hercules"	Hercules Capital Limited, a licensed corporation under the SFO permitted to carry out type 6 regulated activities (advising on corporate finance) for the purposes of the SFO and the independent financial adviser to the Independent Board Committee
"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 the three independent non-executive Directors namely Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai

"ITC"	ITC Corporation Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"Joint Announcement"	the announcement jointly made by the Offeror, Hanny, Well Orient, GDI and the Company dated 19th April, 2005 in relation to, among other things, the China Strategic Offer
"Kingston Securities"	Kingston Securities Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) regulated activity, which is making the China Strategic Offer on behalf of the Offeror
"Latest Practicable Date"	24th May, 2006, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this composite document
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MRI"	MRI Holdings Limited, a 57.26% owned subsidiary of the Company and the shares of which are listed on the Australian Stock Exchange
"Offeror"	Nation Field Limited, a company incorporated in the BVI with limited liability, the issued shares of which are beneficially and wholly owned by Mr. Gao Yang
"Offer Period"	the period commencing from 15th October, 2004, being the date of the initial announcement relating to the China Strategic Offer, until the date on which the China Strategic Offer is closed for acceptance
"Overseas Shareholders"	Shareholders whose addresses on the register of members of the Company are outside Hong Kong
"Paul Y"	PYI Corporation Limited (formerly known as "Paul Y. - ITC Construction Holdings Limited"), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"PRC"	the People's Republic of China

"Qualifying Shareholders"	Shareholders other than the Offeror and its associates and parties acting in concert with it
"Remaining Business"	the business 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$15.0 each in the share capital of the Company
"Share Mortgages"	the share mortgages entered into (i) between the Offeror and Paul Y; and (ii) between the Offeror and Hanny on 24th May, 2006 charging to each of Paul Y and Hanny 20,250,000 Shares as security for payment of the balance of the consideration of HK$7,816,500, payable to each of them pursuant to the Share Sale Agreement
"Share Sale"	the acquisition of approximately 30.6% of the issued share capital of the Company from Paul Y and Hanny pursuant to the Share Sale Agreement
"Share Sale Agreement"	the sale and purchase agreement dated 10th March, 2005 entered into between the Offeror, Paul Y and Hanny for the acquisition by the Offeror of an aggregate of approximately 30.6% of the issued share capital of the Company from Paul Y and Hanny as at the date of the Share Sale Agreement
"Shareholder(s)"	holder(s) of the Shares
"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
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Well Orient"	Well Orient Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Hanny
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Reminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

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

	2006
Commencement of the China Strategic Offer	Friday, 26th May
Latest time and date for acceptance of the China Strategic Offer, if not revised or extended *(Notes 1 and 2)*	4:00 p.m. on Friday, 16th June
Closing date of the China Strategic Offer if not revised or extended *(Note 1)*	Friday, 16th June
Announcement of the results of the China Strategic Offer to be posted on the Stock Exchange's website	by 7:00 p.m. on Friday, 16th June
Announcement of the results of the China Strategic Offer to be published in newspapers *(Note 3)*	Monday, 19th June
Latest date for posting of remittances for the amounts due under the China Strategic Offer in respect of valid acceptances received *(Note 4)*	Monday, 26th June

Notes:

1. The China Strategic Offer, which is unconditional, will be closed on 16th June, 2006 unless the Offeror revises or extends the China Strategic Offer in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange's website by 7:00 p.m. on 16th June, 2006 stating whether the China Strategic Offer has been revised or extended or has expired. In the event that the Offeror decides that the China Strategic Offer will remain open until further notice, at least 14 days' notice in writing will be given, before the China Strategic Offer is closed, to those Qualifying Shareholders who have not accepted the China Strategic Offer. For further details, please refer to the paragraph headed "Acceptance period, revisions and extensions" in Appendix I to this composite document.

2. Acceptance of the China Strategic Offer shall be irrevocable and not capable of being withdrawn except in the circumstances set out in Rule 19.2 of the Takeovers Code.

3. An announcement on the results of the China Strategic Offer will be published on 19th June, 2006 and in the event of an extension of the China Strategic Offer, on the next Business Day after the closing date of the extended China Strategic Offer.

4. Remittances in respect of the cash consideration payable for the Shares tendered under the China Strategic Offer will be posted as soon as practicable, but in any event within 10 days after the receipt by Standard Registrars of all relevant documents from the accepting Shareholders which render acceptance under the China Strategic Offer complete and valid.

Unless otherwise expressly stated, all time references contained in this composite document are Hong Kong time.

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

26th May, 2006

To the Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
MADE BY KINGSTON SECURITIES LIMITED
ON BEHALF OF NATION FIELD LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN
CHINA STRATEGIC HOLDINGS LIMITED
OTHER THAN THOSE ALREADY OWNED BY
NATION FIELD LIMITED AND
PARTIES ACTING IN CONCERT WITH IT**

INTRODUCTION

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

— the Board had been requested by Hanny and Paul Y, the then beneficial controlling Shareholders, to place before the Shareholders the Group Reorganisation resulting in the Shareholders receiving GDI Shares on the basis of one GDI Share for one Share based on their respective shareholdings in the Company;

— Somerley, on behalf of Well Orient (an indirect wholly-owned subsidiary of Hanny), would make the GDI Offer to shareholders of GDI to acquire all the GDI Shares, other than those then owned 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 (as revised by Hanny, details of which are set out in the joint announcement of Hanny and the Offeror dated 8th May, 2006) of: (i) one Hanny Share plus HK$1.8 in cash for every five GDI Shares; and/or (ii) 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;

— the Board had been informed by Hanny and Paul Y that they had entered into the Share Sale Agreement with the Offeror on 10th March, 2005 pursuant to which the Offeror agreed to acquire an aggregate of 135,000,000 Shares from Paul Y and Hanny, representing approximately an aggregate of approximately 30.6% of the issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK$52,110,000, equivalent to HK$0.386 per Share; and

— upon completion of the Share Sale Agreement, Kingston Securities would, on behalf of the Offeror, make a mandatory unconditional cash offer to acquire all the issued Shares, other than those held by the Offeror and parties acting in concert with it, on the basis of HK$0.386 per Share.

The Group Reorganisation was completed on 19th May, 2006, and the completion of the Share Sale Agreement took place on 24th May, 2006. After completion of the Share Sale Agreement, (i) Paul Y was interested in 61,909,897 Shares, representing approximately 14.04% of the issued share capital of the Company; and (ii) Hanny was interested in 61,909,897 Shares, representing approximately 14.04% of the issued share capital of the Company as at the Latest Practicable Date. After completion of the Share Sale Agreement, the Offeror together with the parties acting in concert with it (including Paul Y and Hanny) have become interested in an aggregate of 258,819,794 Shares, representing approximately 58.72% of the issued share capital of the Company as at the Latest Practicable Date. The Offeror is obliged to make a mandatory unconditional cash offer to acquire all the issued Shares, other than those held by the Offeror and parties acting in concert with it, in accordance with the Takeovers Code.

An Independent Board Committee comprising Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai, being the three independent non-executive Directors, has been established to advise the Qualifying Shareholders on the China Strategic Offer. Hercules has been appointed as the independent financial adviser to advise the Independent Board Committee thereon.

In evaluating the eligibility of Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai for appointment as members of the Independent Board Committee, the Company notes that:

(i) Dr. Chan Kwok Keung, Charles, an executive Director, is also the chairman of the Company, ITC and Hanny, the chief executive officer of the Company and a non-executive director of Paul Y, and was holding 1,600,000 Hanny Shares and options to subscribe for 4,000,000 Hanny Shares granted by Hanny as at the Latest Practicable Date;

(ii) Dr. Yap, Allan is an executive director of the Company and Hanny and a director of Well Orient and was holding 1,600,000 Hanny Shares and options to subscribe for 3,250,000 Hanny Shares granted by Hanny as at the Latest Practicable Date;

(iii) Ms. Chau Mei Wah, Rosanna is an executive director of the Company and the deputy Chairman and managing director of ITC;

(iv) Ms. Chan Ling, Eva is a salaried executive Director and was holding 500 Hanny Shares as at the Latest Practicable Date;

(v) Mr. Li Bo is an executive Director and has business relationship with a potential purchaser of the Shares as described in the Company's announcement dated 15th October, 2004;

(vi) Mr. Lui Siu Tsuen, Richard is an alternate director to Dr. Yap, Allan of the Company and an executive director of Hanny and a director of Well Orient, and was holding 3,350,000 Hanny Shares as at the Latest Practicable Date;

(vii) Mr. Chan Kwok Hung is an alternate director to Dr. Chan Kwok Keung, Charles of the Company and an executive director of ITC as at the Latest Practicable Date; and

(viii) each of Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan, Ms. Chau Mei Wah, Rosanna, Ms. Chan Ling, Eva, Mr. Lui Siu Tsuen, Richard and Mr. Chan Kwok Hung, are executive/alternate Directors and/or directors of the controlling Shareholders. Therefore, each of the aforementioned Directors is presumed to be interested in the China Strategic Offer by virtue of his/her exercise of control or direction over the business and operations of the Company.

Therefore, based on the foregoing, none of Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan, Ms. Chau Mei Wah, Rosanna, Ms. Chan Ling, Eva, Mr. Li Bo, Mr. Lui Siu Tsuen, Richard and Mr. Chan Kwok Hung is eligible for appointment as a member of the Independent Board Committee to advise the Qualifying Shareholders in relation to the China Strategic Offer.

On the other hand, each of Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai, being an independent non-executive Director, declared that (a) he has not carried out any executive functions in the Company and that as at the Latest Practicable Date, (b) he was not interested in the Share Sale Agreement or any transactions contemplated under the China Strategic Offer; (c) he did not have any direct or indirect shareholding or equity-related interests in the Company, Hanny, GDI, Well Orient or any of their respective substantial or controlling shareholders, the Offeror or any party acting in concert or presumed to be acting in concert with it; (d) he did not have any direct or indirect connection or relationship with the Company, Hanny, GDI, Well Orient or any of their respective substantial or controlling shareholders, the Offeror or any party acting in concert or presumed to be acting in concert with it; and (e) he is not a salaried Director. Therefore, each of Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai is eligible for appointment as a member of the Independent Board Committee.

Accordingly, Messrs. David Edwin Bussmann, Wong King Lam, Joseph and Sin Chi Fai have been appointed by the Company as members of the Independent Board Committee to advise the Qualifying Shareholders in relation to the China Strategic Offer.

The purpose of this composite document is to provide you with information in relation to the China Strategic Offer, to set out the letter of advice from Hercules containing its advice to the Independent Board Committee in respect of the China Strategic Offer and the letter from the Independent Board Committee containing its recommendation to the Qualifying Shareholders in respect of the China Strategic Offer.

THE GROUP REORGANISATION

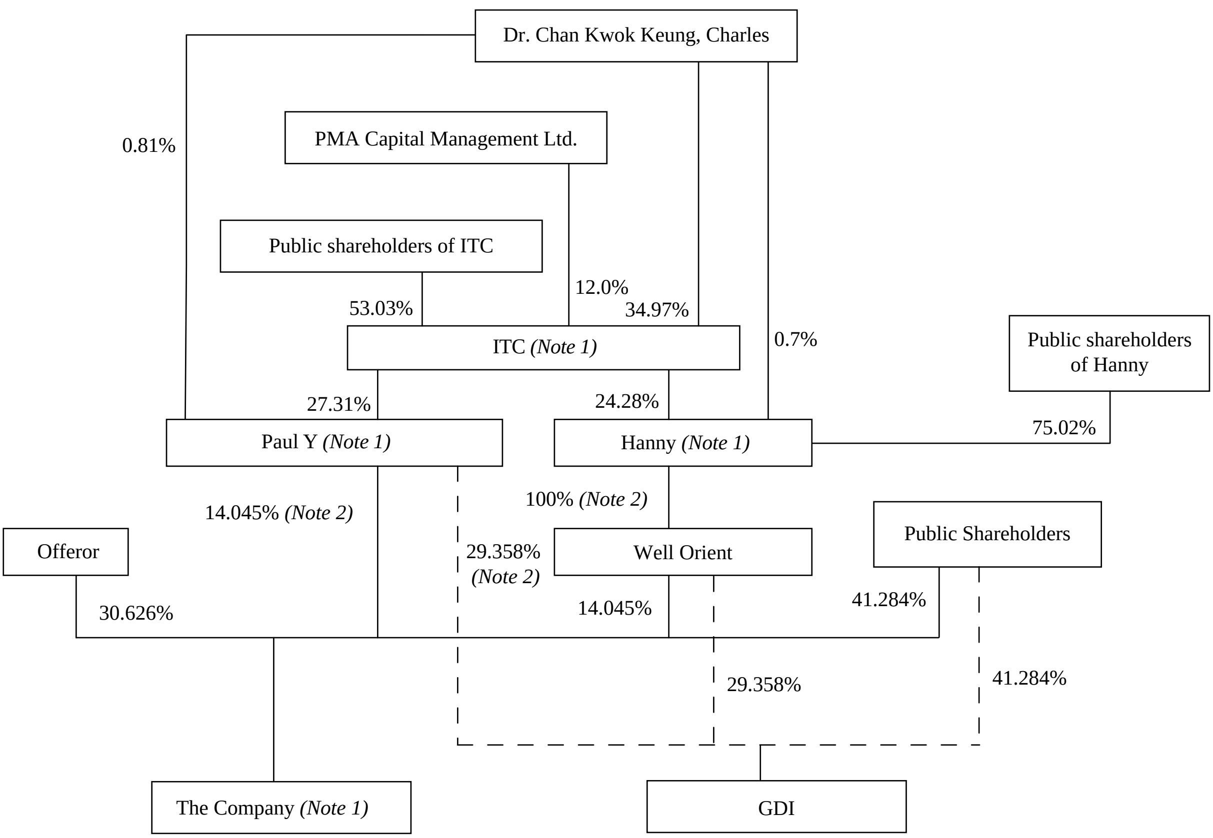
At the request of Hanny and Paul Y, being the controlling Shareholders, who were interested in 129,409,897 Shares (as adjusted for the Capital Reorganisation and representing approximately 29.4% of the Company's issued share capital as at the Latest Practicable Date) and 129,409,897 Shares (as adjusted for the Capital Reorganisation and representing approximately 29.4% of the Company's issued share capital as at the Latest Practicable Date) respectively before completion of the Share Sale Agreement, the Board placed before the Shareholders a proposal for the Group Reorganisation at the extraordinary general meeting of the Company held on 6th October, 2005. Pursuant to the Group Reorganisation, the Company continues 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 and hotel operations (being the Distributed Business) have been grouped under the GDI Group and continue to be run by the existing management of the Company.

All conditions precedent of the Group Reorganisation were fulfilled by 19th May, 2006 and the Group Reorganisation was completed on 19th May, 2006.

The GDI Shares were distributed in specie to the Shareholders whose names appeared on the register of members of the Company on 19th May, 2006 on the basis of one GDI Share for one Share, but the share certificates of GDI will only be posted to those Shareholders who do not accept the GDI Offer after the close of the GDI Offer. No application has been or will be made for the listing of GDI Shares on any stock exchange. The issued GDI Shares rank pari passu in all respects with each other.

Group structure immediately after the implementation of the Group Reorganisation and upon completion of the Share Sale Agreement

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



- **The Company** *(Note 1)*
  - **Remaining Business**
    - **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
- **GDI**
  - **Distributed Business**
    - **Property development**
      - Property interest in Jing An District Shanghai, the PRC
      - Property interest in Long Shan Industrial District, Doumen District, Zhuhai City, Guangdong, the PRC
    - **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 8)*
    - **Business of providing tour travel and other related services**
      - 11.1% effective interest, held though CEL,in Wing On Travel (Holdings) Limited *(Note 1)*
    - **Other business and assets and liabilities**
      - 55.22% effective interest in CEL *(Note 13)*
      - 57.26% interest in MRI *(Note 9)*
      - 9.8% interest in Apex Quality Group Limited *(Note 10)*
      - 194 redeemable preference shares and 200 ordinary shares of Vertex Technology Fund(II) Ltd. *(Note 11)*
      - 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 12)*
      - 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 information technology 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 the manufacturing and marketing of tires.
9. Listed on the Australian Stock Exchange and mainly engaged in the investment holding activities.
10. An investment holding company principally holding "Rosedale" branded hotels in Hong Kong, Guangzhou and Beijing and Luoyang Golden Gulf Hotel in the PRC.
11. The principal business is investment in emerging growth companies mainly in technology industry in the United States of America, Europe and Asia.
12. The principal business of these companies is the holding of vessel for sand mining.
13. Listed on the OTC (over-the-counter) Bulletin Board in the United States of America. CEL, through its subsidiaries, is mainly engaged in the business of property investment and development in the PRC and has substantial interests in investment holding companies, the subsidiaries of which are principally engaged in manufacturing and marketing of tires in the PRC and other countries abroad, and the business of providing package tour, travel and other related services and hotel operations.

FINANCIAL INFORMATION OF THE GROUP UPON COMPLETION OF THE GROUP REORGANISATION

A summary of the audited financial statements of the Group for the three years ended 31st December, 2005 are set out in Appendix II to this composite document.

After completion of the Group Reorganisation, the Company has become 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 (being the Remaining Business), 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 and hotel operations (being the Distributed Business) had been grouped under the GDI Group and continued to be run by the existing management of the Company. On this basis, the unaudited pro forma combined financial information on the Group upon the implementation of the Group Reorganisation has been prepared, details of which are set out in Appendix III to this composite document.

COMPLETION OF THE SHARE SALE AGREEMENT

All conditions precedent to the Share Sale Agreement were fulfilled on 19th May, 2006 and the Share Sale Agreement was completed on 24th May, 2006.

THE CHINA STRATEGIC OFFER

After completion of the Share Sale Agreement, the Offeror has become interested in 135,000,000 Shares, representing approximately 30.63% of the entire issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Takeovers Code, the Offeror is obliged to make a mandatory cash offer to the Shareholders to acquire all the issued Shares (other than those already held by the Offeror and parties acting in concert with it). After completion of the Share Sale Agreement, (i) Paul Y has become interested in 61,909,897 Shares, representing approximately 14.04% of the issued share capital of the Company; and (ii) Hanny has become interested in 61,909,897 Shares, representing approximately 14.04% of the issued share capital of the Company as at the Latest Practicable Date. Upon completion of the Share Sale Agreement, the Offeror together with the parties acting in concert with it (including Paul Y and Hanny) has become interested in an aggregate of 258,819,794 Shares, representing approximately 58.72% of the entire issued share capital of the Company as at the Latest Practicable Date.

Kingston Securities, on behalf of the Offeror, is making a mandatory unconditional cash offer to all Shareholders to acquire all the issued Shares, other than those held by the Offeror and parties acting in concert with it, on terms set out in this composite document and the accompanying Form of Acceptance on the following basis:

For each Share . . . . HK$0.386 in cash

The China Strategic Offer will not be extended to Paul Y and Hanny. The offer price for the China Strategic Offer is the same as the price per Share (as adjusted for the Capital 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 8th March, 2005 pending the publication of the Joint Announcement. Based on the Company's issued share capital of 440,797,543 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 Shares which are held by the Offeror and parties acting in concert with it (including Paul Y and Hanny), representing approximately 58.72% of the total number of Shares in issue, 181,977,749 Shares are subject to the China Strategic Offer and the value for the China Strategic Offer amounts to approximately HK$15.0 million. Kingston Securities and Kingston Corporate Finance Limited are satisfied that the Offeror has sufficient financial resources available to it to satisfy full acceptance of the China Strategic Offer.

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 its concert parties have not entered into any agreements in relation to the issue of any convertible securities, options, warrants or derivatives of the Company.

PROPOSED NEW DIRECTORS OF THE COMPANY

As at the Latest Practicable Date, the Board was made up of ten Directors, comprising five executive Directors, two alternate Directors and three independent non-executive Directors. It is intended that four existing executive Directors, comprisingly Dr. Chan Kwok Keung, Charles (and his alternate, Mr. Chan Kwok Hung), Dr. Yap, Allan (and his alternate, Mr. Lui Siu Tsuen, Richard), Ms. Chau Mei Wah, Rosanna and Mr. Li Bo, and one independent non-executive Director, Mr. David Edwin Bussmann, will resign at the earliest time as allowed under the Takeovers Code and the Listing Rules. New Directors will be appointed by the Offeror on the date of despatch of this composite document. Biographical details of the new Directors are set out in "Letter from Kingston Securities" in this composite document.

ADDITIONAL INFORMATION

Your attention is drawn to the respective letters from the Independent Board Committee and Hercules set out on page 27 and pages 28 to 46 of this composite document containing their recommendations and advices in respect of the China Strategic Offer.

Your attention is also drawn to the "Letter from Kingston Securities" as well as the information contained in this composite document.

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

KINGSTON SECURITIES LIMITED

Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street, Central, Hong Kong

26th May, 2006

To the Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
MADE BY KINGSTON SECURITIES LIMITED
ON BEHALF OF NATION FIELD LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN
CHINA STRATEGIC HOLDINGS LIMITED
OTHER THAN THOSE ALREADY OWNED BY
NATION FIELD LIMITED AND
PARTIES ACTING IN CONCERT WITH IT**

INTRODUCTION

The Offeror entered into the Share Sale Agreement with Paul Y and Hanny on 10th March, 2005, pursuant to which the Offeror agreed to acquire an aggregate of 135,000,000 Shares from Paul Y and Hanny, representing approximately 30.6% of the issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK$52,110,000, equivalent to HK$0.386 per Share.

The Share Sale Agreement, which was subject to, among other things, the full implementation of the Group Reorganisation (which was completed on 19th May, 2006) was completed on 24th May, 2006. Details of the Group Reorganisation were set out in the Joint Announcement and the Company's circular dated 10th September, 2005.

Immediately before entering into the Share Sale Agreement, the Offeror did not have any shareholding in the Company. Following completion of the Share Sale Agreement and up to the Latest Practicable Date, the Offeror and the parties acting in concert with it (including Paul Y and Hanny, who are presumed to be parties acting in concert with the Offeror for the purpose of the Takeovers Code) were interested in an aggregate of 258,819,794 Shares, representing approximately 58.7% of the issued share capital of the Company as at the Latest Practicable Date, of which the Offeror was interested in 135,000,000 Shares, Paul Y was interested in 61,909,897 Shares and Hanny was interested in 61,909,897 Shares, representing approximately 30.63%, 14.04% and 14.04% respectively of the issued share capital of the Company as at the Latest Practicable Date. As such, the Offeror and its concert parties are required to make a mandatory unconditional cash offer for all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code. The principal terms of the China Strategic Offer are set out under the section headed "The China Strategic Offer" below.

The Offeror entered into the Share Mortgages upon completion of the Share Sale Agreement in favour of Paul Y and Hanny pledging the 20,250,000 Shares to each of Paul Y and Hanny as security for payment of the balance of the consideration of HK$7,816,500 payable pursuant to the Share Sale Agreement. The charged Shares, being 40,500,000 Shares to be acquired by the Offeror pursuant to Share Sale Agreement (representing approximately 9.2% of the issued share capital of the Company), represent a continuing security for the due and punctual payment of the final balance of the consideration of HK$15,633,000. The Share Mortgages arrangement is a commercial arrangement between the Offeror, Paul Y and Hanny and has been agreed after arm's length negotiations between them. As a result of the aforesaid Share Mortgages arrangement, Paul Y and Hanny are presumed to be parties acting in concert with the Offeror for the purpose of the Takeovers Code unless they rebut the presumption.

The Offeror also entered into an agreement with Kingston Securities regarding the provision of the Credit Facility I to satisfy part of the consideration for the acquisition of Shares by the Offeror under the Share Sale. The granting of the Credit Facility I, under which the proceeds drawn shall be applied solely for the purposes of satisfying part of the consideration of the Share Sale Agreement, is conditional upon, amongst other things, that 94,500,000 Shares acquired by the Offeror under the Share Sale shall be deposited with Kingston Securities from time to time as collateral.

This letter, together with Appendix I to this composite document and the accompanying Form of Acceptance, set out, among other things, the terms of the China Strategic Offer, procedures for acceptance of the China Strategic Offer, information on the Offeror and the intention of the Offeror regarding the Group.

THE CHINA STRATEGIC OFFER

The China Strategic Offer will be made in compliance with the Takeovers Code by Kingston Securities on behalf of the Offeror on the following terms:

For each Share.. HK$0.386 in cash
(equivalent to HK$0.193 in cash for each share of the Company before the Capital Reorganisation has become effective (the "Old Share"))

The China Strategic Offer will not be extended to Paul Y and Hanny. The offer price for the China Strategic Offer is the same as the price per Share (adjusted for the Capital Reorganisation) under the Share Sale Agreement and 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 Old Share prior to suspension of trading in the Old Shares on 8th March, 2005, pending the publication of the Joint Announcement.

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

The China Strategic Offer does not involve any issue of unlisted securities.

The China Strategic Offer is unconditional.

Comparison of value

The offer price for the China Strategic Offer, being HK$0.386 per Share, represents:

(a) a discount of approximately 62.88% to the closing price of HK$1.04 per Share (adjusted for the Capital Reorganisation) as quoted on the Stock Exchange on 14th October, 2004, being the last trading day immediately prior to the suspension of trading of the Shares of the Company pending the release of the initial announcement in relation to the China Strategic Offer;

(b) a discount of approximately 64.26% to the closing price of HK$1.08 per Share (adjusted for the Capital Reorganisation) as quoted on the Stock Exchange on 7th March, 2005, being the last trading day immediately prior to the suspension of trading of the shares of the Company pending the release of the Joint Announcement;

(c) a discount of approximately 66.26% to the average closing price of approximately HK$1.144 per Share (adjusted for the Capital Reorganisation) as quoted on the Stock Exchange for the ten consecutive trading days up to and including 7th March, 2005;

(d) a discount of approximately 52.93% to the unaudited net tangible asset value per Share (assuming the Group Reorganisation has taken plane on 31st December, 2005) of approximately HK$0.82 (adjusted for the Capital Reorganisation) as at 31st December, 2005 (with reference to the unaudited pro forma financial information set out in Appendix III of this composite document);

(e) a discount of approximately 47.12% to the closing price of approximately HK$0.73 per Share (adjusted for the Capital Reorganisation) as quoted on the Stock Exchange on 15th May, 2006, being the first trading date of dealing in shares of the Company in ex-rights basis of entitlements of the GDI Shares;

(f) a discount of approximately 33.45% to the closing price of approximately HK$0.58 per Share as quoted on the Stock Exchange on 19th May, 2006, being the trading date on which the Capital Reorganisation becomes effective; and

(g) a premium of approximately 1.58% to the closing price of HK$0.38 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Total consideration

As at the Latest Practicable Date, there were 440,797,543 Shares in issue. On the basis of the offer price for the China Strategic Offer being HK$0.386 per Share, the entire issued share capital of the Company is valued at approximately HK$170.1 million under the China Strategic Offer. Excluding the 258,819,794 Shares held by the Offeror and parties acting in concert with it (including Paul Y and Hanny), representing approximately 58.7% of the total number of issued Shares, 181,977,749 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.

The China Strategic Offer will be financed by (i) the Credit Facility II of up to HK$50,000,000 made available to the Offeror by Kingston Securities; and (ii) cash deposit made by the Offeror itself. The granting of the Credit Facility II, under which the proceeds drawn shall be applied solely for the purposes of satisfying the purchase price of the Shares under the China Strategic Offer, is conditional upon, amongst other things, all the Shares acquired by the Offeror in pursuance of the China Strategic Offer by use of the Credit Facility II being deposited with Kingston Securities as collateral for the Credit Facility II.

Kingston Securities and Kingston Corporate Finance Limited are satisfied that the Offeror has sufficient financial resources available to it to satisfy full acceptance of the China Strategic Offer. The Offeror confirms that repayment of the interest on or repayment of the aforesaid credit facility, or security for any liability under the aforesaid credit facility would not be dependent on the business of the Group.

Compulsory acquisition

The Offeror and parties acting in concert with it do not intend to exercise any right which may be available to it to acquire compulsorily any outstanding issued Shares not acquired under the China Strategic Offer after it is closed but reserve the right to do so.

Effect of accepting the China Strategic Offer

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

By accepting the China Strategic Offer, Shareholders will sell their Shares, and all rights attached to them, including the right to receive all dividends and other distributions, if any, declared, made or paid on or after the completion of the Group Reorganisation.

Stamp Duty

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 or the market price of the Shares, whichever is higher, 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.

INFORMATION ON THE OFFEROR AND ITS INTENTION IN RELATION TO 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 39, who is currently residing in Shanghai, the PRC, has been engaged in trading business between the PRC and the Republic of Austria, which mainly focused on acting as trading agents for Euro-American machine manufacturing and engineering companies in the PRC since 1990s. As at the date of the Joint Announcement and until late 2005, Mr. Gao was 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 did not have any shareholding in this company. Such company was 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. Mr. Gao remains a director of the aforesaid joint venture with the renowned Korean car manufacturer.

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 Remaining Business. It is the intention of the Offeror to hold the Shares acquired from the Share Sale on a long term basis. 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. As at the Latest Practicable Date, the Offeror had no concrete plan as to any changes to the existing business of the Company including any redeployment of the fixed assets of the Group and any injection of assets into the Group.

In view that the Group will be able to leverage on the Offeror's background and business network in the PRC and the Republic of Austria as mentioned above to capture any possible investment opportunities, the Offeror are of the view that the China Strategic Offer is to be commercially justifiable in the long-run.

Directors and management

As at the Latest Practicable Date, the Board was made up of ten Directors, comprising five executive Directors, two alternate Directors and three independent non-executive Directors. It is intended that four existing executive Directors, comprisingly Dr. Chan Kwok Keung, Charles (and his alternate, Mr. Chan Kwok Hung), Dr. Yap, Allan (and his alternate, Mr. Lui Siu Tsuen, Richard), Ms. Chau Mei Wah, Rosanna and Mr. Li Bo, and one independent non-executive Director, Mr. David Edwin Bussmann, will resign at the earliest time as allowed under the Takeovers Code and the Listing Rules. On the date of despatch of this composite document, Mr. Gao Yang, Mr. Kwok Ka Lap, Alva, and Ms. Ching Yuen Man, Angela would be appointed to the Board and will be effective as from the date of despatch of this composite document. The biographical details of Mr. Gao Yang, Mr. Kwok Ka Lap, Alva, and Ms. Ching Yuen Man, Angela are set out below:

Mr. Gao Yang, aged 39, who is currently residing in Shanghai, the PRC, has been engaged in trading business between the PRC and the Republic of Austria, which mainly focused on acting as trading agents for Euro-American machine manufacturing and engineering companies in the PRC since 1990s. As at the date of the Joint Announcement and until late 2005, Mr. Gao was also a director of 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 did not have any shareholding in this company. Such company was 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. Mr. Gao remains a director of the aforesaid joint venture with the renowned Korean car manufacturer.

Mr. Gao Yang did not hold any directorship in other public listed company in Hong Kong or any other position with the Company and other members of the Group.

Save for being a proposed executive Director, a deemed party acting in concert with Paul Y and Hanny, and being the beneficial owner of the entire issued share capital of the Offeror, Mr. Gao Yang does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company. Furthermore, save for the acquisition of 135,000,000 Shares under the Share Sale Agreement, Mr. Gao Yang had no interest in the securities of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. No service contract had been entered into between the Company and Mr. Gao Yang as at the Latest Practicable Date. Save as disclosed in this composite document, Mr. Gao Yang is not aware of any other matters that need to be brought to the attention of the holders of securities of the Company nor is there any information to be disclosed by the Company pursuant to any of the requirements under the provisions of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Mr. Kwok Ka Lap, Alva, aged 57, was a marketing manager in a company engaging in the design of business administration system. Mr. Kwok has been in the insurance and investments business for over 24 years, principally in the senior managerial position.

Save for being an independent non-executive director of (i) Wing On Travel (Holdings) Limited; (ii) Hanny; and (iii) Cheung Tai Hong Holdings Limited, Mr. Kwok Ka Lap, Alva, did not hold any directorship in other public listed companies in Hong Kong or any other position with the Company and other members of the Group in the past three years.

Save for being a proposed executive Director and being an independent non-executive director of Hanny, Mr. Kwok Ka Lap, Alva, does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company. Furthermore, Mr. Kwok Ka Lap, Alva, had no interest in the securities of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. No service contract had been entered into between the Company and Mr. Kwok Ka Lap, Alva, as at the Latest Practicable Date. Save as disclosed in this composite document, Mr. Kwok Ka Lap, Alva, is not aware of any other matters that need to be brought to the attention of the holders of securities of the Company nor is there any information to be disclosed by the Company pursuant to any of the requirements under the provisions of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Ms. Ching Yuen Man, Angela, aged 39, is a solicitor in Hong Kong. Ms Ching completed her high school education in England and obtained her LLB degree at the University of Hong Kong in 1989. She is now a Partner of Messrs. Alvan Liu & Partners ("ALP"). ALP practice focuses in areas of corporate finance, commercial and corporate litigation, commercial and company law. Ms. Ching, a legal practitioner for over 13 years of experience, advises a number of UK and Hong Kong listed companies and their subsidiaries.

Ms. Ching Yuen Man, Angela did not hold any directorship in other public listed company in Hong Kong or any other position with the Company and other members of the Group in the past three years.

Save for being a proposed independent non-executive Director, Ms. Ching Yuen Man, Angela does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company. Furthermore, Ms. Ching Yuen Man, Angela had no interest in the securities of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. No service contract had been entered into between the Company and Ms. Ching Yuen Man, Angela as at the Latest Practicable Date. Save as disclosed in this composite document, Ms. Ching Yuen Man, Angela is not aware of any other matters that need to be brought to the attention of the holders of securities of the Company nor is there any information to be disclosed by the Company pursuant to any of the requirements under the provisions of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Further announcement will be made by the Company upon such appointment becoming effective.

The Offeror does not expect that there will be any material changes to the continual employment of the employees of the Group or to the employment terms or conditions of the employees of the Group as a result of the China Strategic Offer.

Save as disclosed above, there is no agreement between the Offeror and the existing Directors with regard to their directorships in the Company.

MAINTAINING 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 issued 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 Shares; or**

- **that there are insufficient Shares in public hands to maintain an orderly market**

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

The Stock Exchange has also stated that, if the Company remains a listed company, any future injections of assets into or disposals of assets of the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has discretion to require the Company to issue a circular to its shareholders where any acquisition or disposal by the Company is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of Company. The Stock Exchange also has the power pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

The Offeror intends to maintain the listing of the Shares on the Stock Exchange, and each of the Company, the Offeror and their respective directors and the new Directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that 25% of the issued share capital of the Company are in the hands of the public which is in compliance with the Listing Rules. In the event that the public float is less then 25%, the Company is required to suspend trading until the public float is restored. Save for the aforesaid undertaking to the Stock Exchange and the Credit Facility II, there is no agreement to, arrangement for or understanding of any transfer, charge or pledge of the Shares acquired pursuant to the China Strategic Offer to any other person.

FURTHER TERMS OF THE CHINA STRATEGIC OFFER

Further terms and conditions of the China Strategic Offer, including procedures for acceptance and the acceptance period, are set out in Appendix I to this composite document and the Form of Acceptance.

GENERAL

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares whose investments are registered in nominee names to accept the China Strategic Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the China Strategic Offer.

The attention of Overseas Shareholders is drawn to the section headed "Overseas Shareholders" in Appendix I to this composite document.

Stockbrokers, banks and others who deal in relevant securities of the Company behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules pursuant to the Takeovers Code. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any seven day period is less than HK$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.

Qualifying Shareholders are strongly advised to consider carefully the information contained in the letter from the Board, the letter from the Independent Board Committee and the letter from Hercules set out in this composite document.

Your attention is drawn to the additional information set out in the Appendices, which form part of this composite document.

Yours faithfully,
For and on behalf of
Kingston Securities Limited
Nicholas Chu
Director

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

(Incorporated in Hong Kong with limited liability)

Stock code: 235

26th May, 2006

To the Qualifying Shareholders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER
MADE BY KINGSTON SECURITIES LIMITED
ON BEHALF OF NATION FIELD LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN
CHINA STRATEGIC HOLDINGS LIMITED
OTHER THAN THOSE ALREADY OWNED BY
NATION FIELD LIMITED AND
PARTIES ACTING IN CONCERT WITH IT

As the Independent Board Committee, we have been appointed to advise you in connection with the China Strategic Offer, details of which are set out in the "Letter from the Board" in the composite document of the Company dated 26th May, 2006 (the "Document"), of which this letter forms part. The terms used in this letter shall have the same meanings as given to them in the Document unless the context otherwise requires.

Your attention is drawn to the "Letter from the Board" and the "Letter from Kingston Securities" as set out on pages 8 to 16 and pages 17 to 26 respectively of the Document and the "Letter from Hercules" as set out on pages 28 to 46 of the Document containing its advice to the Independent Board Committee regarding the China Strategic Offer. Having considered the advice given in the "Letter from Hercules", we concur with Hercules' advice to recommend the Qualifying Shareholders to accept the China Strategic Offer.

However, Qualifying Shareholders should read the last three paragraphs contained in the "Letter from Hercules" very carefully.

Yours faithfully,
Independent Board Committee

David Edwin Bussmann	**Wong King Lam, Joseph**	**Sin Chi Fai**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter of advice prepared by Hercules to the Independent Board Committee for incorporation in this document:

Hercules
Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

26th May, 2006

To the Independent Board Committee

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFER MADE BY KINGSTON SECURITIES LIMITED ON BEHALF OF NATION FIELD LIMITED TO ACQUIRE ALL THE ISSUED SHARES IN CHINA STRATEGIC HOLDINGS LIMITED OTHER THAN THOSE ALREADY OWNED BY NATION FIELD LIMITED AND PARTIES ACTING IN CONCERT WITH IT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee with respect to the terms of the China Strategic Offer, details of which are set out in the composite document dated 26th May, 2006 (the "Document") to the Shareholders, of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Document unless the context requires otherwise.

As at the Latest Practicable Date, there were a total of three non-executive Directors on the Board, namely Mr. David Edwin Bussmann, Mr. Wong King Lam, Joseph and Mr. Sin Chi Fai, all of whom are independent non-executive Directors. Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Qualifying Shareholders on whether the terms of the China Strategic Offer are fair and reasonable and in the interest of the Qualifying Shareholders.

Hercules has been appointed to act as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the China Strategic Offer are fair and reasonable so far as the Qualifying Shareholders are concerned, and to give our opinion in relation to the China Strategic Offer for the consideration of the Independent Board Committee in making its recommendation to the Qualifying Shareholders.

In formulating our recommendations, we have reviewed, *inter alia,* the Document and certain related agreements and certain publicly available financial statements and other business and financial information relating to the Company. We have also reviewed certain information provided by management of the Company relating to the operations, financial condition and prospects of the Company. We have also considered the terms of the cash offers made within a twelve full month period prior to the Latest Practicable Date for companies listed on the main board of the Stock Exchange, and such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant. We have not, however, conducted an in-depth review of the Company, its business, financial condition and prospects.

The sole director of the Offeror has accepted full responsibility for the accuracy of the information contained in the Document (other than that relating to the Hanny Group (including Well Orient), Paul Y, ITC, the Group and GDI), and the Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Document (other than that relating to the Hanny Group (including Well Orient), Paul Y, ITC and the Offeror). The directors of the Company and the Offeror have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Document (other than, in the case of the director of the Offeror, those relating to the Hanny Group (including Well Orient), Paul Y, ITC, the Group and GDI and, in the case of the Directors, those relating to the Hanny Group (including Well Orient), Paul Y, ITC, and the Offeror) have been arrived at after due and careful consideration and there are no material facts not contained in the Document, the omission of which would make any statements in the Document misleading.

We have relied on, and assumed, without independent verification, the accuracy and completeness of the information reviewed by us for the purpose of this opinion. We have not, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses, financial conditions or affairs or the future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

We have not considered the tax consequences on the Qualifying Shareholders arising from acceptances or non-acceptances of the China Strategic Offer since these are particular to their individual circumstances. In particular, the Qualifying Shareholders who are residents outside of Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their tax position with regard to the China Strategic Offer and, if in any doubt, should consult their own professional advisers.

In addition, we refer you to the letter from the Board and the letter from Kingston Securities contained in this Document, which give full details of the China Strategic Offer, and the appendices to this Document which give further information on the Company as required by the Takeovers Code. We advise that the Qualifying Shareholders read carefully the Document before they decide what action they should take.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Background to the China Strategic Offer

The Company is an investment holding company and the principal activities of its subsidiaries involve the manufacturing and trading of battery products, and investments in securities, property and unlisted investments. The Company is listed on the main board of the Stock Exchange and, as at the Latest Practicable Date, had a market capitalisation of approximately HK$167.5 million.

On 19th April, 2005, the Company announced jointly with Hanny, GDI, Well Orient and the Offeror that, *inter alia,* the Board had been informed by Hanny and Paul Y that they had entered into the Share Sale Agreement with the Offeror pursuant to which and subject to, *inter alia*, the implementation of the Group Reorganisation in full, the Offeror would acquire an aggregate of 135,000,000 Shares from Hanny and Paul Y for a total consideration of HK$52,110,000 (equivalent to about HK$0.386 per Share).

The Group Reorganisation was completed on 19th May, 2006 and resulted 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 the GDI Shares on the basis of one GDI Share for one Share.

Completion of the Share Sale Agreement took place on 24th May, 2006. As a result, the Offeror was interested in 135,000,000 Shares as at the Latest Practicable Date, representing approximately 30.6% of the issued share capital of the Company. The Offeror is therefore obliged under Rule 26 of the Takeovers Code to make a mandatory unconditional cash offer to acquire all the issued Shares other than those already owned by the Offeror and parties acting in concert with it.

Kingston Securities is making the China Strategic Offer on behalf of the Offeror on the following basis:

For each Share .... HK$0.386 in cash

The China Strategic Offer price of HK$0.386 per Share is the same as the price per Share paid by the Offeror under the Share Sale Agreement to acquire the Shares from Hanny and Paul Y.

Hanny and Paul Y are presumed to be parties acting in concert with the Offeror for the purpose of the Takeovers Code. As such, the China Strategic Offer will not be extended to Hanny and Paul Y, which in aggregate still owned approximately 28.1% interest in the Company as at the Latest Practicable Date.

Further terms and conditions of the China Strategic Offer, including the procedures for acceptances, are set out in the letter from Kingston Securities and Appendix I to the Document.

2. Financial information of the Group

Set out in Table 1 below is a summary of the unaudited pro forma income statement of the Group upon completion of the Group Reorganisation as set out in Appendix III to the Document and in Appendix II of the Company's circular dated 10th September, 2005.

Table 1 — Summary Pro Forma Income Statement of the Group upon completion of the Group Reorganisation

	For the year ended 31st December,	
	2005	**2004**
	HK$'000	*HK$'000*
Turnover	**33,161**	**27,141**
Gross profit	**4,682**	**6,067**
Gross profit margin	*14.1%*	*22.4%*
Other income	50,001	7,808
Distribution costs	(1,609)	(850)
Administrative expenses	(26,146)	(27,067)
Other expenses	(44,059)	(31,459)
Allowance for loans and interest receivables	(6,329)	(108,470)
Finance costs	(17,630)	(15,943)
Share of results of associates	(239)	5,091
Gain on partial disposal of interests in associates	—	5
Loss on disposal/dilution of interests in associates	—	(177)
Loss before taxation	**(41,329)**	**(164,995)**
Taxation	—	(1,207)
Net loss for the year	**(41,329)**	**(166,202)**

For the year ended 31st December, 2005, turnover from the Remaining Business increased by 22.2% to HK$33.2 million. Turnover for financial years 2004 and 2005 was generated from manufacturing and trading of battery products and related accessories. The Group reported net loss of HK$41.3 million for the financial year 2005 despite the significant contribution of other income of HK$50 million (which was primarily attributable to the interest income received by the Remaining Group) and the substantial decrease in allowance for loans and interest receivables. The net loss was mainly attributable to the extensive operating expenses and finance costs incurred for the period. We have been advised by management of the Company that (i) the extensive operating expenses were primarily attributable to the one-off expenses associated with the Group Reorganisation (e.g. special audit and professional fees) of approximately HK$8 million, change in fair value of investments in securities of approximately HK$9 million and allowances for bad and doubtful debts of approximately HK$19 million; and (ii) the finance costs were primarily attributable to the operations of the business of manufacturing and trading of battery products and related accessories.

Summarised in Table 2 below is the Group's unaudited pro forma balance sheet as set out in Appendix III to the Document and in Appendix II of the Company's circular dated 10th September, 2005.

Table 2 — Unaudited Pro Forma Balance Sheet of the Remaining Group

	As at 31st December, 2005 *HK$'000*	2004 *HK$'000*
Non-current Assets		
Property, plant and equipment	16,146	34,587
Prepaid lease payments	27,763	—
Goodwill	25,807	25,807
Interests in associates	—	328
Receivables — due after one year	—	5,407
Investments in securities at fair value through profit or loss	46,572	92,967
	116,288	159,096
Current Assets		
Inventories	12,307	13,708
Trade receivables	4,773	6,980
Prepaid lease payments	620	—
Amounts due from associates	8,008	2,790
Loans and interest receivables — due within one year	102,093	22,735
Other receivables, deposits and prepayments	2,237	3,775
Investments in securities held for trading	7,552	19,849
Pledged bank deposits	1,036	1,012
Bank balances and cash	12,319	430
	150,945	71,279
Current Liabilities		
Trade payables, other payables and accrued charges	38,684	15,269
Amounts due to related companies — due within one year	556	—
Payables	2,796	—
Amount due to associates	—	3,064
Income and other tax payable	1,130	1,130
Bank loans and other borrowings — due within one year	8,627	42,612
	51,793	62,075
Net Current Assets	99,152	9,204
Total equity	215,440	168,300
Capital and Reserves		
Share capital	44,080	44,080
Reserves	157,108	125,419
Equity attributable to equity holders of the parent	201,188	169,499
Minority interests	14,252	(1,199)
	215,440	168,300
Current ratio (times)	*2.9*	*1.1*
Interest coverage (times)	*n.a.*	*n.a.*
Total liabilities/equity	*24.0%*	*36.9%*
Long term debt/equity	*0.0%*	*0.0%*

Current assets amounted to HK$150.9 million as at 31st December, 2005, representing an increase of 111.8%. The increase was primarily attributable to the substantial increases in loans and interest receivables (from HK$22.7 million as at 31st December, 2004 to HK$102.1 million as at 31st December, 2005) and bank balances and cash (from HK$430,000 as at 31st December, 2004 to HK$12.3 million as at 31st December, 2005). Coupled with a 16.6% decrease in current liabilities, which was mainly attributable to a 79.8% decrease in bank loans and other borrowings, the net current assets as at 31st December, 2005 increased substantially by 9.8 times to approximately HK$99.2 million. Nevertheless, non current assets decreased by 26.9% to HK$116.3 million, offsetting the increase in current assets and resulted in a 28.0% increase in total equity to HK$215.4 million as at 31st December, 2005. Total liabilities to equity ratio improved to 24.0% as at 31st December, 2005 compared to 36.9% as at 31st December, 2004. The Remaining Group recorded losses before interest and tax for the two financial years 2004 and 2005 and therefore could not produce an interest coverage ratio.

3. Future prospects and outlook of the Group

(i) Manufacturing and trading of battery products

The Group acquired a 80% interest in Talent Cosmos Limited ("Talent Cosmos") in 2004. Talent Cosmos is an investment holding company and its subsidiaries are principally engaged in the manufacturing and trading of batteries and battery-related accessories. Major products include primary battery and re-chargeable battery. According to the Directors, they also cooperated with sizeable Korean battery manufacturing companies to produce "Lithium-ion battery" which is commonly used in digital cameras. As disclosed in the Company's 2005 interim report, an International Organisation for Standardisation quality control system had been adopted in all aspects of the products. We also note in the Company's 2005 annual report that a new factory of over 110,000 square meters will be set up by end-2006 which will be equipped with advanced machineries based on a combination of Japanese and European technologies and facilities. In addition, there will be technical experts to provide direct and onsite supervision to ensure the achievement of the highest quality and efficiency.

According to the Freedonia Group, a US-based research firm, global demand for batteries will increase by 6.5 percent annually from 2006 through 2008. The Freedonia Group predicts that mainland China will emerge as one of the world's biggest battery production bases. According to China Customs statistics, mainland China's battery production volume currently represents at least 25% of the global supply.

The lithium-ion battery market in China is experiencing rapid growth boosted by strong demand in battery-related products such as mobile phones, laptop computers, digital cameras and other personal digital electronic products which are becoming more common in China. China Daily reported on 15th September, 2005 that the increasing popularity of digital products such as cameras and MP3 players had increased demand for batteries, especially those with a longer life. Beijing-based CCID Consulting predicted the market for batteries using new materials including solar cell, alkaline cells and fuel batteries would grow at a compound annual growth rate of 37% from 2005 to 2009.

However, we also note in the Company's 2005 annual report that keen competition in the battery industry exerted downward pressure on prices of battery products. As advised by management of the Company, the competition led to an overall decrease in gross margin from 22.4% in 2004 to 14.1% in 2005. It was highlighted in the Company's 2005 interim report and annual report that the battery manufacturing subsidiary of the Group had implemented a series of stringent cost control measures to enhance its cost competitiveness and operational efficiency including discontinuing non-profitable products. In order to expand its revenue base and cashflow stream, it had explored new product opportunities. The battery manufacturing subsidiary of the Group had actively engaged in new product development by introducing the latest technology into its products. In addition, the invention of "No Mercury Button Cell Battery" had obtained a patent in Beijing, the PRC.

Nevertheless, we note that the battery business of the Group reported losses for the financial years 2004 and 2005. In light of the above, we are of the view that the effectiveness of the continued attempts at cost reduction and cost competitiveness enhancement of the battery business remains doubtful. In addition, we note that the track record of Talent Cosmos is relatively short. Therefore, we wish to point out that such business is subject to high degrees of business risks and there is no certainty that this business would be able to turnaround in the near term.

(ii) Investments in listed and unlisted securities, and property

It was highlighted in our letter to the Independent Board Committee and the Qualifying Shareholders contained in the Company's circular dated 10th September, 2005 that the Company had not formulated any investment strategies or defined its portfolio size, and this remained the case as at the Latest Practicable Date. As such, we are unable to provide an analysis on the outlook for this business. We maintain our view that the Company might be subject to higher investment risks in the absence of any stop-loss policy or maximum investment size.

The Group currently owns a commercial unit in Beijing Huapu International Plaza, Chaoyang District, Beijing, the PRC. The property is currently occupied by the Group as office. We were advised by the Directors that there was no plan to dispose of this property as at the Latest Practicable Date.

In light of the above, we cannot conclude that the Remaining Business on its own will provide foreseeable positive future prospects to the Group.

4. Trading performance of the Shares

Set out in Table 3 is the trading statistics of the Shares for the period from 15th May, 2006 (being the first day the Shares commenced trading on the Stock Exchange on an ex-rights basis) to the Latest Practicable Date (the "Review Period").

Table 3: Trading Statistics for the Review Period

	Closing price *(HK$)*	**Premium (discount) of the China Strategic Offer price to closing price**	**Total trading volume**	**As a percentage to free float Shares** *(Note 2)*
2006				
15th May *(Note 1)*	0.730	(47.1%)	4,647,500	2.6%
16th May *(Note 1)*	0.670	(42.4%)	2,837,500	1.6%
17th May *(Note 1)*	0.680	(43.2%)	2,308,125	1.3%
18th May *(Note 1)*	0.670	(42.4%)	741,950	0.4%
19th May	0.580	(33.4%)	747,500	0.4%
22nd May	0.430	(10.2%)	575,000	0.3%
23rd May	0.385	0.3%	211,250	0.1%
Latest Practicable Date	0.380	1.6%	221,750	0.1%
Highest	**0.730**	**(47.1%)**	**4,647,500**	**2.6%**
Lowest	**0.380**	**(1.6%)**	**211,250**	**0.1%**
Average	**0.566**	**(31.8%)**	**1,536,322**	**0.8%**

Source: the Stock Exchange website

Notes:

1. Adjustments made to take into account the effect of the Share Consolidation.

2. Based on 181,977,749 free float Shares, calculated as 440,797,543 Shares in issue less 258,819,794 Shares held by the Offeror, Hanny and Paul Y as at the Latest Practicable Date.

As shown in Table 3, closing prices of the Shares traded at a premium to the offer price during most of the days in the Review Period. However, we note that the trading volume of the Shares during the Review Period was relatively low, with average trading volume of approximately 0.8% of the free float Shares. As at the Latest Practicable Date, the aggregate amount of Shares owned by the Qualifying Shareholders represented approximately 118.5 times the average daily trading volume for the Review Period.

Having regard to the low level of liquidity in trading of the Shares during the Review Period and the possible reduced free float Shares as a result of the China Strategic Offer, Qualifying Shareholders would unlikely be able to sell a significant number of their Shares in the market without depressing the market price of the Shares. The China Strategic Offer as such represents an alternative exit to the open market for Qualifying Shareholders to realise their investments.

5. Indicative valuation benchmarks

(a) Price/book multiple

Based on the "Unaudited Pro Forma Balance Sheet" of the Group as set out in Appendix III to this Document, the pro forma net asset value ("NAV") per Share amounted to approximately HK$0.456 as at 31st December, 2005. The China Strategic Offer price represents a discount of approximately 15.4% to the NAV per Share and a P/B of approximately 0.8 times.

(b) Price/earnings multiple

We note from the "Unaudited Pro Forma Income Statement" of the Group set out in Appendix III to this Document that the Remaining Group had a pro forma net loss of approximately HK$41.3 million for the year ended 31st December, 2005, the use of price/earnings multiple as reference to assess the China Strategic Offer price is therefore not applicable.

(c) Dividend yield

The Group has not declared any dividend in the past five years, the use of dividend yield as reference to assess the China Strategic Offer price is therefore not applicable either.

6. Cash offer precedents

For the purpose of assessing the fairness and reasonableness of the China Strategic Offer price, we have attempted to compare it with the cash offers made within a twelve full month period prior to the Latest Practicable Date for companies listed on the main board of the Stock Exchange which are engaged in comparable business to the Remaining Business. However, we were unable to identify any cash offers in the aforesaid period by companies engaged in similar business to the Group. As an alternative, we compared the China Strategic Offer with all cash offers (the "Comparable Offers") made for companies that were listed on the main board of the Stock Exchange (the "Comparable Companies") within a twelve full month period prior to the Latest Practicable Date.

Table 4: Comparable Offers

Company (stock code)	Principal activities	Date of announcement	Share offer price	Closing price as at the last trading day	Net asset value per share	Premium/(discount) of share offer price over/(to) closing price as at the last trading day	P/B
			HK$	*HK$*	*HK$* *(Note 1)*	*%*	*times*
Geely Automobile Holdings Limited (175)	Manufacturing and trading of automobile parts and related automobile components in the PRC	10-May-05	0.090	0.460	0.159	(80.4)	0.6
Qingling Motors Company Limited (1122)	Manufacture and sale of light-duty trucks, multi-purposes vehicles, pick-up trucks, heavy duty trucks, other vehicles and automobile parts and accessories	20-May-05	1.920	1.480	2.729	29.7	0.7
Goldigit Atom-tech Holdings Limited (2362)	Sales and marketing of chemical pesticides	24-May-05	0.100	0.151	0.144	(33.8)	0.7
Greater China Holdings Limited (431)	Production and sales of organic fertilizers, property investment and investment holding	17-Jun-05	0.500	0.430	0.558	16.3	0.9

Company (stock code)	Principal activities	Date of announcement	Share offer price *HK$*	Closing price as at the last trading day *HK$*	Net asset value per share *HK$* *(Note 1)*	Premium/(discount) of share offer price over/(to) closing price as at the last trading day *%*	P/B *times*
Sunday Communications Limited (866)	Sales of mobile phones and accessories, mobile services, international telecommunications and other services	22-Jun-05	0.650	0.530	0.235	22.6	2.8
The Hong Kong Building and Loan Agency Limited (145)	Investment holding, provision of mortgage finance and other related services and treasury investments	06-Jun-05	1.0932	1.020	0.975	7.2	1.1
China Investment Fund Company Limited (612)	Investment in listed and unlisted securities	05-Aug-05	0.1625	0.149	0.149	9.1	1.1
Wanji Pharmaceutical Holdings Limited (835)	Distribution of medical equipment and medicinal and winery products	12-Aug-05	0.100	0.140	0.012	(28.6)	8.2
New Spring Holdings Limited (690)	Manufacturing and trading of packaging products, paper gift items and promotional products and investment holding	01-Sep-05	0.497	0.500	0.420	(0.6)	1.2
UDL Holdings Limited (620)	Marine engineering and provision of miscellaneous engineering and management services	07-Sep-05	0.040	0.023 *(Note 2)*	n.a.	73.9	n.a. *(Note 3)*
Geo Maxima Energy Holdings Limited (702)	Provision of crude oil transportation, storage and unloading services, operation of natural gas pipeline network and refilling stations supplying natural gas and liquefied petroleum gas ("LPG") for vehicle use and sale of LPG in cylinder	08-Sep-05	0.0362	0.055	0.116	(34.2)	0.3

Company (stock code)	Principal activities	Date of announcement	Share offer price *HK$*	Closing price as at the last trading day *HK$*	Net asset value per share *HK$* *(Note 1)*	Premium/ (discount) of share offer price over/(to) closing price as at the last trading day *%*	P/B *times*
Goldigit Atom-tech Holdings Limited (2362)	Sales and marketing of chemical pesticides	12-Sep-05	0.200	0.120	0.144	66.7	1.4
China National Resources Development Holdings Limited (661)	Securities trading and investments, property investment, property management and computer related service	14-Sep-05	0.033	0.175	0.021	(81.1)	1.6
China Resources Peoples Telephone Company Limited (331)	Provision of mobile voice and data communications services in Hong Kong	20-Oct-05	4.550	3.900	1.402	16.7	3.2
MAXX Bioscience Holdings Limited (512)	Investment holding; manufacturing, trading and distribution of health products, health drinks and pharmaceutical products; research and development of drug products and bioscience related projects	16-Dec-05	0.075	0.103	0.089	(27.2)	0.8
China Motion Telecom International Limited (989)	The provision of international telecommunication services, mobile communications services and distribution and retail chain	12-Jan-06	0.069	0.115	0.209	(39.7)	0.3
China Nan Feng Group Limited (979)	Construction contractor and provision of management services	26-Jan-06	0.093	0.075	0.008	24.0	11.3
Chun Wo Holdings Limited (711)	Civil engineering, electrical and mechanical engineering, foundation and building construction work, property development and property investment	22-Feb-06	0.840	0.710	1.034	18.3	0.8

Company (stock code)	Principal activities	Date of announcement	Share offer price HK$	Closing price as at the last trading day HK$	Net asset value per share HK$ (Note 1)	Premium/(discount) of share offer price over/(to) closing price as at the last trading day %	P/B times
Nority International Group Limited (660)	manufactures and exports athletic and athletic-style leisure footwear and sports shoes	4-Apr-06	0.4700	0.410 *(Note 4)*	0.751	14.6	0.6
Cross Harbour (Holdings) Limited (32)	Operation of driver training centres, operations of the Western Harbour Tunnel and electronic toll operation, and treasury	10-Apr-06	4.083	6.750	7.04	(39.5)	0.6
First Pacific Company Limited (142)	Telecommunications and consumer food products	28-Apr-06	2.200	3.250	0.94	(32.3)	2.3
					4.210 *(Note 5)*	(22.8)	0.5
CMSC Technologies Corporation (597)	Own and operate the open semiconductor foundries in China, provide manufacturing services for complementary metal oxide silicon logic, mixed signal, high voltage, non-volatile memory, electrically erasable programmable read-only memory integrated circuits, and double-difussed metal oxide silicon integrated circuits	12-May-06	0.420	0.400	0.457 *(Note 7)*	5.0%	0.9
Maximum						73.9	11.3
Minimum						(81.1)	0.3
The Company	Manufacture and trading of battery products and related accessories, and investment in securities and property	19-Apr-05	0.386	0.380 *(Note 6)*	0.456	1.6	0.8

Source: Stock Exchange website

Notes:

1. Calculated as the audited/unaudited net assets divided by the number of shares in issue as at the latest balance sheet date prior to the respective date of announcement and n.a. denotes not applicable as these Comparable Companies recorded audited/unaudited net deficit as at their latest balance sheet date prior to the respective dates of announcement.

2. Being the closing prices of the shares on the date of announcement as the shares had not been suspended for trading prior to the release of the announcement.

3. n.a. denotes not applicable as this Comparable Company recorded audited/unaudited net deficit as at its latest balance sheet date prior to the date of announcement.

4. Being the closing price of the Shares on the last full trading day before the date of the announcement.

5. Being the adjusted net asset value per share as disclosed in First Pacific Company Limited's annual report for the year ended 31st December, 2005.

6. Being the closing price on the Latest Practicable Date.

7. Net asset of value of approximately US$0.059 per share has been converted into HK$ at the exchange rate of US$1=HK$7.8.

As indicated in the table above, the share offer prices of the Comparable Offers to their respective closing prices as at the last trading day range from a premium of approximately 73.9% to a discount of approximately 81.1%. The China Strategic Offer price of HK$0.386 represents a premium of approximately 1.6% over the closing price of the Shares as at the Latest Practicable Date, which is within the range of the Comparable Offers.

The P/B ratios of the Comparable Offers range from 0.3 times to a maximum of approximately 11.3 times, with an average of approximately 2.1 times. As noted in Table 4, the cash offer of UDL Holdings Limited could not produce a P/B ratio as it recorded audited net deficit as at its latest balance sheet date prior to its date of announcement. The implied P/B ratio of the China Strategic Offer price of approximately 0.8 times therefore falls within the market range.

Based on the above, we are of the view that the China Strategic Offer price is fair and reasonable so far as the Qualifying Shareholders are concerned.

7. Trading statistics of Industry Comparables

In assessing the fairness and reasonableness of the China Strategic Offer price, we have also reviewed the trading statistics of three companies listed on the main board of the Stock Exchange (the "Industry Comparables") whose businesses largely consist of manufacturing and trading of battery products and are considered to be broadly comparable to the principal business of the Remaining Group:

Table 5: Trading Statistics of the Industry Comparables

Industry Comparables (stock code)	**Principal business**	**Market Capitalisation** *(HK$'million)*	**P/E** *(x)*	**P/B** *(x)*	**Dividend yield** *(%)*
Coslight Technology International Group Ltd. (1043)	Manufacture and sale of sealed lead acid batteries and related accessories, lithium ion batteries, and electricity control device	1,039.1	9.7	1.1	2.5
Gold Peak Industries (Holdings) Ltd. (40)	Development, manufacture and distribution of batteries, electrical installation products, automotive electronics, speciality electronics, parts and components, wire harness and cables, loudspeakers and LED display screens	631.7	8.9	0.5	5.2
BYD Co. Ltd. (1211)	Research, development, manufacture and sale of Li-ion batteries, NiCd batteries and NiMh batteries.	7,553.0	14.8	1.8	n.a.
Maximum			14.8	1.8	5.2
Minimum			8.9	0.5	2.5
Average			11.1	1.1	3.9
The Company		167.5	n.a.	0.8	n.a.

Notes:

1. Market capitalisation and valuation multiples of the Industry Comparables are quoted from Bloomberg.

2. Price to book ratio for the Company is calculated as the China Strategic Offer price divided by the unaudited pro forma net asset value of HK$0.456 per Share as at 31st December, 2005 based on the "Unaudited Pro Forma Balance Sheet" of the Group as set out in Appendix III to this Document and 440,797,543 Shares in issue as at the Latest Practicable Date.

3. Market capitslisation of the Company is calculated as the closing price of the Shares times 440,797,543 Shares in issue as at the Latest Practicable Date.

As illustrated in Table 5 above, the Company's implied P/B ratio, based on the China Strategic Offer price for the Shares, of 0.8 times is in line with the range of the Industry Comparables. We are of the view that the China Strategic Offer price is fair and reasonable so far as the Qualifying Shareholders are concerned.

8. Intention of the Offeror regarding the future of the Company

As set out in the "Letter from Kingston Securities" contained in the Document, it is the intention of the Offeror to continue the Remaining Business of the Company and 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 Remaining Business. It is the intention of the Offeror to hold the Shares acquired from the Share Sale on a long term basis. 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. As at the Latest Practicable Date, the Offeror had no concrete plan as to any changes to the existing business of the Company including any redeployment of the fixed assets of the Group and any injection of assets into the Group. Due to lack of specific information on the future business plans of the Offeror, we can not draw the conclusion that there will be any significant change in the scale of operation of the Group in the foreseeable future.

9. Maintaining the listing status of the Company

The Letter from Kingston Securities states, inter alia, that:

(i) 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 issued 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 Share or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

(ii) The Stock Exchange has also stated that, if the Company remains a listed company, any future injections of assets into or disposals of assets of the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders where any acquisition or disposal by the Company is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of Company. The Stock Exchange also has the power pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

(iii) The Offeror has no intention to privatise the Company. The Offeror intends to maintain the listing of the Shares on the Stock Exchange, and each of the Company, the Offeror and their respective directors and the new directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that 25% of the issued share capital of the Company is in the hands of the public which is in compliance with the Listing Rules.

Despite the intention of the Offeror, in light of the above statements made by the Stock Exchange, Qualifying Shareholders should note that, upon completion of the China Strategic Offer, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

RECOMMENDATION

Having considered the principal factors discussed above, in summary:

1. the Group recorded a pro forma loss of HK$41.3 million from the Remaining Business for the year ended 31st December, 2005;

2. as noted in Appendix II to the Document and Table 1, the Group has a history of losses, there is no assurance that the Company could become profitable or its losses would not increase in the future;

3. the business prospects of the Remaining Business remain uncertain, in particular, the future outlook of the battery business depends on the successful implementation of effective cost reduction measures, however, such measures proved ineffective for the financial years 2004 and 2005;

4. the Offeror's business plans lack specific details as to the future development of the Group;

5. in view of the low liquidity of the Shares during the Review Period, Qualifying Shareholders may find it difficult to dispose of their Shares in the open market without adversely affecting the market price of the Shares; and

6. the P/B ratio of the Company based on the China Strategic Offer price is in line with the range based on the Comparable Offers and the Industry Comparables.

we are of the view that the China Strategic Offer in general (including the China Strategic Offer price) is fair and reasonable so far as the Qualifying Shareholders are concerned. We therefore recommend the Independent Board Committee to advise the Qualifying Shareholders to accept the China Strategic Offer.

However, given the fact that the Shares were trading at a premium over the China Strategic Offer price during most of the days in the Review Period and the average closing price of the Shares during the Review Period represented a premium of approximately 31.8% to the China Strategic Offer price, Qualifying Shareholders who intend to accept the China Strategic Offer should be reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should dispose of their Shares, in whole or in part, in the open market instead of accepting the China Strategic Offer only if, by doing so, the net realisable amount would be higher than that receivable under the China Strategic Offer.

For those Qualifying Shareholders who wish to retain part or all of their investments in the Shares, they should carefully consider the future intentions of the Offeror regarding the Group and evaluate the future prospects of the Group, details of which are set out in the letter from Kingston Securities contained in the Document.

Qualifying Shareholders should read carefully the procedures for accepting the China Strategic Offer as detailed in Appendix I to the Document and are strongly advised that the decision to realise or hold their investment in the Shares is subject to individual circumstances as well as their own investment objectives and tax position.

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

1. PROCEDURE FOR ACCEPTANCE

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares are in your name, and you wish to accept the China Strategic Offer, you must send the duly completed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title and/or any indemnity or indemnities required in respect thereof, to the Company's share registrar, Standard Registars Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (the "Registrar") in any event not later than 4:00 p.m. on Friday, 16th June, 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is in the name of a nominee company or some name other than your own, and you wish to accept the China Strategic Offer whether in full or in respect of part of your holding of Shares, you must either:

(a) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, with the nominee company, or other nominee, with instructions authorising it to accept the China Strategic Offer on your behalf and requesting it to deliver the relevant Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title to the Registrar; or

(b) arrange for the Shares to be registered in your name by the Company through the Registrar and send the relevant Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title to the Registrar; or

(c) if your Shares have been lodged with your licensed securities dealer in securities/custodian bank through CCASS, instruct your licensed securities dealer in securities/custodian bank to authorise HKSCC Nominees Limited to accept the China Strategic Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer in securities/custodian bank as required by them; or

(d) if your Shares have been lodged with your investor participant's account with CCASS, authorise your instruction via the CCASS phone system or CCASS internet system on or before the deadline set by HKSCC Nominees Limited.

If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is not readily available and/or is lost and you wish to accept the China Strategic Offer, as the case may be, the relevant Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar a letter of indemnity which, when completed in accordance with the instruction given, should be returned to the Registrar.

If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the China Strategic Offer, you should nevertheless complete the relevant Form of Acceptance and deliver it/them to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to any of Kingston Securities, Kingston Corporate Finance Limited, the Company, the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificates to the Registrar and to authorise and instruct the Registrar to hold such certificate(s), subject to the terms and conditions of the China Strategic Offer, as if it/they were delivered to the Registrar with the relevant Form of Acceptance.

An acceptance may not be counted as valid unless:

(a) it is received by the Registrar on or before the latest time for acceptance at 4:00 p.m. on Friday, 16th June, 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code and the Registrar has recorded that the acceptance has been so received; and

(b) the Form of Acceptance is duly completed and is:

(i) accompanied by Share certificate(s) in respect of the relevant Shares and, if those certificate(s) are not in the name of the acceptor, such other documents (e.g. a duly stamped transfer of the relevant Shares in blank or in favour of the acceptor executed by the registered holder) in order to establish the right of the acceptor to become the registered holder of the relevant Shares; or

(ii) from a registered holder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another subparagraph of this paragraph (b)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered holder, appropriate evidence of authority (e.g. grant of probate or certified copy of a power of attorney) must be produced.

No acknowledgement of receipt of any Form of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT

Provided that the relevant Form of Acceptance and the relevant Share certificate(s) and, or transfer receipt(s) and, or any document(s) of title (and, or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and have been received by the Registrar not later than by 4:00 p.m. on Friday, 16th June, 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount representing the cash consideration due to you in respect of the Shares tendered by you under the China Strategic Offer, less seller's ad valorem stamp duty payable by you, will be despatched to you to the address as specified on the Form of Acceptance by ordinary post at your own risk as soon as possible but in any event within 10 days of the date on which all the relevant documents which render such acceptance complete and valid are received by the Registrar.

Settlement of the consideration to which any accepting Shareholder are entitled under the China Strategic Offer will be implemented in full in accordance with the terms of the China Strategic Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholder.

3. ACCEPTANCE PERIOD, REVISIONS AND EXTENSIONS

If the China Strategic Offer is revised or extended, the announcement of such revision or extension will state the next closing date. If the China Strategic Offer is revised or extended, the China Strategic Offer will remain open for acceptance until further notice. In such case, at least 14 days' notice in writing must be given, before the China Strategic Offer is closed, to those Shareholders who have not accepted the China Strategic Offer and an announcement will be published.

4. ANNOUNCEMENTS

(i) By 6:00 p.m. on Friday, 16th June, 2006, which is the closing date of the China Strategic Offer, the Offeror must inform the Executive and the Stock Exchange of its decisions in relation to revision, extension or expiry of the China Strategic Offer. The Offeror shall publish an announcement on the Stock Exchange's website by 7:00 p.m. on the closing date of the China Strategic Offer stating whether the China Strategic Offer have expired, been extended or revised (as the case may be). Such announcement will be published on the next business day in accordance with paragraph (iii) below. The announcement shall specify the total number of Shares and the rights over Shares (a) which the Offeror and any person acting in concert with it, directly and indirectly, owns or controls as at the date of that announcement; (b) for which valid acceptances have been received; (c) held, controlled or directed by the Offeror or persons acting in concert with it before the offer period of the China Strategic Offer; and (d) acquired or agreed to be acquired by the Offeror or any person acting in concert with it during the offer period of the China Strategic Offer.

The announcement must specify the percentages of the relevant class of share capital and the percentages of voting rights of the Company represented by the above number of Shares.

(ii) Acceptances not complete in all respects and purchases must only be included in the totals in the announcement of results of China Strategic Offer where they could be counted towards fulfilling an acceptance condition under the Takeovers Code.

(iii) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the China Strategic Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one English language newspaper and one Chinese language newspaper, being in each case a newspaper which is published daily and circulated generally in Hong Kong and specified in the list of newspapers issued and published in the Gazette for the purpose of section 71A of the Companies Ordinance.

5. RIGHT OF WITHDRAWAL

Acceptances of the China Strategic Offer shall be irrevocable and will not be permitted to be withdrawn, except in the circumstances to the effect that if the Offeror is unable to comply with any of the requirements of making announcements under Rule 19 of the Takeovers Code relating to the China Strategic Offer, the Executive may require that the accepting shareholders be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements are met.

6. STAMP DUTY

Stamp duty at a rate of HK$1.00 for every HK$1,000 (or part thereof) of the amount payable which is based on the number of accepted Shares and the market value of the Share or the China Strategic Offer price (subject to the discretion of Inland Revenue Department of Hong Kong) in respect of relevant acceptance will be deducted from the consideration payable to the accepting Shareholders. The Offeror will then on behalf of the accepting Shareholders pay such amount to the Inland Revenue Department of Hong Kong. The Offeror will also pay stamp duty payable by it as purchaser of the Shares pursuant to the China Strategic Offer based on the gross consideration payable to the accepting Shareholders in respect of the China Strategic Offer.

7. OVERSEAS SHAREHOLDERS

The making of the China Strategic Offer to Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders should obtain appropriate legal advice on, inform themselves about and observe any applicable legal requirement. It is the responsibility of each Overseas Shareholder who wishes to accept the China Strategic Offer to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements.

8. GENERAL

(i) The Shares subject to the China Strategic Offer will be acquired ex-entitlement to the dividend distribution in specie of the GDI Shares but cum the right to receive all dividends or distributions declared, paid or made on or after completion of the Group Reorganisation and free from all third party rights attaching thereto on or after that date. Acceptance of the China Strategic Offer by any person or persons holding Shares will be deemed to constitute a warranty by such person or persons to the Offeror that the Share(s) acquired under the China Strategic Offer are sold by any such person or persons free from all liens, charges, encumbrances, equities and third party rights and together with all rights attaching thereto, including the right to receive all dividends and distributions declared, made or paid on or after the completion of the Group Reorganisation.

(ii) All communications, notices, Forms of Acceptance, certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, through post at their own risk, and none of the Offeror, the Company, Kingston Securities, Kingston Corporate Finance Limited nor the Registrar or any of their respective agents, accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.

(iii) The provisions set out in the Forms of Acceptance form part of the terms of the China Strategic Offer.

(iv) The accidental omission to despatch this composite document and/or the Form of Acceptance or any of them to any person to whom the China Strategic Offer are made will not invalidate the China Strategic Offer in any way.

(v) The China Strategic Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

(vi) Due execution of a Form of Acceptance will constitute an authority to the Company, any Directors, the Offeror, any directors of the Offeror, Kingston Securities, Kingston Corporate Finance Limited or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the China Strategic Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as they may direct, the Shares in respect of which such person or persons has/have accepted the China Strategic Offer.

(vii) References to the China Strategic Offer in this composite document and in the Forms of Acceptance shall include any extension and/or revision thereof.

(viii) The English text of this composite document and of the Forms of Acceptance shall prevail over their respective Chinese text.

SHARE CAPITAL

Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

		HK$
Authorised:		
8,000,000,000	Shares	800,000,000.00
Issued and fully paid:		
440,797,543	Shares	44,079,754.30

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. Save for the Capital Reorganisation, there has been no change in the authorised and issued share capital of the Company since the last financial year ended 31st December, 2005.

As at the Latest Practicable Date, the Group did not have any outstanding options, warrants or other securities carrying rights of conversion into or exchange or subscription for the Shares.

FINANCIAL SUMMARY

The following is a summary of the audited consolidated profit and loss accounts and consolidated balance sheet of the Group for the three years ended 31st December, 2003, 31st December, 2004 and 31st December, 2005 extracted from the relevant annual reports of the Company, which have not taken into account the effect of the Group Reorganisation on the Group. The auditors of the Company has not issued any qualified opinions toward the Company's financial statements for each of the three years ended 31st December, 2005. Shareholders are advised to refer to "Unaudited pro forma financial information on the Group" set out in Appendix III to this composite document for the effect of the Group Reorganisation on the Group.

	Year ended 31st December,		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*
RESULTS			
Turnover	38,459	27,141	2,884,493
Loss before taxation	(95,633)	(129,267)	(169,184)
Taxation	(4,247)	(6,464)	(10,935)
Loss for the year from continuing operations	(99,880)	(135,731)	(180,119)
Profit for the year from discontinued operations	—	1,511	—
Loss for the year	(99,880)	(134,220)	(180,119)
Attributable to:			
Equity holders of the parent	(95,200)	(179,244)	(189,528)
Minority interests	(4,680)	45,024	9,409
	(99,880)	(134,220)	(180,119)
Dividend	—	—	—
Loss per share			
— Basic	HK$(0.11)	HK$(0.21)	HK$(0.23)
— Diluted	N/A	N/A	N/A

	As at 31st December,		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*
Total assets	1,958,869	1,899,356	2,189,244
Total liabilities	(303,300)	(295,202)	(405,704)
	1,655,569	1,604,154	1,783,540
Equity attributable to equity holders of the parent	1,325,314	1,308,545	1,533,380
Minority interests	330,255	295,609	250,160
	1,655,569	1,604,154	1,783,540

Notes: 1. *The audited financial statements of the Group for the years ended 31st December, 2003, 2004 and 2005 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for accounting periods beginning on or after 1st January, 2005.*

2. *The amounts have been restated as a result of application of new and revised Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.*

3. *The amounts have been extracted from the annual report of the Company for the year ended 31st December, 2003 and have not been restated as a result of application of new and revised Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The adoption of the new Hong Kong Financial Reporting Standards had no significant impact on the Group's financial position as at 31st December, 2003.*

4. *There is no extraordinary or exceptional item that is required to be included in the audited consolidated income statement of the Company for each of the three years ended 31st December, 2005.*

FINANCIAL STATEMENTS

The following is a summary of the audited consolidated financial statements of the Group for the two years ended 31st December, 2004 and 2005 as extracted from the relevant annual reports of the Company.

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Turnover	*7*	38,459	27,141
Cost of sales		(32,936)	(21,074)
Gross profit		5,523	6,067
Other income	*9*	83,623	59,762
Distribution costs		(2,974)	(850)
Administrative expenses		(59,948)	(36,662)
Other expenses	*10(a)*	(67,089)	(40,325)
Allowances for loans and interest receivable	*10(b)*	(37,445)	(140,889)
Finance costs	*11*	(17,630)	(17,434)
Change in fair value of conversion option of unlisted convertible note	*23(a)(iv)*	(39,743)	—
(Loss) gain on dilution/disposal of interests in associates		(2,814)	81,631
Share of results of associates		42,864	(40,567)
Loss before taxation		(95,633)	(129,267)
Taxation	*12*	(4,247)	(6,464)
Loss for the year from continuing operations		(99,880)	(135,731)
Profit for the year from discontinued operations	*15*	—	1,511
Loss for the year	*13*	(99,880)	(134,220)
Attributable to:			
Equity holders of the parent		(95,200)	(179,244)
Minority interests		(4,680)	45,024
		(99,880)	(134,220)
Loss per share	*16*		
From continuing and discontinued operations			
— Basic		(0.11)	(0.21)
— Diluted		N/A	N/A

Consolidated Balance Sheet

as at 31st December, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (restated)
Non-Current Assets			
Property, plant and equipment	*17*	125,957	14,971
Prepaid lease payments	*18*	27,763	19,820
Deposit paid for acquisition of interest in properties	*19*	55,716	47,012
Payment for acquisition of subsidiaries	*20*	—	40,000
Goodwill	*21*	34,930	25,807
Interests in associates	*23(a)*	558,738	425,808
Loans and interest receivables — due after one year	*24*	—	37,044
Other investments	*25*	—	194,050
Investments in securities at fair value through profit or loss	*25*	117,919	—
		921,023	804,512
Current Assets			
Other asset	*26*	229,288	227,167
Inventories	*27*	12,409	13,708
Trade receivables	*28*	4,773	6,980
Prepaid lease payments	*18*	620	447
Amounts due from associates	*23(b)*	159,214	57,163
Loans and interest receivable — due within one year	*24*	464,232	563,666
Other receivables, deposits and prepayments		42,909	86,464
Other investments	*25*	—	19,849
Investments in securities held for trading	*25*	7,552	—
Pledged bank deposits	*43*	1,036	1,012
Bank balances and cash		115,813	118,388
		1,037,846	1,094,844
Current Liabilities			
Trade payables, other payables and accrued charges	*29*	56,159	46,075
Amounts due to related companies — due within one year	*30*	200,287	692
Payables	*31*	3,379	7,945
Amounts due to associates	*23(c)*	286	3,737
Income and other tax payable		13,387	9,185
Bank loans and other borrowings — due within one year	*32*	8,627	42,622
		282,125	110,256
Net Current Assets		755,721	984,588
		1,676,744	1,789,100

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Capital and Reserves			
Share capital	33	88,160	88,160
Reserves		1,237,154	1,220,385
Equity attributable to equity holders of the parent		1,325,314	1,308,545
Minority Interests		330,255	295,609
Total equity		1,655,569	1,604,154
Non-Current Liabilities			
Bank loans and other borrowings			
— due after one year	32	—	3
Amounts due to related companies			
— due after one year	30	—	184,943
Deferred tax liabilities	38	21,175	—
		21,175	184,946
		1,676,744	1,789,100

Balance Sheet

as at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-Current Assets			
Property, plant and equipment	17	2,426	2,285
Prepaid lease payments	18	3,862	3,980
Amounts due from subsidiaries	22	1,937,683	1,835,579
Investments in subsidiaries	22	145,034	145,034
Interests in associates	23(a)	2	2
Investments in securities at fair value through profit or loss	25	825	—
Investments in securities	25	—	825
		2,089,832	1,987,705
Current Assets			
Prepaid lease payments	18	117	117
Amounts due from associates	23(b)	2,989	563
Loans and interest receivables — due within one year	24	9,292	6,735
Other receivables, deposits and prepayments		3,008	3,122
Bank balances and cash		8,745	43,550
		24,151	54,087
Current Liabilities			
Other payables and accrued charges		3,453	8,013
Amounts due to related companies — due within one year	30	199,731	275
Amounts due to subsidiaries	22	737,054	—
Bank loans and other borrowings — due within one year	32	3	10
		940,241	8,298
Net Current (Liabilities) Assets		(916,090)	45,789
		1,173,742	2,033,494
Capital and Reserves			
Share capital	33	88,160	88,160
Reserves	35	1,085,582	920,163
		1,173,742	1,008,323
Non-Current Liabilities			
Bank loans and other borrowings — due after one year	32	—	3
Amounts due to subsidiaries	22	—	840,225
Amounts due to related companies — due after one year	30	—	184,943
		—	1,025,171
		1,173,742	2,033,494

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Attributable to equity holders of the parent										
	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$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2004	85,660	1,898,976	414,881	233	110,472	(8,468)	18,905	(987,279)	1,533,380	250,160	1,783,540
Exchange adjustment	—	—	—	—	—	(588)	—	—	(588)	(756)	(1,344)
Share of net reserves movement of associates	—	—	—	—	—	(99)	(307)	—	(406)	—	(406)
Net expenses recognised directly in equity	—	—	—	—	—	(687)	(307)	—	(994)	(756)	(1,750)
Loss for the year — as restated	—	—	—	—	—	—	—	(179,244)	(179,244)	45,024	(134,220)
Total recognised income (expenses) for the year	—	—	—	—	—	(687)	(307)	(179,244)	(180,238)	44,268	(135,970)
Issue of shares on exercise of share options	2,500	1,940	—	—	—	—	—	—	4,440	—	4,440
Arising on acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	1,181	1,181
Realised on disposal/dilution of interests in associates	—	—	—	—	(48,225)	(825)	—	—	(49,050)	—	(49,050)
Realised on disposal/dilution of interests in subsidiaries	—	—	—	—	—	13	—	—	13	—	13
At 31st December, 2004 — as restated	88,160	1,900,916	414,881	233	62,247	(9,967)	18,598	(1,166,523)	1,308,545	295,609	1,604,154
Effects of changes in accounting policies *(Note 3)*	—	—	—	—	(62,247)	—	—	155,451	93,204	21,942	115,146
At 1st January, 2005 — as restated	88,160	1,900,916	414,881	233	—	(9,967)	18,598	(1,011,072)	1,401,749	317,551	1,719,300
Exchange adjustment	—	—	—	—	—	(763)	—	—	(763)	(1,027)	(1,790)
Share of net reserves movement of associates	—	—	—	—	—	—	35,365	—	35,365	—	35,365
Share of other non-distributable reserves by minority shareholders	—	—	—	—	—	—	(15,837)	—	(15,837)	15,837	—
Net (expenses) income recognised directly in equity	—	—	—	—	—	(763)	19,528	—	18,765	14,810	33,575
Loss for the year	—	—	—	—	—	—	—	(95,200)	(95,200)	(4,680)	(99,880)
Total recognised income (expense) for the year	—	—	—	—	—	(763)	19,528	(95,200)	(76,435)	10,130	(66,305)
Arising on acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	2,574	2,574
At 31st December, 2005	88,160	1,900,916	414,881	233	—	(10,730)	38,126	(1,106,272)	1,325,314	330,255	1,655,569

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

The other non-distributable reserves of the Group include statutory reserves required to be appropriated from the profit after taxation of the Company's subsidiaries and associates of The People's Republic of China ("PRC") 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 31st December, 2005

	2005	**2004**
	HK$'000	*HK$'000*
		(restated)
OPERATING ACTIVITIES		
Loss before taxation	(95,633)	(129,267)
Adjustments for:		
Finance costs	17,630	17,434
Change in fair value of conversion option of unlisted convertible note	39,743	—
Loss (gain) on dilution of interests in associates	2,814	(81,631)
Share of results of associates	(42,864)	40,567
Profit from discontinued operations	—	1,511
Loss on disposal of interests in subsidiaries	—	5,266
Dividend income	(8,402)	(1,542)
Interest income	(58,084)	(54,591)
Amortisation of prepaid lease payments	519	447
Depreciation of property, plant and equipment	8,102	3,798
Amortisation of goodwill	—	1,160
Changes in fair value on investment in securities at fair value through profit or loss	34,652	—
Changes in fair value of investments in securities held for trading	9,429	12,549
(Gain) loss on disposal of investments in securities are fair value through profit or loss	(10,575)	5,478
Allowances for bad and doubtful debts	18,575	17,286
Allowances for amounts due from associates	—	4,989
Allowances for loan and interest receivables	37,445	140,889
Loss (gain) on disposal of property, plant and equipment	128	(17)
Operating cash flows before movements in working capital	(46,521)	(15,674)
Decrease in inventories	1,305	14,028
Decrease in trade receivables	2,282	3,386
Decrease (increase) in other receivables, deposits and prepayments	23,437	(43,778)
Increase (decrease) in trade payables, other payables and accrued charges	9,840	(32,641)
Increase in amounts due from associates	(4,650)	(1,611)
Decrease in payables	—	(7,919)
Increase in other asset	(2,121)	(449)
Net cash outflow from operations	(16,428)	(84,658)
Tax paid in other jurisdictions	(45)	(313)
NET CASH USED IN OPERATING ACTIVITIES	(16,473)	(84,971)

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
INVESTING ACTIVITIES			
Repayment of loans and interest receivables		384,736	204,919
Repayment from associates		99,500	140,182
Proceeds from disposal of investments in securities		134,734	204,740
Proceeds from disposal of property, plant and equipment		—	569
Increase in pledged bank deposits		(24)	(1,012)
Interest received		5,661	3,478
Proceeds from disposal/dilution of interests in associates		—	110,341
Proceeds from disposal/dilution of subsidiaries (net of cash and cash equivalents disposed of)	*36*	—	13,324
Dividend income received from investments in securities		8,402	1,542
Dividend income received from associates		2,427	—
Amount advanced to loans and interest receivables		(293,922)	(519,573)
Amount advanced to associates		(107,708)	(163,828)
Purchase of investments in securities		(78,377)	(43,304)
Payment of prepaid lease payments		(8,635)	—
Purchase of property, plant and equipment		(3,765)	(4,330)
Deposit paid for acquisition of interests in property		(8,704)	(326)
Investment in associates		(63,152)	—
Purchase of subsidiaries (net of cash and cash equivalents acquired)	*37*	(9,651)	(26,744)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		61,522	(80,022)

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005	**2004**
	HK$'000	*HK$'000*
		(restated)
FINANCING ACTIVITIES		
Advance from payables	469	18,979
New bank loans and other borrowings raised	—	57,257
Proceeds from issue of shares	—	4,440
Repayment of bank loans and other borrowings	(34,400)	(4,827)
Repayment to payables	(4,611)	(111,713)
(Repayment to) advance from associates	(3,451)	1,354
Repayment of obligations under finance leases	(10)	(9)
Interest paid	(3,402)	(2,282)
NET CASH USED IN FINANCING ACTIVITIES	(45,405)	(36,801)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(356)	(201,794)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	111,588	314,744
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(2,631)	(1,362)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	108,601	111,588
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	115,813	118,388
Bank overdrafts	(7,212)	(6,800)
	108,601	111,588

Notes to the Financial Statements

For the year ended 31st December, 2005

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 address of the registered office and principal place of business of the Company are 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 46 and 23.

On 19th April, 2005, the Company announced a proposed group reorganisation ("Group Reorganisation") 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 Group Reorganisation; 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 reorganisation ("Capital Reorganisation") as described in note 33.

Details of the Group Reorganisation and Capital Reorganisation are set out in a circular of the Company dated 10th September, 2005. The Group Reorganisation and Capital Reorganisation have not yet been completed at the date of this report.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of these new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting periods are prepared and presented:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Business combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life.

The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$9,492,000 have been transferred to the Group's deficit on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$1,005,000 with a corresponding decrease in the cost of goodwill (see note 21). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 are not required to be restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005, of which negative goodwill of approximately HK$71,739,000 was previously recorded in reserves and approximately HK$47,058,000 was previously presented as a deduction from interests in associates), with a corresponding decrease to deficits as at 1st January, 2005.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. As no material contingent liabilities of the acquirees were identified in relation to acquisitions that took place in the current year, this change in accounting policy has had no material effect on the goodwill calculation. In addition, because the revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1st January, 2005, comparative figures for 2004 have not been restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The adoption of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. The principal effects on the Group as a result of implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses while other investments" are measured at fair value, with unrealised holding gains or losses included in the profit or loss. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

From 1st January, 2005 onwards, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Other investments classified under non-current assets with carrying amounts of approximately of HK$194,050,000 were reclassified to investments in securities at fair value through profit or loss, which are designated to be stated at fair value through profit or loss. Other investments classified under current assets with carrying amount of approximately of HK$19,849,000 was also reclassified as investments in securities held for trading on 1st January, 2005.

Investments in securities of the Company classified under noncurrent assets with carrying amounts of approximately HK$825,000 were reclassified to investments in securities at fair value through profit or loss, which are designated to be stated of fair value through profit or loss on 1st January, 2005.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss" are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, the Company has noncurrent interest-free amounts due from subsidiaries stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free amounts due from subsidiaries are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, an adjustment on HK$279,987,000 had been made on 1st January, 2005 to increase the Company's investments in subsidiaries and to reduce the balance of amounts due from subsidiaries by the same amount, which represents the deemed capital contribution to subsidiaries upon initial recognition of advances made to them. As the directors consider that this deemed capital contribution will not be recovered, a full impairments loss was made on this deemed capital contribution as at 1st January, 2005. Accordingly, there was no impact on the results of the Company upon application of HKAS 39.

Prior to the application of HKAS 39, an interest-free noncurrent loan from the subsidiaries was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the loan as at 1st January, 2005 has been decreased by HK$62,239,000 in order to state the loan at amortised cost in accordance with HKAS 39. The Company's deficits as at 1st January, 2005 has been increased by HK$62,239,000.

Embedded derivatives

On or before 31st December, 2004, embedded derivatives of the conversion option of convertible note invested by the Group were not recorded on the balance sheet.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Embedded derivatives *(Cont'd)*

In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA, the conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the 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 convertible note, was estimated using the relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. From 1st January, 2005 onwards, the Group measured the fair value of the embedded derivatives in accordance with the requirements under HKAS 39 and recognised the changes in fair value of the conversion option of the unlisted convertible note as at 1st January, 2005 and the impact of taking into account of the portion of the conversion option exercised prior to 31st December, 2004, which increase the derivative instruments of approximately HK$64,410,000 share of net assets of HK$16,961,000 and decrease the carrying amount of unlisted convertible note of HK$13,283,000 included in interests in associates and decrease the deficit of HK$68,088,000 as at 1st January, 2005 accordingly. 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 31st December, 2005, was loss of HK$39,743,000, which have been recognised in the consolidated income statement. Comparative figures for 2004 are not required to be restated.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and is stated at cost or valuation less depreciation and amortisation at the balance sheet date and any accumulated impairment losses. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to lease premium for land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (See note 3 for the financial impact).

Hotel properties

HK Interpretation 2 ("HK-Int 2") "The Appropriate Accounting Policies for Hotel Properties" clarifies the accounting policy for owner-operated hotel properties. In previous periods, the self-operated hotel properties of the Group's associate were carried at cost less impairment amounts and were not subject to depreciation. HK-Int 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16, "Property, Plant and Equipment" and therefore be accounted for either using the cost model or the revaluation model. The Group's associate has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-Int 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated. An adjustment of HK$3,192,000 has been made to decrease the share of net assets of associates and to increase the deficits at 31st December, 2004 after the application of HKAS 16 by the associates.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Discontinued operations

In accordance with the application of HKFRS 5 "Non-current assets held for sale and discontinued operations" issued by the HKICPA, certain income statement items for the year ended 31st December, 2004 have been regrouped under profit for the year from discontinued operations for the year ended as 31st December, 2004.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in accounting policies described in note 2 on the results for the current and prior years are as follows:

(i) On results

	2005	**2004**
	HK$'000	*HK$'000*
Non-amortisation of goodwill	3,137	—
Increase in interest income on unlisted convertible note	72	—
Changes in fair value of conversion option of unlisted convertible note	(39,743)	—
Share of results of associates		
— Decrease in release of negative goodwill to income	(4,952)	—
— Non-amortisation of goodwill	1,153	—
— Depreciation for hotel properties	(8,252)	(3,192)
Increase in loss for the year	(48,585)	(3,192)

(ii) On income statement line items

	2005	**2004**
	HK$'000	*HK$'000*
Decrease in administrative expenses	3,137	—
Increase in other income	72	—
Changes in fair value of conversion option of unlisted convertible note	(39,743)	—
Decrease in share of results of associates	(12,051)	(3,192)
	(48,585)	(3,192)

3. **SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES** *(Cont'd)*

(iii) On balance sheet items

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

THE GROUP	As at 31st December, 2004 (originally stated) *HK$'000*	Effect of HK(SIC) - INT 2 *HK$'000*	Effect of HKAS 17 *HK$'000*	Effect of HKAS 1 *HK$'000*	As at 31st December, 2004 (restated) *HK$'000*	Effect of HKAS 3 *HK$'000*	Effect of HKAS 39 *HK$'000*	As at 1st January, 2005 (restated) *HK$'000*
Balance sheet items								
Interests in associates								
— Share of net assets	337,212	(3,192)	—	—	334,020	—	16,961	350,981
— Goodwill	2,006	—	—	—	2,006	—	—	2,006
— Negative goodwill	(47,058)	—	—	—	(47,058)	47,058	—	—
— Unlisted convertible note	55,000	—	—	—	55,000	—	(13,283)	41,717
— Derivative instrument	—	—	—	—	—	—	64,410	64,410
— Loan receivable due from an associate	81,840	—	—	—	81,840	—	—	81,840
	429,000	(3,192)	—	—	425,808	47,058	68,088	540,954
Property, plant and equipment	35,238	—	(20,267)	—	14,971	—	—	14,971
Prepaid lease payments — non-current	—	—	19,820	—	19,820	—	—	19,820
Investments in securities — non-current	194,050	—	—	—	194,050	—	(194,050)	—
Other investments — current	19,849	—	—	—	19,849	—	(19,849)	—
Investments in securities at fair value through profit or loss	—	—	—	—	—	—	194,050	194,050
Investments in securities held for trading	—	—	—	—	—	—	19,849	19,849
Prepaid lease payments — current	—	—	447	—	447	—	—	447
Total effects on assets	678,137	(3,192)	—	—	674,945	47,058	68,088	790,091
Goodwill on consolidation	(62,247)	—	—	—	(62,247)	62,247	—	—
Other non-distributable reserves	(18,598)	—	—	—	(18,598)	—	—	(18,598)
Deficit	1,163,331	3,192	—	—	1,166,523	(109,305)	(46,146)	1,011,072
Minority interests	—	—	—	(295,609)	(295,609)	—	(21,942)	(317,551)
Total effects on equity	1,082,486	3,192	—	(295,609)	790,069	(47,058)	(68,088)	674,923
Minority interests	(295,609)	—	—	295,609	—	—	—	—

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

(iii) On balance sheet items *(Cont'd)*

THE COMPANY	31st December, 2004 (originally stated) HK$'000	Effect of HKAS 1 HK$'000	Effect of HKAS 17 HK$'000	As at 31st December, 2004 (restated) HK$'000	Effect of HKAS 39 (restated) HK$'000	As at 1st January, 2005 HK$'000
Balance sheet items						
Investments in subsidiaries	1,980,613	(1,835,579)	—	145,034	—	145,034
Investment in securities	825	—	—	825	(825)	—
Investments in securities at fair value through profit or loss	—	—	—	—	825	825
Amounts due from subsidiaries	—	1,835,579	—	1,835,579	—	1,835,579
Property, plant and equipment	6,382	—	(4,097)	2,285	—	2,285
Prepaid lease payments — non-current	—	—	3,980	3,980	—	3,980
Prepaid lease payments — current	—	—	117	117	—	117
Amounts due to subsidiaries	(840,225)	—	—	(840,225)	62,239	(777,986)
	1,147,595	—	—	1,147,595	62,239	1,209,834
Deficit	(1,395,867)	—	—	(1,395,867)	62,239	1,333,628

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised as follows:

	As originally stated HK$'000	Effect of HKAS 1 HK$'000	As restated HK$'000
Share capital and other reserves	1,533,380	—	1,533,380
Minority interests	—	250,160	250,160
Total effects on equity	1,533,380	250,160	1,783,540
Minority interests	250,160	(250,160)	—

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

(iii) On balance sheet items *(Cont'd)*

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these standards or Interpretations will have no material impact on the financial statements of the Group except that HKAS 39 (Amendment) — The fair value option require the Group shall de-designate any financial asset or financial liability previously designated as at fair value through profit or loss only if it does not qualify for such designation in accordance with those new and amended paragraphs. When a financial asset or financial liability will be measured at amortised cost after de-designation, the date of de-designation is deemed to be its date of initial recognition.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of change in foreign exchange rates — net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning , restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilitiesarising from participating in a specific market — waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1. Effective for annual periods beginning on or after 1st January, 2007.
2. Effective for annual periods beginning on or after 1st January, 2006.
3. Effective for annual periods beginning on or after 1st December, 2005.
4. Effective for annual periods beginning on or after 1st March, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

As explained in note 2, goodwill arising on acquisition prior to 1st January, 2001 previously recognised in reserves, have been transferred to the Group's deficit on 1st January, 2005.

For previously capitalised goodwill arising on acquisition after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwil is carried at cost less any accumulated impairment losses.

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

Goodwill *(Cont'd)*

Goodwill arising on acquisitions on or after 1st January, 2005 *(Cont'd)*

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the associate.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cashgenerating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions", formerly known as negative goodwill)

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method), is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in note 2 above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's deficit.

Investments in subsidiaries

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

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

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transactions with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Turnover represents the fair value of amounts received and receivable for goods sold by the Group less discount allowances, and goods returned.

Sales of goods recognised when goods are delivered and title has passed.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment (other than properties under development) are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than properties under development over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

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

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

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Foreign currencies *(Cont'd)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Impairment (other than goodwill)

At each balance sheet date, the 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 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.

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.

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as expense as they fall due.

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.

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.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Financial instruments *(Cont'd)*

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's major financial assets are category of loans and receivables and finance assets at fair value through profit or loss and the accounting policies adopted for loans and receivables and financial assets at fair value through profit or loss are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition loans and receivables (including loans and interest receivables, amounts due from associates, trade receivables, other receivables and deposits and amounts due from subsidiaries for the Company) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group's major financial liabilities are other financial liabilities and the accounting policies adopted are set out below.

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

Financial instruments *(Cont'd)*

Financial liabilities and equity *(Cont'd)*

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued charges, payables, amounts due to associates, amounts due to related companies and bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Embedded derivatives

The conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the convertible note and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option is estimated using a relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. Changes in fair value of the conversion option of the unlisted convertible note are recognized directly in profit and loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to deficit.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31st December, 2005, management of the Group determined that there were no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in note 21.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Estimated impairment on loans and interests receivable

Management regularly reviews the recoverability of loans and interests receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised based the estimation of the future cash flow expected to receive and a suitable discounted rate in order to calculate the present value. During the year, allowance for loans and interest receivables of HK$37,445,000 has been made.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loans and interest receivables, amounts due from associate, trade receivables, other receivables and deposits, investments in securities at fair value through profit and loss and investment in securities held for trading, trade payable, payables, amounts due to associates, amounts due to related companies and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 is in relation to is the carrying amount of loans and interests receivables, and trade receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other price risk

The Group's investments in securities at fair value through profit or loss and investments in securities held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. TURNOVER

	2005	2004
	HK$'000	*HK$'000*
Sales of goods, net of returns and sales taxes	38,459	27,141

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 8.

8. SEGMENT INFORMATION

Business segments

During the year, the Group acquired 88% and 100% of the issued capital of 東莞市江海貿易有限公司 (東莞市江海) and 廣州耀陽實業有限公司 (廣州耀陽) respectively for an aggregate cash consideration of HK$50 million. The two newly acquired subsidiaries are engaged in the business of sand mining. The segment of sand mining is regarded as a new business segment of the Group upon completion of the acquisition.

For management purposes, the Group is currently organised into the following four major divisions — battery products, investment in securities and advance, sand mining and others. These divisions are the basis on which the Group reports its primary segment information.

Battery products	—	Manufacturing and trading of battery products and related accessories
Investments in securities and advance	—	Investments in securities holding and advance of receivables
Sand mining	—	Sand mining activities
Others	—	Corporate and investment holding

8. 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:

	Investments in securities and advance *HK$'000*	Battery products *HK$'000*	Sand mining *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
For the year ended 31st December, 2005						
REVENUE						
(i) Turnover						
— External	—	33,161	5,298	—	—	38,459
— Inter-segment	473	—	—	1,200	(1,673)	—
	473	33,161	5,298	1,200	(1,673)	38,459
(ii) Other income						
— Interest income	52,423	33	—	5,628	—	58,084
— Gain on disposal of investments in securities at fair value through profit or loss	10,575	—	—	—	—	10,575
— Dividend income from listed investment	8,402	—	—	—	—	8,402
— Others	2,888	179	2,059	1,436	—	6,562
	74,288	212	2,059	7,064	—	83,623
RESULT						
Segment result	12,754	(5,907)	1,576	(64,497)	(1,673)	(57,747)
Unallocated corporate expenses						(20,563)
Change in fair value of conversion option of unlisted convertible notes						(39,743)
Finance costs						(17,630)
Loss on liquidation/disposal of interests in associates	—	—	—	(2,814)	—	(2,814)
Share of results of associates	—	(239)	—	43,103	—	42,864
Loss before taxation						(95,633)
Taxation						(4,247)
Loss for the year						(99,880)

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

8. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Investments in securities and advance *HK$'000*	Battery products *HK$'000*	Sand mining *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Assets and liabilities at 31st December, 2005					
ASSETS					
Segment assets	592,978	67,314	110,716	364,905	1,135,913
Interests in associates	—	—	—	558,738	558,738
Unallocated total assets					264,218
Consolidated total assets					1,958,869
LIABILITIES					
Segment liabilities	(33,660)	(27,769)	(736)	(18,834)	(80,999)
Unallocated corporate liabilities					(222,301)
Consolidated total liabilities					(303,300)
Other information for the year ended 31st December, 2005					
Capital expenditure					
— Property, plant and equipment	332	2,835	113,184	598	116,949
— Deposit paid for acquisition of interest in properties	—	—	—	8,704	8,704
— Goodwill arising from acquisition of subsidiaries	—	—	9,123	—	9,123
— Goodwill arising from acquisition of associates	—	—	—	10,181	10,181
Depreciation and amortisation	—	2,132	5,811	678	8,621
Impairment loss on investments in securities at fair value through profit or loss	34,652	—	—	—	34,652
Allowances for loan and interest receivables	36,933	—	—	512	37,445
Change in fair value of investment in securities held for trading	9,429	—	—	—	9,429
Allowance for bad and doubtful debts	7,823	—	—	10,752	18,575

8. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Continuing operations					Discontinued operation	
	Investments in securities and advance	**Battery products**	**Others**	**Elimination**	**Sub-total**	**Pharmaceutical products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note a)*	*HK$'000*
For the year ended 31st December, 2004							
REVENUE							
(i) Turnover							
— External	—	27,141	—	—	27,141	96,262	123,403
— Inter-segment	—	—	2,184	(2,184)	—	—	—
	—	27,141	2,184	(2,184)	27,141	96,262	123,403
(ii) Other income							
— Interest income	48,539	—	6,018	—	54,557	17	54,574
— Gain on disposal of investments in securities at fair value through profit or loss	—	—	—	—	—	—	—
— Dividend income from listed investment	1,542	—	—	—	1,542	—	1,542
— Others	—	150	3,050	—	3,200	446	3,646
	50,081	150	9,068	—	59,299	463	59,762
RESULT							
Segment result	(110,631)	(2,004)	(10,818)	(2,184)	(125,637)	6,777	(118,860)
Unallocated corporate expenses							(27,260)
Finance costs							(17,434)
Loss on disposal/dilution of interests in subsidiaries	—	—	—	—	—	(5,266)	(5,266)
Gain on disposal/liquidation of interests in associates	—	—	81,631	—	81,631	—	81,631
Share of results of associates	—	(147)	(40,420)	—	(40,567)	—	(40,567)
Profit (loss) before taxation						1,511	(127,756)
Taxation						—	(6,464)
Profit (loss) for the year						1,511	(134,220)

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

8. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Continuing operations				Discontinued operation	
	Investments in securities and advance *HK$'000*	**Battery products** *HK$'000*	**Others** *HK$'000*	**Sub-total** *HK$'000*	**Pharmaceutical products** *HK$'000* *(Note a)*	**Consolidated** *HK$'000*
Assets and liabilities at 31st December, 2004						
ASSETS						
Segment assets	1,095,673	79,226	62,187	1,237,086	—	1,237,086
Interests in associates	—	—	425,808	425,808	—	425,808
Unallocated total assets						236,462
Consolidated total assets						1,899,356
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 31st December, 2004						
Capital expenditure						
— Property, plant and equipment	—	13,674	251	13,925	1,370	15,295
— 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 interest in associates	3,931	—	—	3,931	—	3,931
Depreciation and amortisation	—	61	1,892	1,953	1,845	3,798
Amortisation of prepaid lease payment	—	447	—	447	—	447
Amortisation of goodwill	—	1,005	—	1,005	155	1,160
Loss on disposal of investments in securities	5,478	—	—	5,478	—	5,478
Loss on disposal of interests in subsidiaries	—	—	—	—	5,266	5,266
Allowances for loans and interest receivables	140,889	—	—	140,889	—	140,889
Change in fair value investment in securities held for trading	12,549	—	—	12,549	—	12,549
Allowance for bad and doubtful debts	—	—	17,286	17,286	—	17,286
Allowance for amounts due from associates	—	—	4,989	4,989	—	4,989

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 discontinued operations during the year ended 31st December, 2004.

8. 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	
	2005	**2004**
	HK$'000	*HK$'000*
Continuing operations:		
PRC, other than Hong Kong	36,519	27,141
Hong Kong	1,940	—
	38,459	27,141
Discontinued operations:		
PRC, other than Hong Kong	—	—
Hong Kong	—	96,262
	—	96,262

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 31st December,		**Capital additions For the year ended 31st December,**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	212,960	29,012	135,323	91,429
Hong Kong	1,021,515	1,278,734	9,634	1,621
Overseas	165,656	165,802	—	—
	1,400,131	1,473,548	144,957	93,050

9. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Interest income from loans and interest receivable	52,423	47,119
Interest income from banks	640	3,461
Interest income from unlisted convertible bonds	5,021	3,994
Net exchange gain	—	3,151
Gain on disposal of investments in securities at fair value through profit or loss	10,575	—
Dividend income from listed investments	8,402	1,542
Gain on disposal of property, plant and equipment	—	17
Others	6,562	478
	83,623	59,762

10. (a) OTHER EXPENSES

	2005	2004
	HK$'000	*HK$'000*
Changes in fair value on investment in securities at fair value through profit and loss	34,652	—
Allowances for bad and doubtful debts	18,575	17,286
Changes in fair value of investments in securities held for trading	9,429	12,549
Loss on disposal of investment in securities at fair value through profit or loss	—	5,478
Allowances for amounts due from associates	—	4,989
Net exchange loss	3,709	—
Others	724	23
	67,089	40,325

(b) ALLOWANCES FOR LOANS AND INTEREST RECEIVABLE

During the year, the directors have reviewed the carrying value of the Group's loans and interest receivables and determined that the recoverable amount of certain loans and interest receivables is below their carrying value with reference to present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Accordingly, an impairment loss at the amount of approximately HK$37,445,000 had been charged to the income statement.

11. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	613	943
Other borrowings and payables	17,014	16,488
Obligations under finance leases	3	3
	17,630	17,434

12. TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
The charge comprises:						
Taxation in other jurisdictions						
— Current year	1,010	1,340	—	—	1,010	1,340
— Overprovision in prior years	(663)	—	—	—	(663)	—
Hong Kong Profits Tax						
— Current year	1,300	5,124	—	—	1,300	5,124
— Underprovision in prior years	2,600	—	—	—	2,600	—
Taxation attributable to the Company and its subsidiaries	4,247	6,464	—	—	4,247	6,464

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the 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 Company 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.

12. 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:

	2005	**2004**
	HK$'000	*HK$'000*
Loss before taxation		
— Continuing operations	(95,633)	(136,044)
— Discontinued operations	—	6,777
Loss before taxation	(95,633)	(129,267)
Tax at the average income tax rate of 18.8% (2004: 17.7%) *(note a)*	(17,953)	(22,921)
Tax effect of share of results of associates	10,182	6,006
Tax effect of income not taxable in determining taxable profit	(37,430)	(34,334)
Tax effect of expenses not deductible for tax purpose	37,003	25,679
Tax effect of deductible temporary differences not recognised	10,504	23,849
Tax effect of tax losses not recognised	4	6,280
Underprovision in respect of prior year	1,937	—
Effect of tax exemption granted to PRC subsidiaries	—	(485)
Effect of different tax rates of subsidiaries operating in other jurisdictions	—	2,139
Others	—	251
Tax expense for the year	4,247	6,464

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 31st December, 2005, the Group had unused tax loss of approximately HK$29,704,000 (2004: HK$29,682,000) 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 31st December, 2005, the Group had deductible temporary differences in respect of allowances on doubtful debts of approximately HK$364,786,000 (2004: HK$308,765,000). 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.

13. LOSS FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the year has been arrived at after charging:						
Staff costs						
— directors remuneration *(note 14(a))*	2,092	3,413	—	—	2,092	3,413
— other staff costs *(note 14(b))*	14,724	10,799	—	11,619	14,724	22,418
— retirement benefits scheme contributions, excluding directors	405	382	—	469	405	851
Total staff costs	17,221	14,594	—	12,088	17,221	26,682
Auditors remuneration						
Current year	6,622	4,327	—	427	6,622	4,754
Underprovision in prior years	—	—	—	392	—	392
Depreciation and amortisation of property, plant and equipment	8,102	1,953	—	1,845	8,102	3,798
Loss on disposal of property, plant and equipment	128	—	—	—	28	—
Amortisation of prepaid lease payments	519	447	—	—	519	447
Amortisation of goodwill included in administrative expenses	—	1,005	—	155	—	1,160

14. DIRECTORS' AND EMPLOYEE REMUNERATION

(a) Directors' remuneration

	2005	2004
	HK$'000	*HK$'000*
Fees		
Executive directors	—	—
Independent non-executive directors		
— Mr. David Edwin Bussman	257	217
— Mr. Wong King lam, Joseph	50	—
— Mr. Sin Chi Fai	47	—
— Ms. Fung Wan Yiu, Agnes	—	100
	354	317
Other emoluments		
Executive directors		
(i) Salaries and other benefits		
— Dr. Chan Kwok Keung, Charles	—	104
— Dr. Yap, Allan	229	117
— Ms. Chau Mei Wah, Rosanna	—	—
— Ms. Chan Ling, Eva	1,497	1,261
— Mr. Li Bo	—	—
— Mr. Chan Kwok Hung	—	—
— Mr. Lui Siu Tsuen, Richard	—	—
— Mr. Li Wa Kin	—	1,589
	1,726	3,071
(ii) Retirement benefits scheme contributions		
— Dr. Chan Kwok Keung, Charles	—	—
— Dr. Yap, Allan	—	—
— Ms. Chau Mei Wah, Rosanna	—	—
— Ms. Chan Ling, Eva	12	12
— Mr. Li Bo	—	—
— Mr. Chan Kwok Hung	—	—
— Mr. Lui Siu Tsuen, Richard	—	—
— Mr. Li Wa Kin	—	13
	12	25
Independent non-executive directors	—	—
	1,738	3,096
Total directors emoluments	2,092	3,413

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.

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

(b) Employees' remuneration

The five highest paid individuals in the Group included one (2004: two) director(s) 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:

	2005	**2004**
	HK$'000	*HK$'000*
Salaries and other benefits	1,950	1,482
Retirement benefit scheme	48	36
	1,998	1,518

	2005 Number of employees	**2004 Number of employees**
Nil to HK$1,000,000	4	3

15. DISCONTINUED OPERATIONS

In May 2004, the Group disposed of the 100% interests in Tung Fong Hung Investment Limited and its subsidiaries which are engaged in the manufacturing and trading of pharmaceutical products, was regarded as discontinued operation during the year ended 31st December, 2004.

The profit for the year ended 31st December, 2004 from the discontinued operations was anlaysed as follows:

	2004
	HK$'000
Profit of pharmaceutical products segment for the year	6,777
Loss on disposal of pharmaceutical products segment	(5,266)
	1,511

15. DISCONTINUED OPERATIONS *(Cont'd)*

The profit of pharmaceutical products segment for the period from 1st January, 2004 to 30th April, 2004, which have been included in the consolidated income statements and analysed as follows:

	1st January, 2004 to 30th April, 2004 *HK$'000*
Turnover	96,262
Cost of sales	(60,381)
Other income	419
Distribution costs	(21,056)
Administrative expenses	(8,467)
Profit before tax	6,777
Taxation	—
Profit for the period	6,777

The carrying amounts of the assets and liabilities of Tung Fong Hung Investment Limited and its subsidiaries at the date of disposal are disclosed in note 36.

16. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic loss per share attributable to the equity holders of the parent for the year is based on the following data:

	2005 *HK$'000*	**2004** *HK$'000*
Loss for the year attributable to the equity holders of the parent for the purposes of basic loss per share	(95,200)	(179,244)

	Number of share	
	2005	**2004**
Weighted average number of ordinary shares for the purposes of basic loss per share	881,595,087	877,471,799

16. LOSS PER SHARE *(Cont'd)*

From continuing operations

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

	2005	**2004**
	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the parent	(95,200)	(179,244)
Add: Net profit for the year from discontinued operations	—	(1,511)
Loss for the year for the purpose of basic loss per share from continuing operations	(95,200)	(180,755)

	Number of share	
	2005	**2004**
Weighted average number of ordinary shares for the purposes of basic loss per share	881,595,087	877,471,799

The calculation of the basic earnings per share for the year ended 31st December, 2005 and 2004 have been adjusted as a result of the application of new HKFRSs and details are shown below:

	2005	**2004**
	Basic earnings per share	**Basic earnings per share**
	HK$	*HK$*
Reported figures before adjustments	(0.06)	(0.20)
Adjustment arising from application of new HKFRSs	(0.05)	(0.01)
Restated	(0.11)	(0.21)

For the year ended 31st December, 2005, no diluted loss per share has been presented as there were no dilutive potential ordinary shares in issue.

For the year ended 31st December, 2004, no disclosure of diluted loss per share has been shown as the exercise of the share option would result in a decrease in loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Machinery and equipment	Sand vessels	Motor vehicles	Construction in progress	Buildings under development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST								
At 1st January, 2004	63,245	33,096	158,767	—	3,605	760	—	259,473
Exchange adjustments	—	8	—	—	—	—	—	8
Reclassification	—	205	—	—	—	(205)	—	—
Arising from acquisition of subsidiaries	—	614	9,800	—	551	—	—	10,965
Additions	—	1,011	2,206	—	596	187	330	4,330
Disposals	—	(1,263)	(26)	—	—	—	—	(1,289)
Disposal of subsidiaries	(61,120)	(31,389)	(1,526)	—	(3,191)	(742)	—	(97,968)
At 1st January, 2005	2,125	2,282	169,221	—	1,561	—	330	175,519
Exchange adjustments	—	19	217	2,062	7	—	—	2,305
Reclassification	—	—	—	—	—	—	—	—
Arising from acquisition of subsidiaries	—	—	165	113,019	—	—	—	113,184
Additions	—	3	827	—	942	1,663	330	3,765
Disposals	—	—	(171)	—	(13)	—	—	(184)
At 31st December, 2005	**2,125**	**2,304**	**170,259**	**115,081**	**2,497**	**1,663**	**660**	**294,589**
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS								
At 1st January, 2004	57,126	3,615	157,533	—	2,257	—	—	220,531
Provided for the year	78	2,257	1,100	—	363	—	—	3,798
Eliminated on disposals	—	(732)	(5)	—	—	—	—	(737)
Eliminated on disposals of subsidiaries	(56,932)	(4,061)	(483)	—	(1,568)	—	—	(63,044)
At 1st January, 2005	272	1,079	158,145	—	1,052	—	—	160,548
Exchange adjustments	—	6	31	—	1	—	—	38
Provided for the year	53	506	1,483	5,754	306	—	—	8,102
Eliminated on disposals	—	—	(47)	—	(9)	—	—	(56)
At 31st December, 2005	**325**	**1,591**	**159,612**	**5,754**	**1,350**	**—**	**—**	**168,632**
NET BOOK VALUES								
At 31st December, 2005	**1,800**	**713**	**10,647**	**109,327**	**1,147**	**1,663**	**660**	**125,957**
At 31st December, 2004	1,853	1,203	11,076	—	509	—	330	14,971

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

	Buildings	Furniture and fixtures	Machinery and equipment	Sand vessels	Motor vehicles	Construction in progress	Buildings under development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY								
COST								
At 1st January, 2004 and 31st December, 2004	2,125	1,488	1,338	—	541	—	—	5,492
Additions	—	—	—	—	599	—	—	599
At 31st December, 2005	**2,125**	**1,488**	**1,338**	**—**	**1,140**	**—**	**—**	**6,091**
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS								
At 1st January, 2004	219	888	1,181	—	338	—	—	2,626
Provided for the year	53	285	109	—	134	—	—	581
At 1st January, 2005	272	1,173	1,290	—	472	—	—	3,207
Provided for the year	53	262	37	—	106	—	—	458
At 31st December, 2005	**325**	**1,435**	**1,327**	**—**	**578**	**—**	**—**	**3,665**
NET BOOK VALUES								
At 31st December, 2005	**1,800**	**53**	**11**	**—**	**562**	**—**	**—**	**2,426**
At 31st December, 2004	1,853	315	48	—	69	—	—	2,285

The above items of property, plant and equipment were depreciated on a straight line basis at the following rates per annum:

Buildings	2% or the term of the lease or land use rights, if shorter.
Furniture and fixtures	10% — 25%
Machinery and equipment	10% — 20%
Sand vessels	10%
Motor vehicles	12.5% — 25%

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

As at 31st December, 2005, no property, plant and equipment were held under finance leases. The net book value of furniture and fixtures as at 31st December, 2004 included an amount of approximately HK$3,000 in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS

	THE GROUP *HK$'000*	THE COMPANY *HK$'000*
COST		
At 1st January, 2004	4,699	4,699
Arising from acquisition of subsidiaries	16,500	—
At 1st January, 2005	21,199	4,699
Additions	8,635	—
At 31st December, 2005	**29,834**	**4,699**
AMORTISATION		
At 1st January, 2004	485	485
Provided for the year	447	117
At 1st January, 2005	932	602
Provided for the year	519	118
At 31st December, 2005	1,451	720
NET BOOK VALUES		
At 31st December, 2005	**28,383**	**3,979**
At 31st December, 2004	20,267	4,097

The Group

The carrying value of prepaid lease payment as at 31st December, 2005 which amounted to HK$15,840,000 (2004: HK$16,170,000) represented the amount paid to acquire a land use right with medium lease term relating to land located in the 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 31st December, 2005. The directors are of the opinion that the land use right will be obtained in due course.

18. PREPAID LEASE PAYMENTS *(Cont'd)*

The Company

The prepaid lease payments are leasehold lands under mediumterm lease located in PRC.

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed for reporting purpose as:				
Current assets	620	447	117	117
Non-current asset	27,763	19,820	3,862	3,980
	28,383	20,267	3,979	4,097

19. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES

During the year ended 31st December, 2004, 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.

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.

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 (HK$65,817,000).

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

Provided that if the conditions are not fulfilled on or before 1st 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.

However, the conditions stated above for the change of the use of the Properties has not yet been fulfilled within the said period and accordingly the Vendor and the Group had entered into another agreement dated 3rd February, 2005 pursuant to which, among other things, (i) the Group will pay, on behalf of the Vendor, RMB22,000,000 (approximately HK$20,663,000) to the main contractor of the Properties (the "Main Contractor"); and (ii) the amount paid by the Group in (i) will be deducted from the sales consideration.

Further, the Group had made an additional RMB8,000,000 deposit (approximately HK$7,512,000) to the Vendor pursuant to this additional agreement and the aggregate sum paid by the Group to the Vendor amounted to RMB58,000,000 (approximately HK$55,716,000) as of 31st December, 2005.

In June 2005, the Group had commenced legal proceedings against the Vendor, among other things, to demand the Vendor to fulfil 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 Orders"). It had also come to the attention of the Group that one of the three secured creditors of the Vendor and the Main Contractor had already applied to and being granted the Injunction Orders and they, together with the other two secured creditors, had priority over the Group on the Properties.

As a condition precedent to the application of the Injunction Order, the Group had issued a counter guarantee of RMB402,000,000 (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 Group.

At the same time, the directors of the 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 Group have consulted its legal counsel and decided to proceed with the acquisition of the Properties in consideration of the following:

(a) the transaction can be continued with the payment of outstanding consideration of RMB392 million (approximately to HK$376 million) and the legal title of the Properties can be transferred to the Group when the debts of the Vendor owed to the three secured creditors and the Main Contractor are settled by the Group;

(b) the usage of the Properties can be changed to both commercial and residential when the Group obtains the legal title to the Properties and makes the application to the relevant authority;

(c) the acquisition of the Properties, on a completion basis, is expected to bring economic benefits to the Group taking into account of the estimated market value of the Properties as of 31st December, 2005; and the ability of the Group to meet the cash flow requirements to finance the acquisition and completion of the Properties, given the current financial position of the Group and financial resources available to the Group from internally generated funds, advances from its holding companies and/or financial institutions.

The directors of the Company are of the view that the carrying amount of deposit is not less than its recoverable amount at the balance sheet dates.

20. PAYMENT FOR ACQUISITION OF SUBSIDIARIES

During the year ended 31st December, 2004, 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 an aggregate consideration of approximately HK$50,000,000. 廣州耀陽 and 東莞市江海 are companies incorporated in the PRC and engaged in the business of sand mining. 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. A deposit of HK$40,000,000 was paid upon entering into the conditional agreements. During the year, the conditions have been fulfilled and the acquisition was completed.

21. GOODWILL

	HK$'000
COST	
At 1st January, 2004	33,469
Arising from acquisition of subsidiaries	26,812
Eliminated on disposal of subsidiaries	(33,469)
At 31st December, 2004	26,812
Elimination of accumulation amortisation upon the application of HKFRS 3	(1,005)
At 1st January, 2005	25,807
Arising from acquisition of subsidiaries	9,123
At 31st December, 2005	**34,930**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	24,144
Provided for the year	1,160
Eliminated on disposal of subsidiaries	(24,299)
At 31st December, 2004	1,005
Elimination of accumulation amortisation upon the application of HKFRS 3	(1,005)
At 31st December, 2005	**—**
CARRYING VALUE	
At 31st December, 2005	**34,930**
At 31st December, 2004	25,807

Prior to 31st December, 2004, goodwill was amortised over its estimated life of 10 years.

21. GOODWILL *(Cont'd)*

Particulars regarding impairment testing on goodwill are disclosed below:

The carrying value of goodwill as at 31st December, 2005 is attributable to the acquisition of Talent Cosmos Limited of HK$25,807,000 and acquisition of 廣州耀陽 and 東莞市江海 of HK$9,123,000 respectively. Talent Cosmos Limited and its subsidiaries are engaged in the business of manufacturing and trading of battery products ("Cash Generating Unit of Battery Products"). 廣州耀陽 and 東莞市江海 are engaged in the business segment of sand mining activities ("Cash Generating Unit of Sand Mining").

During the year ended 31st December, 2005, management of the Group determines that there is no impairments of goodwill of the Group to these two cash generating units.

The basis of the recoverable amounts of these cash generating units and their major underlying assumptions are summarised below:

Cash Generating Unit of Battery Products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 20-year period, and discount rate of 8%. This cash generating unit's cash flow within the first 5- year period are extrapolated using a steady 10% growth rate and no growth rate for the remaining years of the cash flows. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

Cash Generating Unit of Sand mining

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10-year period, and discount rate of 8%. This cash generating unit's cash flow within the first 5- year period are extrapolated using a steady 10% growth rate and no growth rate for the remaining years of the cash flows. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

22. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

	2005	2004
	HK$'000	*HK$'000*
Investments in subsidiaries		
Shares listed overseas, at cost	139,703	139,703
Unlisted shares, at cost	85,037	85,037
Deemed capital contribution	1,858,032	—
Accumulated impairment losses	(1,937,738)	(79,706)
	145,034	145,034
Market value of listed shares	15,122	37,344
Amounts due from subsidiaries		
Amounts due from subsidiaries	2,008,674	3,779,832
Less: Allowances	(70,991)	(1,944,253)
	1,937,683	1,835,579
Amounts due to subsidiaries		
Amounts due to subsidiaries		
— shown under current liabilities	737,054	—
Amounts due to subsidiaries		
— shown under non-current liabilities	—	840,225

The amounts due from subsidiaries as at 31st December, 2005 are unsecured and repayable in nine years and the amounts have been classified as non-current. Of the amounts, approximately HK$346,720,000 (2004: HK$228,449,000) bears interest at prevailing market rate and the remaining balance is non-interest bearing.

The fair values of the amounts due from subsidiaries at 31st December, 2005, determined based on the present value of the estimated future cash flows discounted using the effective interest rate of 8% at the balance sheet date, approximate to the corresponding carrying amount.

As at 31st December, 2004, the amounts due to subsidiaries were unsecured, non-interest bearing and had no fixed repayment terms. In the opinion of the directors, the amounts due to subsidiaries will not be repayable in the next twelve months accordingly, the amounts have been classified as non-current as at 31st December, 2004. As at 31st December, 2005, the amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand, the carrying value of the amounts due to subsidiaries as at 31st December, 2005 approximated to its fair value.

The principal activities of the subsidiaries are set out in note 46.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES

(a) Interests in associates

		THE GROUP		THE COMPANY	
		2005	**2004**	**2005**	**2004**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets		546,551	334,020	—	—
Goodwill	*(i)*	12,187	2,006	—	—
Negative goodwill	*(ii)*	—	(47,058)	—	—
Unlisted convertible notes due from an associate	*(iii)*	—	55,000	—	—
Embedded derivative — conversion option	*(iv)*	—	—	—	—
Loans and interest receivables due from associates	*(v)*	—	81,840	—	—
		558,738	425,808	—	—
Unlisted shares, at cost		—	—	2	2
Market value of listed shares in associates		317,752	311,480	N/A	N/A

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

(a) Interests in associates *(Cont'd)*

Notes:

(i) The amount represented the goodwill arising on acquisitions of associates in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
At 1st January, 2004	91,785
Arising on acquisitions of associates	3,931
Realised upon disposal/dilution of interests in associates	(93,710)
At 31st December, 2004	2,006
Arising on acquisitions of associates	10,181
At 31st December, 2005	**12,187**
AMORTISATION	
At 1st January, 2004	10,326
Charge for the year	3,059
Realised upon disposal/dilution of interests in associates	(13,385)
At 31st December, 2004 and 31st December, 2005	—
CARRYING VALUES	
At 31st December, 2005	**12,187**
At 31st December, 2004	2,006

Prior to 31st December, 2004, goodwill had been amortised over 10 years.

(ii) During the year, a discount on acquisition of HK$6,601,000 arising on acquisition of additional interests in Wing On has been included as income in the determination of the Group's share of results of associates.

Negative goodwill with carrying amount of HK$47,058,000 as at 31st December, 2004 (1st January, 2004: HK$111,041,000) was presented as a deduction from the cost of investments in associates. In prior years, negative goodwill was released to income on a straightline basis of 10 years, representing the remaining weighted average useful life of the depreciable assets acquired. The amount of negative goodwill released to the income statement for the year ended 31st December, 2004 was HK$10,598,000. All negative goodwill was derecognised on 1st January, 2005 upon the application of HKFRS 3 (see note 2).

Prior to 31st December, 2004, negative goodwill is released to income over a period of 10 years.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

(a) Interests in associates *(Cont'd)*

Notes: (Cont'd)

(iii) The carrying value of the unlisted convertible notes at 31st December, 2004 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 is due for redemption on 14th June, 2007 at HK$55,000,000. It also entitled the holders at any time after the date of the issuance of the Wing On Note and up to 14th June, 2007 to convert the Wing On Note into shares of Wing On at an initial conversion price of HK$0.02 per share (subject to adjustment).

The Group subscribed 8,740,000 new ordinary shares of HK$0.01 each in January and February 2005 and the Group's interest was increased to approximately 21.1%. In April, 2005, the Group further acquired 6,967,700 ordinary shares of HK$0.01 each in Wing On and converted HK$55,000,000 convertible notes of Wing On into ordinary share of HK$1.00 each (being the par value of each share after share consolidation carried that by Wing On) in Wing On at the conversion price of HK$0.02 per share and the interest in Wing On held by the Group was increased to 27.74%. No Wing On Note were held by the Group as at 31st December, 2005.

(iv) In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA, the conversion option element of the Wing On Note represents an embedded derivative instrument which is 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, was estimated using the Black-Scholes option pricing model at the date of subscription of the Wing On Note, and as at 31st December, 2004. Comparative figures for 2004 are not required to be restated. From 1st January, 2005 onwards, the Group measured the fair value of the embedded derivates in accordance with the requirements under HKAS 39 and recognised the fair value of the conversion option of the unlisted convertible note as at 1st January, 2005 of approximately HK$64,410,000, which increase the derivative instruments included in interests in associates and decrease the deficit as at 1st January, 2005 accordingly. 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 31st December, 2005, was loss of HK$39,743,000, which have been recognised in the consolidated income statement.

(v) Loans and interests receivable due from associates are unsecured, carries interest at prevailing market rate and repayable within one year. The fair value of the Group's loans and interest receivables due from associates at 31st December, 2005 approximates to the corresponding carrying amount.

(b) Amounts due from associates

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from associates	159,214	57,163	2,989	563

The amounts due from associate are unsecured and repayable on demand. Except for amount due from associate of approximately HK$151,648,000 (2004: HK$54,247,000) are interest bearing at prevailing market rate, all remaining amount due from associates are non-interest bearing. The fair value of the Group's amount due from associates at 31st December, 2005 approximates to the corresponding carrying amount.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

(c) Amounts due to associates

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to associates	286	3,737	—	—

The amounts due to associates are unsecured, non-interest bearing and repayable on demand. The fair value of the Group's amounts due to associates at 31st December, 2005 approximated to the corresponding carrying amount.

Particulars of the principal associates at 31st December, 2005 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	27.74	Business of providing package tours, travel and other related services
Hangzhou Zhongce Rubber Company Limited ("HZ Rubber") *(note c)*	PRC	PRC	26	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 PRC sino-foreign equity joint venture.

23. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES/AMOUNTS DUE TO ASSOCIATES *(Cont'd)*

(c) Amounts due to associates

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 summarised financial information in respect of the Group's major associates is set out below:

	2005	**2004**
	HK$'000	*HK$'000*
Turnover	8,382,622	6,519,685
Profit (loss) for the year	133,498	(102,198)
Profit (loss) for the year attributable to the Group	36,639	(17,266)

	2005	**2004**
	HK$'000	*HK$'000*
Total assets	7,431,386	5,875,595
Total liabilities	(5,037,199)	(4,049,781)
Net assets	2,394,187	1,825,814
Share of net assets by the Group:		
As at 31st December	520,772	333,708
Market value of interest held by the Group	317,752	311,480

24. LOANS AND INTEREST RECEIVABLES

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loans and interest receivables				
— secured *(note a)*	302,061	230,105	—	—
— unsecured *(note b)*	492,967	666,513	35,223	35,223
Promissory note and its interest receivables *(note b)*	9,292	6,735	9,292	6,735
	804,320	903,353	44,515	41,958
Less: Allowances	(340,088)	(302,643)	(35,223)	(35,223)
	464,232	600,710	9,292	6,735
Less: Amounts due within one year and repayable on demand	(464,232)	(563,666)	(9,292)	(6,735)
Amounts due after one year	—	37,044	—	—

Notes:

(a) Included in secured loans and interests receivables were amounts of approximately HK$99,616,000 (2004: HK$109,286,000) and approximately HK$165,422,000 (2004: HK$120,819,000) due from Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Allowances made in the loans receivables due from Danwei and Lucklong as at 31st December, 2005 were approximately HK$180,838,000 (2004: HK$143,905,000) with reference to the market value of the collateral secured to the Group. Shares in certain property holding companies held by Danwei and Lucklong were pledged to the Group as securities to the loans receivables.

The loan receivables carry interest at the prevailing market rate ranging from 8% to 12% and repayable on demand.

(b) The amount are unsecured, carries interest at prevailing market rate ranging from 8% to 12%. Included in unsecured loan and interest receivables were amounts of approximately HK$80,308,000 (2004: HK$80,021,000) due from subsidiaries of investees.

The fair value of the Group's loan and interest receivables as at balance sheet date approximate to the carrying amount of the receivables.

25. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/INVESTMENTS IN SECURITIES HELD FOR TRADING

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities:				
Listed	38,467	91,081	—	—
Unlisted	61,748	76,909	—	—
	100,215	167,990	—	—
Debt securities:				
Unlisted	24,431	45,084	—	—
Club debentures	825	825	825	825
Total	125,471	213,899	825	825
Total and reported as:				
Listed				
Hong Kong	38,467	80,415	—	—
Elsewhere	—	10,666	—	—
	38,467	91,081	—	—
Unlisted	87,004	122,818	825	825
	125,471	213,899	825	825
Classified under				
Investments in securities held for trading included in current assets	7,552	19,849	—	—
Investments in securities at fair value through profit or loss included in non-current asset	117,919	194,050	825	825
	125,471	213,899	825	825
Market value of listed securities	38,467	91,081	—	—

25. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/INVESTMENTS IN SECURITIES HELD FOR TRADING *(Cont'd)*

The carrying value of unlisted equity securities in Hong Kong at 31st December, 2005 included an amount of HK$43,498,000 (2004: HK$43,498,000), representing 9.76% (2004: 9.76%) interest in Apex Quality Group Limited ("Apex"). Apex is incorporated in the British Virgin Islands and engaged in hotel and leisure related business. The fair value of the unlisted equity securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximates to the corresponding carrying amount.

The carrying value of unlisted debt securities at 31st December, 2005 represented a convertible note issued by a company incorporated in Australia which is engaged in the business of fruit trading. The convertible note bears interest at 8% per annum and will be matured on 29th March, 2008. The fair value of the unlisted debt securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximates to the corresponding carrying amount.

The fair value of the Group's investments in securities at fair value through profit or loss and investments in securities held for trading at 31st December, 2005 approximates to the corresponding carrying amount.

The carrying value of investments in securities as at 31st December, 2004 (which previously were classified and measured under benchmark treatment in accordance with SSAP 24 issued by the HKICPA) were reclassified to appropriate categories upon application of HKAS 39 on 1st January, 2005.

26. 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 珠海市龍山亞業區管理委員會. 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$229,288,000 (2004: approximately HK$227,167,000) 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.

27. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
As cost less provision:		
Raw materials	5,358	8,004
Finished goods	7,051	5,704
	12,409	13,708

Included in above are raw materials of HK$5,358,000 and finished goods of HK$7,051,000 which are carried at net realisable value (2004: Finished goods of HK$5,704,000).

The cost of inventories recognised as an expense during the year was approximately HK$26,780,000 (2004: HK$76,066,000).

28. TRADE RECEIVABLES

	2005	2004
	HK$'000	*HK$'000*
Trade receivables	5,737	7,441
Less: accumulated impairment	(964)	(461)
	4,773	6,980

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:

	2005	2004
	HK$'000	*HK$'000*
0 — 90 days	4,408	6,832
91 — 180 days	365	114
Over 180 days	—	34
	4,773	6,980

The carrying amount of the Group's trade receivables at 31st December, 2005 approximates to the corresponding fair value.

29. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of HK$5,336,000 (2004: HK$4,964,000) with the following aged analysis:

	2005	2004
	HK$'000	*HK$'000*
0 — 90 days	2,980	1,613
91 — 180 days	929	2,838
Over 180 days	1,427	513
	5,336	4,964

The carrying amount of the Group's trade payables at 31st December, 2005 approximates to the corresponding fair value.

30. AMOUNTS DUE TO RELATED COMPANIES

Details of the amounts due to related companies are as follows:

		THE GROUP		THE COMPANY	
		2005	2004	2005	2004
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nation Cheer Investment Limited	*(i)*	199,126	184,943	199,126	184,943
Cycle Company Limited and Gunnell Properties Limited	*(i)*	556	417	—	—
ITC Management Limited	*(ii)*	605	275	605	275
		200,287	185,635	199,731	185,218
Less: Amounts shown under current liabilities		(200,287)	(692)	(199,731)	(275)
		—	184,943	—	184,943

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.

At 31st December, 2005, all amounts are repayable on demand. At 31st December, 2004, other than HK$184,943,000 which was repayable after one year from 31st December, 2004, all remaining balances were repayable on demand.

All amounts are unsecured, carry interest at prevailing market rate ranging from 8% to 10%. The fair value of the Group's amounts due to related companies at 31st December, 2005 approximates to the corresponding carrying amount.

31. PAYABLES

The amounts are unsecured, carry interest at prevailing market rate ranging from 8% to 10% per annum and are repayable on demand. The fair value of the Group's payables at 31st December, 2005 approximates to the corresponding carrying amount.

32. BANK LOANS AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	1,412	2,245	—	—
Obligations under finance leases *(note a)*	3	13	3	13
Bank overdrafts	7,212	6,800	—	—
Other borrowings *(note b)*	—	33,567	—	—
	8,627	42,625	3	13
Secured	8,627	42,098	3	13
Unsecured	—	527	—	—
	8,627	42,625	3	13
Carrying amount repayable:				
On demand or within one year	8,627	42,622	3	10
More than one year, but not exceeding two years	—	3	—	3
	8,627	42,625	3	13
Less: Amount due within one year shown under current liabilities	(8,627)	(42,622)	(3)	(10)
	—	3	—	3

Bank overdrafts are repayable on demand. The bank loans carries interest at prevailing market rate ranging from 8% to 10% and were secured by the Group's bank deposits and investment in securities. These were no undrawn facilities as at 31st December, 2005 and 2004.

The Group's bank and other borrowings are denominated in Hong Kong Dollars.

The fair value of the Group's bank and other borrowings at 31st December, 2005 approximates to the corresponding carrying amount.

32. 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	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:								
Within one year	4	14	4	14	3	10	3	10
In the second to fifth years inclusive	—	4	—	4	—	3	—	3
	4	18	4	18	3	13	3	13
Less: Future finance charges	(1)	(5)	(1)	(5)	—	—	—	—
Present value of lease obligations	3	13	3	13	3	13	3	13
Less: Amount due within one year					(3)	(10)	(3)	(10)
Amount due after one year					—	3	—	3

The average lease term is one (2004: two) year. For the year ended 31st December, 2005, the average effective borrowing rate was 3.2% (2004: 9.4%). 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) As at 31st December, 2004, the amount was secured, carried interest at prevailing market rates ranged from 8% to 12% per annum and was fully repaid during the year.

33. SHARE CAPITAL

	Number of shares	Value HK$'000
Authorised:		
Ordinary shares of HK$0.10 each at 31st December, 2004 and 2005	8,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1st January, 2004	856,595,087	85,660
Issue of shares	25,000,000	2,500
Ordinary shares of HK$0.10 each at 31st December, 2004 and 2005	881,595,087	88,160

As explained in note 1, the Company proposed to carry out the Capital Reorganisation 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.

The Capital Reorganisation was not yet completed at the date of this report.

34. SHARE OPTIONS

The Company

The 2002 Scheme

On 4th June, 2002, the Company adopted a 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 the Stock Exchange (the "Listing Rules") 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 31st December, 2005 under the 2002 Scheme.

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

Employees

			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$				
8.1.2004	8.1.2004 to 7.1.2009	0.1776	—	25,000,000	(25,000,000)	—

34. SHARE OPTIONS *(Cont'd)*

Subsidiary

China Enterprises Limited

Pursuant to the Executive Share Option Scheme adopted on 7th June, 1994 and effective for a period of ten years after the date of the adoption of the scheme, China Enterprises Limited granted options to officers and employees, and directors who are also employees, of China Enterprises Limited and its subsidiaries to subscribe for common stock in China Enterprises Limited 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. The Executive Share Option Scheme was expired on 6th June, 2004. 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 Limited 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 31st December, 2004 and 31st December, 2005, 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 Limited in issue at any point in time, without prior approval from China Enterprises Limited 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 Limited shareholders.

35. RESERVES

	Share premium	Special capital reserve	Capital redemption reserve	Deficit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY					
At 1st January, 2004	1,898,976	414,881	233	(1,251,814)	1,062,276
Exercise of share options	1,940	—	—	—	1,940
Loss for the year	—	—	—	(144,053)	(144,053)
At 31st December, 2004	1,900,916	414,881	233	(1,395,867)	920,163
Effect of changes in accounting policies *(note 3)*	—	—	—	62,239	62,239
At 1st January, 2005 (as restated)	1,900,916	414,881	233	(1,333,628)	982,402
Profit for the year	—	—	—	103,180	103,180
At 31st December, 2005	**1,900,916**	**414,881**	**233**	**(1,230,448)**	**1,085,582**

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

36. DISPOSAL OF INTERESTS IN SUBSIDIARIES

During the year ended 31st December, 2004, 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 were as follows:

	2004
	HK$'000
Net assets disposed of:	
Property, plant and equipment	34,924
Interests in associates	14,808
Inventories	49,319
Trade debtors	12,112
Other receivables, deposits and prepayments	8,436
Bank balances and cash	22,176
Trade creditors, other payables and accrued charges	(43,316)
Income and other taxes payable	(30)
Bank loans and other borrowings	(60,197)
Obligations under finance leases	(149)
	38,083
Goodwill realised	9,170
Exchange reserve realised	13
	47,266
Loss on disposal/dilution	(5,266)
	42,000
Satisfied by:	
Cash	35,500
Promissory note included in loans receivable	6,500
	42,000
Analysis of the net inflow of cash and cash equivalents in connection with the disposal/dilution of subsidiaries:	
Cash consideration received	35,500
Bank balances and cash disposed of	(22,176)
Net inflow of cash and cash equivalents	13,324

37. ACQUISITION OF SUBSIDIARIES

(a) On 30th June, 2005, the Group acquired 88% and 100% of the issued share capital of 東莞市江海 and 廣州耀陽, respectively, for an aggregate cash consideration of HK$50 million. The two newly acquired subsidiaries are incorporated in the PRC and engaged in the business of sand mining. These transactions have been accounted for using the purchase method of accounting. The directors are of the view that it is impracticable to disclose the revenue and the results for the six months ended 30th June, 2005 as if the acquisition had been effected on 1st January, 2005 since such information was not provided by the vendor.

The assets acquired in the transaction, and the goodwill arising, are as follow:

	2005		
	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired:			
Property, plant and equipment	50,165	63,019	113,184
Inventories	6	—	6
Trade receivables	75	—	75
Other receivables, deposits and prepayments	647	—	647
Bank balances and cash	349	—	349
Creditors, other payables and accrued charges	(244)	—	(244)
Amounts due to former shareholders	(49,770)	—	(49,770)
Deferred tax liabilities	—	(20,796)	(20,796)
	1,228	42,223	43,451
Minority interests	(48)	(2,526)	(2,574)
	1,180	39,697	40,877
Goodwill on acquisition			9,123
			50,000
Satisfied by:			
— Cash			10,000
— Deposit paid for acquisition of subsidiaries			40,000
			50,000
Net cash outflow arising on acquisition:			
Cash consideration paid			(10,000)
Cash and cash equivalents acquired			349
			(9,651)

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

東莞市江海 and 廣州耀陽 contributed HK$5,298,000 to the Group's turnover and loss of HK$3,735,000 to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

37. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(b) During the year ended 31st December, 2004, the Group acquired a 80% interest in Talent Cosmos Limited for a consideration of HK$30 million. The effect of the acquisition is summarised as follows:

	2004
	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)
Payables due to associates	(2,198)
Bank loans	(10,453)
Minority interests	(1,181)
	3,188
Goodwill arising on acquisition	26,812
	30,000
Satisfied by:	
Cash	30,000

Analysis of the net cash outflow of cash and cash equivalent in connection with acquisition of subsidiaries:

	2004
	HK$'000
Cash consideration paid	(30,000)
Bank balances and cash acquired	3,256
Net cash outflow of cash and cash equivalent in connection with acquisition of subsidiaries	(26,744)

The subsidiaries acquired during the year ended 31st December, 2004 contributed approximately HK$27,141,000 to the Group's turnover and loss of HK$2,005,000 to the Group's loss before taxation between the date of acquisition and the balance sheet date.

38. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities provided by the Group and movements thereon during the current and prior reporting periods:

	Revaluation of property, plant and equipment
	HK$'000
At 1st January, 2004, and 31st December, 2004	—
Arising on acquisition of subsidiaries	20,796
Exchange difference	379
At 31st December, 2005	**21,175**

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2005, the major non-cash transactions were as follows:

(a) Amount due to former shareholders of HK$50,000,000 were settled by the assignment of loan and interest receivable from outsiders.

(b) Additions to investment in securities of approximately HK$3,256,000 were settled by repayment of loans and interests receivables.

During the year ended 31st December, 2004, the major non-cash transaction are 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 payment for acquisition of subsidiaries of HK$40,000,000 were repayments from receivables.

(f) Additions to other receivables of approximately HK$10,722,000 were proceeds from disposal of interests in associates.

40. COMMITMENTS

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

	2005	2004
	HK$'000	*HK$'000*
Contracted for but not provided in the financial statements in respect of:		
(i) Acquisition of interest in properties *(Note)*	—	377,516
(ii) Other assets	93,301	91,981
(iii) Acquisition of subsidiaries	—	10,000
	93,301	479,497

Note:

In respect of the conditional agreement entered into by the Group in 2004 to acquire properties interest of 香樟花園 located in Shanghai, PRC at a consideration of RMB450 million (of which deposit of RMB58 million was paid by the Group as at 31st December, 2005 set out in note 19), the Group has commenced legal proceedings to demand the vendor of the properties to fulfil its obligations under the agreement. Having consulted the legal counsel and under certain considerations, the Group has at present decided to exercise its discretion to proceed with the acquisition of the properties.

41. OPERATING LEASE COMMITMENTS

The Group has made approximately HK$1,133,000 (2004: HK$8,052,000) 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 non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,086	64	581	—
In the second to fifth years inclusive	1,661	—	—	—
	2,747	64	581	—

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

42. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Corporate guarantee given by the Company for banking facilities granted to:				
(i) subsidiaries	—	—	28,500	28,500
(ii) associates	8,000	15,500	8,000	15,500
Other guarantees issued to associates	30,780	30,780	30,780	30,780
	38,780	46,280	67,280	74,780

(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 TFHI (former wholly-owned subsidiary of the Company) and MTR for the leased properties. As at 31st December, 2005 and 31st December, 2004, such guarantee has not yet been released.

43. PLEDGE OF ASSETS

(a) As at 31st December, 2005, bank deposits of HK$1,036,000 (2004: HK$1,012,000) was pledged to banks to secure credit facilities granted to the Group.

(b) At 31st December, 2005, listed equity securities with a carrying value of HK$30,861,000 (2004: HK$72,186,000) were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2005, no margin loan facility were utilised by the Group. As at 31st December, 2004, the margin loan facility amounting to HK$33,567,000 included in bank loans and other borrowings were utilised by the Group.

44. RELATED PARTY TRANSACTIONS

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

Name of company	**Nature of transactions**	*Notes*	**2005** *HK$'000*	**2004** *HK$'000*
Sing Pao Newspaper Company Limited	Loan interest income received and receivable by the Group	*(a)*	474	390
Hanny Magnetics Limited	Rent expenses paid and payable by the Group	*(b)*	16	16
	Sale of goods made by the Group		—	—
ITC Management Limited	Secondment fee paid and payable by the Group	*(c)*	330	330
	Sales of goods by the Group		—	3
Paul Y (E & M) Company Limited	Repair and maintenance fee paid and payable by the Group	*(b)*	—	42
Cycle Company Limited and Gunnell Properties Limited	Rental expenses paid and payable by the Group	*(b)*	138	553
PYI Management Limited (formerly known as "Paul Y-ITC Management Limited")	Sale of goods made by the Group	*(b)*	—	338
Nation Cheer Investment Limited	Interest expense paid and payable by the Group	*(b)*	14,183	12,428
Wing On	Loan interest income received and receivable by the Group	*(e)*	3,175	1,466
Hong Kong Wing On Travel Service Limited	Air ticketing and travel service expenses paid and payable by the Group	*(d)*	185	260
	Sale of goods made by the Group		—	—

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

Name of company	Nature of transactions	*Notes*	2005 *HK$'000*	2004 *HK$'000*
Mass Success International Limited	Rental expenses paid and payable by the Group	*(f)*	581	577
Pacific Century Premium Developments Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited)	Management fee received and receivable by the Group	*(g)*	—	200
Apex	Loan interest income received and receivable by the Group	*(g)*	2,931	3,280
Micro-Tech Ltd.	Rental expense of motor vehicles paid and payable by the Group		216	216
Chief Altantic Profits Limited	Loan interest income received and receivable by the Group	*(h)*	—	303

Notes:

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

(b) Hanny Magnetics Limited, Paul Y (E & M) Company Limited, Cycle Company Limited and Gunnell Properties Limited, PYI Management Limited, Nation Cheer Investment Limited and Micro-Tech Ltd. are wholly-owned subsidiaries of a substantial shareholder of the Company.

(c) ITC Management Limited is the shareholder of a substantial shareholder of the Company.

(d) Hong Kong Wing On Travel Service Limited is wholly-owned subsidiaries of Wing On.

(e) Wing On is an associate of the Group.

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

(g) PCPD and Apex ceased to be associates of the Group during the year ended 31st December, 2005.

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

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

During the years ended 31st December, 2004 and 31st December, 2005, the Company issued "all monies" guarantees and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary and an associate of the Group and the amount of approximately HK$1,986,941 (2004: HK$1,913,000) was utilised by that non-wholly subsidiary and no amount (2004: Nil) were utilised by an associate respectively as at 31st December, 2005.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet.

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.

45. 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.

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$417,000 (2004: HK$876,000) represents contribution payable to these schemes by the Group in respect of the current year.

46. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2005 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 Directly %	Indirectly %	Principal activities
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
東莞市江每貿易有限公司 *(note f)*	PRC	RMB500,000	—	88%	Sand mining
廣州耀陽實業有限公司 *(note g)*	PRC	RMB1,000,000	—	100%	Sand mining

46. PRINCIPAL 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 the PRC and its shares are trading on the Over the Counter Bulletin Board of the United States of America. The Group holds a 55.2% effective equity interest and an 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 the PRC.

f. These companies are registered in form of an equity joint venture.

g. There companies are registered in the form of wholly-owned foreign investment enterprises.

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.

47. POST BALANCE SHEET EVENTS

On 23rd March, 2006, Wing On, an associate of the Group, entered into subscription agreement with China Enterprises Limited ("CEL", a non wholly-owned subsidiary of the Group), Hutchison International Limited ("HIL", a wholly owned subsidiary of Hutchison Whampoa Limited whose shares are listed on The Stock Exchange of Hong Kong Limited) and other subscribers in relation to the subscription of 2% convertible exchangeable notes (the "Notes") with principal amount of HK$1,000 million. CEL, HIL and other subscribers have conditionally agreed to subscribe for the Notes with principal amount of HK$300 million, HK$200 million and HK$500 million by cash respectively.

INDEBTEDNESS

The following indebtedness statement is pertinent to the Group excluding members comprising the GDI Group.

Borrowings

At the close of business on 31st March, 2006, (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this composite document), the Group had outstanding borrowings of approximately HK$989,102,000 comprising secured bank borrowings of approximately HK$8,982,000, amounts due to related companies of approximately HK$204,015,000, amounts due to fellow subsidiaries of approximately HK$772,752,000 and payables of approximately HK$3,353,000.

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 and bank deposit of approximately HK$1,045,000. Listed securities with a carrying value of HK$52,797,000 were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st March, 2006, no margin loan facilities were utilised by the Group.

At the close of business on 31st March, 2006, the Group had contingent liabilities in respect of guarantees in favour of banks for facilities granted to independent third parties of approximately HK$30,780,000 and an associate of approximately HK$8,000,000.

Debt securities

At the close of business on 31st March, 2006, the Group had no debt securities.

Commitment

At the close of business on 31st March, 2006, the Group had commitment of approximately HK$17,619,000, in respect of the acquisition of property, plant and equipment and acquisition of interest in other assets.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities within the Group, the Group did not have outstanding at the close of business on 31st March, 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases or finance lease commitments, 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 31st March, 2006.

MATERIAL CHANGES

Save for the Group Reorganisation, the Directors are not aware of any material changes in the financial or trading position or outlook of the Group since 31st December, 2005, the date to which the latest published audited consolidated financial statements of the Company were made up.

1. UNAUDITED PRO FORMA BALANCE SHEET OF THE GROUP

(A) Introduction

The unaudited pro forma balance sheet of the Group has been prepared giving effect to the Group Reorganisation.

The unaudited pro forma balance sheet 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 31st December, 2005.

The unaudited pro forma balance sheet of the Group is based upon the audited consolidated balance sheet of the Group as at 31st December, 2005, which has been extracted from the audited consolidated financial statements of the Company for the year ended 31st December, 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, which are summarised in the accompany notes.

The unaudited pro forma balance sheet of the Group is based on a number of assumptions, estimates and uncertainties. Accordingly, the accompanying unaudited pro forma balance sheet 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 31st December, 2005. The unaudited pro forma balance sheet of the Group does not purport to predict the future financial position of the Group.

The unaudited pro forma balance sheet 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 31st December, 2005 and other financial information included elsewhere in this composite document.

(B) Unaudited Pro Forma Balance Sheet

As at 31st December, 2005

	Audited	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma Adjustments	Subtotal	Pro Forma Adjustments	Pro Forma Adjustments	Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 1	*Note 2*	*Note 3*		*Note 4*	*Note 5*	
Non-current Assets								
Property, plant and equipment	125,957	(109,811)			16,146			16,146
Prepaid lease payments	27,763	—			27,763			27,763
Deposit paid for acquisition of interest in properties	55,716	(55,716)			—			—
Goodwill	34,930	(9,123)			25,807			25,807
Interests in associates	558,738	(558,738)			—			—
Investments in securities at fair value through profit or loss	117,919	(71,347)			46,572			46,572
	921,023	(804,735)			116,288			116,288
Current Assets								
Other asset	229,288	(229,288)			—			—
Inventories	12,409	(102)			12,307			12,307
Trade receivables	4,773	—			4,773			4,773
Prepaid lease payments	620	—			620			620
Amounts due from associates	159,214	(151,206)			8,008			8,008
Loans and interest receivables -due within one year	464,232	(448,961)			15,271		86,822	102,093
Other receivables, deposits and prepayments	42,909	(40,672)			2,237			2,237
Amounts due from former fellow subsidiaries	—	(721,091)	721,091		—			—
Investments in securities held for trading	7,552	—			7,552			7,552
Pledged bank deposits	1,036	—			1,036			1,036
Bank balances and cash	115,813	(103,494)			12,319			12,319
	1,037,846	(1,694,814)			64,123			150,945
Current Liabilities								
Trade payables, other payables and accrued charges	56,159	(17,475)			38,684			38,684
Amounts due to related companies — due within one year	200,287	—			200,287		(199,731)	556
Payables	3,379	(583)			2,796			2,796
Amount due to associates	286	(286)			—			—
Income and other tax payable	13,387	(12,257)			1,130			1,130
Amounts due to former fellow subsidiaries	—	(3,023,016)	3,023,016		—			—
Bank loans and other borrowings — due within one year	8,627	—			8,627			8,627
	282,125	(3,053,617)			251,524			51,793
Net Current Assets (Liabilities)	755,721	1,358,803			(187,401)			99,152
Total equity	1,676,744	554,068			(71,113)			215,440

	Audited HK$'000	Pro Forma Adjustments HK$'000 Note 1	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
Capital and Reserves								
Share capital	88,160	(10,777)		10,777	88,160	(44,080)		44,080
Reserves	1,237,154	902,023	(2,301,925)	(10,777)	(173,525)	44,080	286,553	157,108
Equity attributable to equity holders of the parent	1,325,314	891,246			(85,365)			201,188
Minority interests	330,255	(316,003)			14,252			14,252
	1,655,569	575,243			(71,113)			215,440
Non-Current Liability								
Deferred tax liabilities	21,175	(21,175)			—			—
	21,175	(21,175)			—			—
	1,676,744	554,068			(71,113)			215,440

Notes to unaudited pro forma balance sheet of the Group

Pursuant to the Group Reorganisation, all subsidiaries of the Company carrying on property development, sand mining 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") have been acquired by Group Dragon Investments Limited ("GDI") (hereinafter collectively referred to as "the GDI Group") and continued to be operated by the existing management of the Company. GDI has become the holding company of the GDI Group which comprises of companies carrying on Distributing Business, and the issued shares of GDI have been 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 composite document. The Company continues 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 has been approved by the shareholders of the Company in an extraordinary general meeting held on 6th October, 2005 and effective on 19th May, 2006.

The unaudited pro forma balance sheet 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 assets and liabilities of the GDI Group which comprises the subsidiaries and associates carrying on the Distributing Business as at 31st December, 2005.

(2) The adjustment reflects the assignments of intra-group balances between the GDI Group and the Remaining Group has been taken place pursuant to the Group Reorganisation as set out below:

(a) the intra-group amount due to members of the Remaining Group by members of the GDI Group has been assigned to GDI; and

(b) the intra-group amount due to members of the GDI Group by members of the Remaining Group has been assigned to the Company.

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

(3) The amounts represent 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 31st December, 2005.

(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 Group Reorganisation.

(5) These adjustments reflect the transfer of liabilities of approximately HK$199,731,000 from the Remaining Group to the GDI Group, and transfer of assets of approximately HK$86,822,000 from the GDI Group to the Remaining Group pursuant to the Group Reorganisation.

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

(A) Introduction

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 taken place on at the beginning of the year ended 31st December, 2005.

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 31st December, 2005, which have been extracted from the audited consolidated financial statements of the Company for the year ended 31st December, 2005, after giving effect to the pro forma adjustments of the Group Reorganisation that are (i) directly attributable to the transaction; (ii) expected to have continuing impact on the Group; and (iii) factually supportable, are summarised in the accompany 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 on 1st January, 2005 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 31st December, 2005 and other financial information included elsewhere in this composite document.

(B) Unaudited Pro Forma Income Statement

For the year ended 31st December, 2005

	Audited	Pro Forma Adjustment	Pro forma Remaining Group
	HK$'000	*HK$'000*	*HK$'000*
		Note 1	
Turnover	38,459	(5,298)	33,161
Cost of sales	(32,936)	4,457	(28,479)
Gross profit	5,523	(841)	4,682
Other income	83,623	(33,622)	50,001
Distribution costs	(2,974)	1,365	(1,609)
Administrative expenses	(59,948)	33,802	(26,146)
Other expenses	(67,089)	23,030	(44,059)
Allowance for loans and interest receivables	(37,445)	31,116	(6,329)
Finance costs	(17,630)	—	(17,630)
Change in fair value of conversion option of unlisted convertible note	(39,743)	39,743	—
Loss on disposal of interests in associates	(2,814)	2,814	—
Share of results of associates	42,864	(43,103)	(239)
Loss before taxation	(95,633)	54,304	(41,329)
Taxation	(4,247)	4,247	—
Loss for the year	(99,880)		(41,329)
Attributable to:			
Equity holders of the parent	(95,200)	54,259	(40,941)
Minority interests	(4,680)	4,292	(388)
	(99,880)		(41,329)

(C) Unaudited Pro Forma Cash Flow Statement

For the year ended 31st December, 2005

	Audited *HK$'000*	**Pro Forma Adjustment** *HK$'000* *Note 1*	**Pro Forma Remaining Group** *HK$'000*
Operating Activities			
Loss before taxation	(95,633)	(54,304)	(41,329)
Adjustment for:			
Finance costs	17,630	—	17,630
Change in fair value of conversion option of unlisted convertible note	39,743	39,743	—
Loss on dilution of interests in associates	2,814	2,814	—
Dividend income	(8,402)	—	(8,402)
Interest income	(58,084)	(29,762)	(28,322)
Amortisation of prepaid lease payments	519	—	519
Share of results of associates	(42,864)	(43,103)	239
Depreciation of property, plant and equipment	8,102	5,865	2,237
Changes in fair value on investment in securities at fair value through profit or loss	34,652	(1,208)	35,860
Change in fair value of investments held for trading	9,429	—	9,429
Gain on disposal of investments in securities at fair value through profit or loss	(10,575)	716	(11,291)
Allowance for bad and doubtful debts	18,575	18,575	—
Allowance for loans and interest receivable	37,445	31,116	6,329
Loss on disposal of property, plant and equipment	128	—	128
Operating cash flows before movement in working capital	(46,521)	(29,548)	(16,973)

	Audited *HK$'000*	Pro Forma Adjustment *HK$'000* *Note 1*	Pro Forma Remaining Group *HK$'000*
Decrease in inventories	1,305	(96)	1,401
Decrease in trade receivables	2,282	—	2,282
Decrease in other receivables, deposits and prepayment	23,437	19,272	4,165
Increase in trade payables, other payables and accrued charges	9,840	(8,127)	17,967
Increase (decrease) in amounts due to associates	(4,650)	(15,551)	10,901
Increase in other asset	(2,121)	(2,121)	—
	30,093	(6,623)	36,716
Net (outflow)/inflow from operations	(16,428)	(36,171)	19,743
Tax paid in other jurisdictions	(45)	245	(290)
Net cash (used in) generated from operating activities	(16,473)	(35,926)	19,453

	Audited *HK$'000*	Pro Forma Adjustment *HK$'000* *Note 1*	Pro Forma Remaining Group *HK$'000*
Investing activities			
Repayment of loans and interest receivable	384,736	345,672	39,064
Repayment from associates	99,500	—	99,500
Proceeds from disposal of investments in securities	134,734	77,547	57,187
Proceed from disposal of property, plant and equipment	—	125	(125)
Increase in pledged bank deposits	(24)	—	(24)
Interest received	5,661	8,488	(2,827)
Dividend income received from investments in securities	8,402	—	8,402
Dividend income received from associates	2,427	2,427	—
Amount advanced to loans and interest receivable	(293,922)	(285,122)	(8,800)
Amount advanced to associates	(107,708)	—	(107,708)
Purchase of investments in securities	(78,377)	(78,259)	(118)
Payment of prepaid lease payments	(8,635)	—	(8,635)
Purchase of property, plant and equipment	(3,765)	(331)	(3,434)
Deposit paid for acquisition of interests in property	(8,704)	(8,704)	—
Investment in associates	(63,152)	(63,152)	—
Decrease in amount due from former fellow subsidiaries	—	121,572	(121,572)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	(9,651)	(9,651)	—
Net cash from (used in) investing activities	61,522	110,612	(49,090)

	Audited *HK$'000*	Pro Forma Adjustment *HK$'000* *Note 1*	Pro Forma Remaining Group *HK$'000*
Cash flows from financing activities			
Advance from payables	469	—	469
Repayment of bank loans and other borrowings	(34,400)	—	(34,400)
Interest paid	(3,402)	—	(3,402)
Repayment to payables	(4,611)	—	(4,611)
Repayment to associates	(3,451)	—	(3,451)
Decrease in amount due to former fellow subsidiaries	—	(41,964)	41,964
Repayment of obligations under finance leases	(10)	—	(10)
Cash outflow of dividend in specie of the GDI Group	—	72,481	(72,481)
Net cash used in financing activities	(45,405)	30,517	(75,922)
Net decrease in cash and cash equivalents	(356)	105,203	(105,559)
Cash and cash equivalents at the beginning of the year	111,588	—	111,588
Effect of foreign exchange rate changes	(2,631)	(1,709)	(922)
Cash and cash equivalents at the end of the year	108,601	103,494	5,107

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, sand mining 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") have been acquired by Group Dragon Investments Limited ("GDI") (hereinafter collectively referred to as "the GDI Group") and continued to be operated by the existing management of the Company. GDI, has become the holding company of the GDI Group which comprises of companies carrying on Distributing Business, and the issued shares of GDI have been 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 composite document. The Company continues 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 has been approved by the shareholders of the Company in an extraordinary general meeting held on 6th October, 2005 and effective on 19th May, 2006.

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 cash flow of the Group had the Group Reorganisation actually occurred on 1st January, 2005 or for any future period.

(1) These adjustments reflect the result and cash flows of the GDI Group for the year ended 31st December, 2005 of which the amounts were based on the consolidation schedules which extracted from the consolidated financial statements of the Group for the year ended 31st December, 2005.

3. Report on unaudited Pro Forma Financial Information

Deloitte.
德勤

ACCOUNTANTS' REPORT OF UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED

We report on the unaudited pro forma financial information of China Strategic Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the Group Reorganisation might have affected the financial information presented, for inclusion in Appendix III (the "Unaudited Pro Forma Financial Information on the Group") to the composite document dated 26th May, 2006 in connection with the mandatory unconditional cash offer made by Kingston Securities Limited on behalf of Nation Field Limited to acquire all the issued shares in the Company other than these already owned by Nation Field Limited and parties acting in concert with it (the "Document"). The basis of preparation of the unaudited pro forma financial information is set out in Section 1 and Section 2 of Appendix III to the Document.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information on the Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information on the Group 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 Unaudited Pro Forma Financial Information on the Group 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 300 “Accountants” Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information on the Group with the directors of the Company. This engagement did not involve independent examination of any of underlying financial information.

We planned and performed our work so as to obtain information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information on the Group has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information on the Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information on the Group is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Remaining Group as at 31 December, 2005 or any future date, or may not be indicative of the results and cash flows of the Remaining Group for the year ended 31 December, 2005 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

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

c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 26th May, 2006

(E) COMFORT LETTER FROM DAO HENG SECURITIES

道亨證券有限公司
DaoHengSecurities Ltd.

26th May, 2006

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 III to the composite document jointly published by the Company and Nation Field Limited dated 26th May, 2006, regarding the mandatory unconditional cash offer made by Kingston Securities Limited on behalf of Nation Field Limited to acquire all the issued shares of the Company (other than those already owned by Nation Field Limited and parties acting in concert with it), 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 26th May, 2006 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	**Jenny Leung**
Executive Director	*Director, Corporate Finance*

Deloitte.
德勤

26th May, 2006

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 have become subsidiaries of GDI pursuant to the group reorganisation which became effective on 19th May, 2006 referred to below (hereinafter collectively referred to as the "GDI Group") for the three years ended 31st December, 2005 (the "Relevant Periods") for inclusion in the composite document dated 26th May, 2006 of China Strategic Holdings Limited ("CSH") in connection with the voluntary mandatory unconditional cash offer made by Kingston Securities Limited on behalf of Nation Field Limited (the offeror) to acquire all the issued shares in CSH other than those already owned by Nation Field Limited and parties acting in concert with it (the "Document").

Following the completion of group reorganisation, all subsidiaries of CSH carrying on property development, sand mining 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") have been acquired by GDI and continues to be operated by the existing management of CSH. CSH continues 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 becomes the holding company of the GDI Group which comprise of companies carrying on Distributing Business, and the issued shares of GDI have been distributed as dividend in specie to the shareholders of CSH (the "Group Reorganisation"). Details of which are set out under the section "Letter from the Board" of the Document. The Group Reorganisation was approved by the shareholders of CSH in an extraordinary general meeting on 6th October, 2005 and effective on 19th May, 2006.

GDI was incorporated on 1st 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 is undergoing the Group Reorganisation which became effective on 19th May, 2006.

Particulars of the subsidiaries acquired by GDI pursuant to the 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 held by GDI		Principal activities
			Directly %	Indirectly %	
Acrow Limited *(note 1)*	8th August, 1996 BVI	US$1	—	100	Inactive
APEC.com Limited *(note 2)*	15th October, 1992 Hong Kong	HK$2	—	100	Inactive
B2B Limited *(note 2)*	18th August, 1992 Hong Kong	HK$2	—	100	Holding license
Capital Canton Limited *(note 1)*	2nd May, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Capital Passion Limited *(note 1)*	15th December, 2000 BVI	US$1	—	100	Inactive
Carling International Limited *(note 1)*	24th September, 1991 BVI	US$1	—	100	Investment holding
Century Lead Limited *(note 1)*	2nd May, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
China Advertising Holdings Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Inactive
China Audio & Communications Limited *(note 2)*	15th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Automobile (Holdings) Limited *(note 2)*	16th January, 1992 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 held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
China B2B Net.com Limited *(note 2)*	5th February, 1991 Hong Kong	HK$2	—	100	Inactive
China Barter Trade.com Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Broadcasts (Holdings) Limited *(note 2)*	16th January, 1992 Hong Kong	HK$2	—	100	Inactive
China Cable (BVI) Limited *(note 1)*	18th July, 1995 BVI	US$3	—	100	Inactive
China Cement Holdings Limited *(note 2)*	9th February, 1988 Hong Kong	HK$20	—	100	Inactive
China Computer Limited *(note 2)*	21st August, 1987 Hong Kong	HK$20	—	100	Inactive
China Data Center Limited *(note 2)*	4th June, 1991 Hong Kong	HK$2	—	100	Inactive
China Digital Corporation Limited *(note 2)*	15th January, 1997 Hong Kong	HK$2	—	100	Inactive
China e-Barter.com Limited *(note 2)*	15th October, 1991 Hong Kong	HK$2	—	100	Inactive
China eBay.com Limited *(note 2)*	19th 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 held by GDI Directly %	Indirectly %	Principal activities
China e-commerce.com Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Inactive
China e-Link.com Limited *(note 2)*	11th October, 1989 Hong Kong	HK$2	—	100	Inactive
China e-printing.com Limited *(note 2)*	23rd December, 1992 Hong Kong	HK$2	—	100	Inactive
China Electric Corporation Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Electronics Industries Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
China Enterprises Limited ("CEL") *(note 5(a))*	28th January, 1993 Bermuda	Super voting common stock US$30,000 Common stock US$60,173	—	55.22 *(note 5(a))*	Investment holding
China Grains.com Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
China I.T. Net.com Limited *(note 2)*	8th February, 1994 Hong Kong	HK$2	—	100	Inactive
China Internet Capital Group Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
China Internet Global Alliance Limited *(note 2)*	12th November, 1991 Hong Kong	HK$10,000	—	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 held by GDI Directly %	Indirectly %	Principal activities
China Logistic.com Limited *(note 2)*	16th January, 1992 Hong Kong	HK$2	—	100	Inactive
China Micro Systems Limited *(note 2)*	3rd January, 1997 Hong Kong	HK$2	—	100	Inactive
China Pharmaceutical Industrial Limited *(note 2)*	24th March, 1992 Hong Kong	HK$2	—	57.26 (note 4(b))	Investment holding
China Pharmaceutical Pty Limited *(note 6)*	17th December, 1993 Australia	A$1	—	57.26 (note 4(b))	Inactive
China Resources Holdings Limited *(note 1)*	15th June, 1994 BVI	US$1	—	57.26 *(note 4(b))*	Inactive
China Strategic (B.V.I.) Limited *(note 1)*	5th July, 2001 BVI	US$1	100	—	Investment holding
China Strategic Investments Pty Ltd *(note 6)*	17th December, 1993 Australia	A$2	—	57.26 *(note 4(b))*	Inactive
China Technologies Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Telecom International Limited *(note 2)*	12th January, 1993 Hong Kong	HK$2	—	51	Inactive
China Television (Holdings) Limited *(note 2)*	5th February, 1991 Hong Kong	HK$2	—	100	Inactive
China University Online Limited *(note 2)*	12th November, 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 held by GDI Directly %	Proportion of share capital/ registered capital held by GDI Indirectly %	Principal activities
China VU.com Limited *(note 2)*	5th February, 1991 Hong Kong	HK$2	—	100	Inactive
China Wireless Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China WTO.com Limited *(note 2)*	18th August, 1992 Hong Kong	HK$2	—	100	Investment holding
China Youth Net.com Limited *(note 1)*	23rd December, 1993 Cayman Islands	US$1,000	—	100	Inactive
Citybest Limited *(note 1)*	3rd January, 1997 BVI	US$1	—	100	Inactive
Com.com Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
Container Limited *(note 1)*	22nd January, 1998 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Crown Dragon Limited *(note 1)*	2nd November, 2000 BVI	US$1	—	100	Inactive
CSI Land Group Limited *(note 2)*	19th December, 1991 Hong Kong	HK$2	—	100	Inactive
Dom.com Limited *(note 2)*	3rd November, 1966 Hong Kong	HK$737,680	—	100	Inactive
Earnfull Industrial Limited *(note 2)*	23rd January, 1987 Hong Kong	HK$10,000,000	—	90	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 held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
eAsia Limited *(note 2)*	18th August, 1992 Hong Kong	HK$2	—	100	Inactive
Ease Wealth Limited *(note 1)*	12th December, 2001 BVI	US$1	—	100	Investment holding
Easy Legend Limited *(note 1)*	5th July, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Ever Excellent Limited *(note 1)*	15th December, 2000 BVI	US$1	—	100	Investment holding
Evergrowth Properties Limited *(note 1)*	1st December, 2000 BVI	US$1	—	100	Investment holding
Expert Commerce Limited *(note 1)*	8th March, 2000 BVI	US$1	—	100	Investment holding
Expert Solution Limited *(note 1)*	26th April, 2001 BVI	US$1	—	100	Inactive
Fast Settle Development Company Limited *(note 2)*	2nd March, 1993 Hong Kong	HK$2	—	100	Inactive
Favour Leader Limited *(note 1)*	8th March, 1994 BVI	US$1	—	100	Investment holding
Future Returns Limited *(note 1)*	28th February, 2001 BVI	US$1	—	100	Investment holding
Glory Eagle Limited *(note 1)*	18th September, 1996 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 held by GDI Directly %	Indirectly %	Principal activities
Gold Label Investments Limited *(note 1)*	1st April, 1992 BVI	US$1	—	100	Inactive
Golden Flower Limited *(note 1)*	3rd January, 1997 BVI	US$1	—	100	Investment holding
Good Trend Enterprises Limited *(note 1)*	18th October, 2000 BVI	US$1	—	100	Investment holding
Great Joint Profits Limited *(note 1)*	29th January, 2002 BVI	US$1	—	100	Investment holding
Group Dragon Limited *(note 1)*	12th December, 2003 BVI	US$1	—	100	Investment holding
Great Windfall Agents Limited *(note 1)*	28th November, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Grotto Profits Limited *(note 1)*	6th January, 2000 BVI	US$1	—	100	Inactive
Happy Access Limited *(note 1)*	15th December, 2000 BVI	US$1	—	100	Inactive
Hollywood & Co., Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Investment holding
Honest Map Limited *(note 1)*	15th November, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Honest Sincere Limited *(note 1)*	28th February, 2001 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 held by GDI Directly %	Proportion of share capital/ registered capital held by GDI Indirectly %	Principal activities
Hongkong Macau Telecom Holdings Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
Hong Kong Pharmaceutical Industries Corporation Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Inactive
Kamthorn Limited *(note 1)*	23rd July, 1996 BVI	US$1	—	100	Investment holding
Katmon Limited *(note 1)*	10th November, 1992 BVI	US$1	—	100	Investment holding
Keen Strategic Limited *(note 1)*	26th November, 2003 BVI	US$1	—	100	Investment holding
Leading Returns Limited *(note 1)*	12th June, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Longnew Ltd. *(note 1)*	19th September, 1997 BVI	US$1	—	100	Investment holding
Manwide Holdings Limited *(note 1)*	3rd March, 2004 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Million Good Limited *(note 1)*	28th November, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
MRI Holdings Limited ("MRI") *(note 4(a))*	7th August, 1925 Australia	A$31,184,116	—	57.26 *(note 4(b))*	Investment holding
MRI Infrastructure Holdings Limited *(note 1)*	3rd January, 1995 Bermuda	US$12,000	—	57.26 *(note 4(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 held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
MRI Services (Overseas) Limited *(note 1)*	8th January, 1999 BVI	US$1	—	57.26 *(note 4(b))*	Inactive
Orion (B.V.I.) Tire Corporation *(note 1)*	14th February, 1994 BVI	US$100	—	60 *(note 5(c))*	Inactive
Orion Tire Corporation *(note 1)*	7th March, 1994 USA	N/A	—	60 *(note 5(c))*	Inactive
Perfect City Limited *(note 1)*	28th November, 2001 BVI	US$1	—	100	Inactive
Pioneer Honour Limited *(note 1)*	11th August, 2001 BVI	US$1	—	100	Investment holding
Premier Zhou En Lai Foundation Limited *(note 2)*	28th February, 1991 Hong Kong	HK$2	—	100	Inactive
Quality Best Limited *(note 1)*	28th February, 2001 BVI	US$1	—	100	Investment holding
Regal Tender Limited *(note 1)*	5th July, 2001 BVI	US$1	—	100	Investment holding
Rosedale Luxury Hotel & Suites Ltd. *(note 5(d))*	28th August, 2004 PRC	US$20,000,000	—	55.22 *(note 5(d))*	Property holding
Ruby Services Limited *(note 1)*	21st February, 1995 BVI	US$1	—	100	Inactive
Ruby Uniforms Limited *(note 2)*	8th April, 1988 Hong Kong	HK$10,000	—	90	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 held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
See Ying Limited *(note 1)*	1st September, 1997 BVI	US$1	—	100	Investment holding
Sheen Trade Limited *(note 1)*	3rd December, 2004 BVI	US$1	—	100	Investment holding
Shine Brilliant Limited *(note 1)*	2nd June, 2005 BVI	US$1	—	100	Investment holding
Sifford Limited *(note 1)*	24th September, 1991 BVI	US$1	—	100	Investment holding
Sincere Ocean Limited *(note 1)*	12th June, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Strawberg Limited *(note 1)*	8th August, 1996 BVI	US$1	—	100	Inactive
Super Plus Limited *(note 1)*	8th November, 2001 BVI	US$1	—	100	Inactive
Supreme Solutions Limited *(note 1)*	16th May, 2002 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Treasure Way Services Limited *(note 2)*	6th August, 1991 Hong Kong	HK$10,000	100	—	Secretarial services
United China Internet Capital Limited *(note 2)*	25th July, 1991 Hong Kong	HK$10,000,000	—	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 held by GDI Directly %	Indirectly %	Principal activities
Union Money International Limited *(note 2)*	14th August, 2002 Hong Kong	HK$2	—	100	Inactive
Ventures Kingdom Limited *(note 1)*	12th June, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Venture Leader Limited *(note 1)*	28th March, 2001 BVI	US$1	—	100	Investment holding
Vision Leader Limited *(note 1)*	26th June, 2002 BVI	US$1	—	100	Investment holding
Wai Cheong Limited *(note 1)*	1st December, 2000 BVI	US$1	—	100	Investment holding
Wealth Faith Limited *(note 1)*	18th October, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Wealthy Mark Limited *(note 1)*	5th July, 2001 BVI	US$1	—	100	Investment holding
Widecheer Limited *(note 1)*	2nd June, 2005 BVI	US$1	—	100	Investment holding
Winning Effort Limited *(note 1)*	28th March, 2001 BVI	US$1	—	100	Inactive
Zhuhai Zhongce Property Investment Limited *(note 1)*	16th December, 2002 BVI	US$1	—	100	Property development

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
東莞市江海貿易有限公司 （"東莞市江海"）*(note 3)*	14th July, 1997 The People's Republic of China (the "PRC")	RMB500,000	—	88	Vessel for sand mining
廣州耀陽實業有限公司 （"廣州耀陽"）*(note 3)*	9th December, 2004 PRC	RMB1,000,000	—	100	Vessel for sand mining

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

Note 2: We have acted as auditors of these companies for each of the Relevant Periods or since their respective dates of incorporation or acquisition, where this is a shorter period. Audited financial statements have been prepared in accordance with HKFRS for these companies for each of the three years ended 31st December, 2005, or from their respective date of incorporation, where this is a shorter period.

Note 3: No statutory financial statements for the year ended 31st December, 2005 of 東莞市江海 and廣州耀陽 since there are no statutory audit requirements. We have undertaken an independent audit in accordance with the HKSA issued by the HKICPA on the financial statements of東莞市江海 and廣州耀陽for the period from its acquisition to 31st December, 2005 which were prepared in accordance with HKFRS.

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 HKSA issued by the HKICPA on the financial statements of MRI for each of the three years ended 31st December, 2005 which were prepared in accordance with HKFRS.

(b): These companies are wholly owned subsidiaries of MRI and the GDI Group holds 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 will hold 55.22% effective equity interest and 88.8% effective voting interest in CEL. We have audited the financial statements of CEL for each of the three years ended 31st December, 2005. 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 HKSA issued by the HKICPA on the financial statements of CEL for each of the three years ended 31st December, 2005, which were prepared in accordance with HKFRS.

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

(d): The statutory financial statements of Rosedale Luxury Hotel & Suites Ltd was audited by Shanghai Justiword Associated Certified Public Accountants. For the purpose of this report, we have undertaken an independent audit in accordance with the HKSA issued by the HKICPA for each of the three years ended 31st December, 2005 which were prepared in accordance with HKFRS.

Note 6: China Pharmaceutical Pty Limited and China Strategic Investments Pty Ltd. are subsidiaries of MRI. MRI is a 57.26% owned subsidiary of the GDI Group. The statutory financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Ltd. 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 Ltd. 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 HKSA issued by the HKICPA on the financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Ltd. for each of the three years ended 31st December, 2005 which were prepared in accordance with HKFRS.

No audited financial statements have been prepared for GDI since the date of incorporation as it is newly incorporated in a country where there is no statutory requirement and has not carried on any business. We have, however, reviewed all relevant transactions of GDI since 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 31st December, 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 statements of the GDI Group for the Relevant Periods and the combined balance sheets of the GDI Group as at 31st December, 2003, 2004 and 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 Document.

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 Document 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 31st December, 2003, 2004 and 2005 and of the combined results and combined cash flows of the GDI Group for each of the three years ended 31st December, 2005.

I. FINANCIAL INFORMATION

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

COMBINED INCOME STATEMENTS

		Year ended 31st December,		
	Notes	**2003**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*
Turnover	*6*	—	—	5,298
Cost of sales		—	—	(4,457)
Gross profit		—	—	841
Other income	*8*	55,879	52,660	33,622
Distribution costs		—	—	(1,365)
Administrative expenses		(35,639)	(9,852)	(33,802)
Other expenses	*9*	(40,782)	(9,020)	(23,030)
Allowances for loans and interest receivable	*10*	(50,645)	(32,419)	(31,116)
Change in fair value of conversion option of unlisted convertible note	*21(iii)*	—	76,959	(39,743)
Finance costs	*13*	(55)	(1,491)	—
Gain (loss) on disposal of interests in associates		—	57,542	(2,814)
Loss on deemed disposal of associate		(36,480)	—	—
Share of results of associates		(189,887)	(37,521)	43,103
Allowance on receivables advanced to an associate		(12,712)	—	—
Gain on disposal of interests in subsidiaries		11	—	—
(Loss) profit before taxation	*11*	(310,310)	96,858	(54,304)
Taxation	*14*	(567)	(5,257)	(4,247)
(Loss) profit for the year from continuing operations		(310,877)	91,601	(58,551)
Profit for the year from discontinued operations	*15*	104,075	1,511	—
(Loss) profit for the year		(206,802)	93,112	(58,551)
(Loss) profit attributable to:				
Equity holders of the parent		(216,323)	21,619	(54,259)
Minority interests		9,521	71,493	(4,292)
(Loss) profit for the year		(206,802)	93,112	(58,551)

COMBINED BALANCE SHEETS

	Notes	GDI Group As at 31st December, 2003 HK$'000	GDI Group As at 31st December, 2004 HK$'000	GDI Group As at 31st December, 2005 HK$'000	GDI As at 31st December, 2005 HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	*17*	36,074	220	109,811	—
Deposit paid for acquisition of interest in properties	*18*	—	47,012	55,716	—
Deposit for acquisition of subsidiaries	*19*	—	40,000	—	—
Goodwill	*20*	9,325	—	9,123	—
Interests in associates	*21*	508,110	309,149	558,738	—
Unlisted convertible notes and loans receivable due from an associate	*21(ii) & 21(iv)*	320,674	187,967	—	—
Loans and interest receivables — due after one year	*22*	—	28,283	—	—
Investment in securities	*24*	26,164	71,959	—	—
Investment in securities at fair value through profit or loss	*24*	—	—	71,347	—
		900,347	684,590	804,735	—
CURRENT ASSETS					
Other asset	*28*	226,718	227,167	229,288	—
Inventories	*29*	66,976	—	102	—
Trade receivables	*30*	13,718	—	—	—
Amounts due from associates	*21*	129	54,373	151,206	—
Loans and interest receivables — due within one year	*22*	251,691	540,931	448,961	—
Other receivables, deposits and prepayments	23	35,861	79,800	40,672	4
Other investments	*24*	1,142	—	—	—
Amounts due from former fellow subsidiaries	*26*	756,570	878,028	721,091	—
Bank balances and cash	*27*	310,946	72,481	103,494	—
		1,663,751	1,852,780	1,694,814	4
CURRENT LIABILITIES					
Trade payables, other payables and accrued charges	*31*	78,834	25,497	17,475	—
Payables — due within one year	*32*	29,180	444	583	—
Amounts due to associates	*21*	—	673	286	—
Income and other tax payable		3,150	8,144	12,257	—
Amounts due to former fellow subsidiaries	*26*	3,040,386	3,064,980	3,023,016	14
Bank loans and other borrowings — due within one year	*33*	26,014	—	—	—
		3,177,564	3,099,738	3,053,617	14
NET CURRENT LIABILITIES		(1,513,813)	(1,246,958)	(1,358,803)	(10)
		(613,466)	(562,368)	(554,068)	(10)
CAPITAL AND RESERVES					
Share capital	*34*	10,777	10,777	10,777	—
Reserves		(874,892)	(893,489)	(902,023)	(10)
Equity attributable to equity holders of the parent		(864,115)	(882,712)	(891,246)	(10)
Minority interests		249,327	320,344	316,003	—
		(614,788)	(562,368)	(575,243)	(10)
NON-CURRENT LIABILITIES					
Bank loans and other borrowings — due after one year	*33*	129	—	—	—
Payables — due after one year	*32*	1,193	—	—	—
Deferred tax liabilities	*25*	—	—	21,175	—
		1,322	—	21,175	—
		(613,466)	(562,368)	(554,068)	(10)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK$'000	Contributions from shareholders HK$'000 (Note a)	Goodwill on consolidation HK$'000	Exchange reserve HK$'000	Other non-distributable reserve HK$'000 (Note b)	Accumulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
GDI GROUP									
At 1st January, 2003	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
Net income (expense) recognised directly in equity	–	–	–	2,391	(172)	–	2,219	553	2,772
Loss for the year	–	–	–	–	–	(216,323)	(216,323)	9,521	(206,802)
Realised on disposal of interests in associates	–	–	(20,333)	(128)	(238)	–	(20,699)	–	(20,699)
Realised on disposal of interests in subsidiaries	–	–	6,852	(3,848)	(17,863)	17,863	3,004	(481,183)	(478,179)
Total recognised income and expense for the year	–	–	(13,481)	(1,585)	(18,273)	(198,460)	(231,799)	(471,109)	(702,908)
Acquisition from minority interests	–	–	–	–	–	–	–	(410)	(410)
Dividend paid to minority interests	–	–	–	–	–	–	–	(1,431)	(1,431)
Appropriation	–	–	–	–	1,339	(1,339)	–	–	–
At 31st 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
Net income (expense) recognised directly in equity	–	–	–	(710)	9,531	–	8,821	(476)	8,345
Profit for the year	–	–	–	–	–	21,619	21,619	71,493	93,112
Realised on disposal of interests in associates	–	–	(48,225)	(825)	–	–	(49,050)	–	(49,050)
Realised on disposal of interests in subsidiaries	–	–	–	13	–	–	13	–	13
Total recognised income and expense for the year	–	–	(48,225)	(1,522)	9,531	21,619	(18,597)	71,017	52,420
At 31st December, 2004	10,777	191,479	59,343	(8,267)	32,539	(1,168,583)	(882,712)	320,344	(562,368)
Effect of changes in accounting policies *(Note 2(b))*	–	–	(59,343)	–	–	106,401	47,058	–	47,058
At 1st January, 2005 – as restated	10,777	191,479	–	(8,267)	32,539	(1,062,182)	(835,654)	320,344	(515,310)
Exchange adjustment	–	–	–	(1,333)	–	–	(1,333)	(2,623)	(3,956)
Net expense recognised directly in equity	–	–	–	(1,333)	–	–	(1,333)	(2,623)	(3,956)
Loss for the year	–	–	–	–	–	(54,259)	(54,259)	(4,292)	(58,551)
Total recognised income and expense for the year	–	–	–	(1,333)	–	(54,259)	(55,592)	(6,915)	(62,507)
Arising on acquisition of subsidiaries	–	–	–	–	–	–	–	2,574	2,574
At 31st December, 2005	10,777	191,479	–	(9,600)	32,539	(1,116,441)	(891,246)	316,003	(575,243)

Note:

(a) The amount represents the investments in subsidiaries contributed to the GDI Group by GDI pursuant to the Group Reorganisation on the basis that the Group Reorganisation had been effected on 1st January, 2003 and it represents the investments directly made by GDI in companies to be acquired by GDI in previous years.

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

COMBINED CASH FLOW STATEMENTS

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
(Loss) profit before taxation	(310,310)	96,858	(54,304)
Adjustments for:			
Dividend income	(60)	—	—
Interest income	(33,202)	(46,148)	(29,762)
Interest expenses	34,096	1,491	—
Depreciation of property, plant and equipment	57,576	2,031	5,865
Amortisation of goodwill	1,628	155	—
Changes in fair value on investments in securities at fair value through profit or loss	8,121	(70)	(1,208)
(Gain) loss on disposal of interests in associates	—	(57,542)	2,814
(Gain) loss on disposal of interests in subsidiaries	(12,309)	5,266	—
Loss (gain) on disposal of investments in securities through profit or loss	1,774	(2,959)	716
Loss on deemed disposal of associate	36,480	—	—
Allowances for bad and doubtful debts	6,919	1,724	18,575
Allowances for amounts due from associates	2,458	4,099	—
Allowance on receivables advanced to an associate	12,712	—	—
Impairment loss of goodwill on acquisition of subsidiaries	20,387	—	—
Write-down for inventories	4	—	—
Allowances for loans and interest receivable	50,645	32,419	31,116
Change in fair value of conversion option of unlisted convertible note	—	(76,959)	39,743
Gain on disposal of property, plant and equipment	(15,995)	—	—
Share of results of associates	175,697	37,521	(43,103)
Profit from discontinued operations	114,442	1,511	—
Operating cash flows before movements in working capital	151,063	(603)	(29,548)
Decrease (increase) in inventories	22,997	17,657	(96)
Increase in trade receivables	(10,287)	(118)	—
(Increase) decrease in other receivables, deposits and prepayments	(214)	(41,655)	19,272
Increase (decrease) in trade payables, other payables and accrued charges	43,903	(10,021)	(8,127)
Increase in amounts due from associates	(29,065)	(4,097)	(15,164)
Increase (decrease) in amounts due to associates	—	673	(387)
Increase in other asset	(226,718)	(449)	(2,121)
Decrease in income and other tax payable	(19,493)	—	—
Net cash outflow from operations	(67,814)	(38,613)	(36,171)
Tax (paid) refunded in other jurisdictions	(7,420)	(233)	245
NET CASH USED IN OPERATING ACTIVITIES	(75,234)	(38,846)	(35,926)

	Notes	2003 HK$'000	2004 HK$'000	2005 HK$'000
		Year ended 31st December,		
INVESTING ACTIVITIES				
Repayment from loans and interest receivables		697,425	160,903	345,672
Repayment from associates		92,267	143,214	—
Proceeds from disposal of investments in securities		16,711	152,642	77,547
Proceeds from disposal of property, plant and equipment		25,994	771	125
Increase in pledged bank deposits		(45,259)	—	—
Interest received		4,506	7,200	8,488
Proceeds from disposal of interests in associates		23,887	110,341	—
Proceeds from disposal of interest in subsidiaries (net of cash and cash equivalents disposed of)	35	(58,564)	13,324	—
Dividend received from investments in securities		60	—	—
Dividend income received from associates		—	—	2,427
Investment in associates		—	—	(63,152)
Amount advanced to loans and interest receivables		(553,342)	(501,146)	(285,122)
Amount advanced to associates		(260,373)	(163,828)	—
Purchase of investments in securities		(23,278)	(26,250)	(78,259)
Purchase of property, plant and equipment		(268,682)	(1,864)	(331)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	36	(785)	—	(9,651)
Payment for acquisition of interests in property		—	(326)	(8,704)
(Increase) decrease in amounts due from former fellow subsidiaries		(229,601)	(121,456)	121,572
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(579,034)	(226,475)	110,612
FINANCING ACTIVITIES				
Advance from third parties/related parties		29,193	13,000	—
New bank loans and other borrowings raised		994,271	39,033	—
Increase (decrease) in payables due to former fellow subsidiaries		380,907	24,596	(41,964)
Repayment of bank loans and other borrowings		(721,048)	(4,827)	—
Repayment of third parties/related parties		(44,108)	(43,537)	—
Dividend paid to minority interests		(1,431)	—	—
Repayment of obligations under finance leases		(181)	(1)	—
Interest paid		(32,848)	(883)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES		604,755	27,381	(41,964)

	Year ended 31st December,		
	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,513)	(237,940)	32,722
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	356,829	310,944	72,481
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3,628	(523)	(1,709)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	310,944	72,481	103,494
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	310,946	72,481	103,494
Bank overdrafts	(2)	—	—
	310,944	72,481	103,494

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 GDI Group for the Relevant Periods are prepared as if they had been formed as a single reporting entity throughout the Relevant Periods, or since their 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 31st December, 2003, 2004 and 2005 have been prepared to present the assets and liabilities of the GDI Group as at the respective dates as if they had been formed as a single reporting entity at those dates.

The financial information of Relevant Periods has been prepared in accordance with the accounting policies adopted by China Strategic Holdings Limited ("CSH").

The financial information has been prepared on the going concern basis because CSH has committed to provide continuing financial support to the companies comprising the GDI Group to enable the GDI Group to meet its financial obligations as they fall due in the foreseeable future.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the GDI.

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

2(a). APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In preparation of the financial information for the year ended 31st December, 2005 the GDI Group has applied a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of these new HKFRSs has resulted in a change in the presentation of the combined income statement, combined balance sheet and combined statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the GDI Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting periods are prepared and presented:

Business combinations

During the year ended 31st December, 2005, the GDI Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the GDI Group are summarised below:

Goodwill

Prior to 31st December, 2004, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life.

2(a). APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Business combinations *(Cont'd)*

The GDI Group has applied the relevant transitional provisions in HKFRS 3. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 are not required to be restated.

Excess of the GDI Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the GDI Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the GDI Group derecognised all negative goodwill on 1st January, 2005, of which negative goodwill of approximately HK$59,343,000 was previously recorded in reserves and approximately HK$47,058,000 was previously presented as a deduction from interests in associates), with a corresponding decrease to accumulated loss as at 1st January, 2005.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. As no material contingent liabilities of the acquirees were identified in relation to acquisitions that took place in the current year, this change in accounting policy has had no material effect on the goodwill calculation. In addition, because the revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1st January, 2005, comparative figures for 2004 and 2003 have not been restated.

Financial instruments

During the year ended 31st December, 2005, the GDI Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. The adoption of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the GDI Group. The principal effects on the GDI Group as a result of implementation of HKAS 39 are summarised below:

2(a). APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Classification and measurement of financial assets and financial liabilities

The GDI Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31st December, 2004, the GDI Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised holding gains or losses included in the profit or loss. From 1st January, 2005 onwards, the GDI Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

From 1st January, 2005 onwards, the GDI Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Other investments classified under non-current assets with carrying amounts of approximately of HK$71,959,000 at 31st December, 2004 were reclassified to investments in securities at fair value through profit or loss, which are designated to be stated at fair value through profit or loss.

Embedded derivatives

In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA, the conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the 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 convertible note, was estimated using the relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. Prior to 1st January, 2005, the GDI Group measured the fair value of the embedded derivatives in accordance with the requirement under HKAS 39 and therefore, no adjustments was made on 1st January, 2005. During the Relevant Periods, the GDI Group measured the fair value of the embedded derivatives in accordance with the requirements and recognised the changes in fair value of the conversion option of the unlisted convertible note as at balance sheet dates and 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 31st December, 2003, 31st December, 2004 and 31st December, 2005 was nil, gain of approximately HK$76,959,000 and loss of approximately HK$39,743,000 respectively, which have been recognised in the combined income statement.

2(b). SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in accounting policies described in Note 2(a) on the results for the Relevant Periods are as follows:

(i) On results

	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Non-amortisation of goodwill	—	—	456
Changes in fair value of conversion option of unlisted convertible note	—	76,959	(39,743)
Share of results of associates — Depreciation on hotel properties	—	(3,192)	(8,252)
Increase in (loss) profit for the year	—	73,767	(47,539)

(ii) On income statement line items

	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Decrease in administrative expenses	—	—	456
Change in fair value of conversion option of unlisted convertible note	—	76,959	(39,743)
Decrease in share of results of associates	—	(3,192)	(8,252)
	—	73,767	(47,539)

2(b). SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

(iii) On balance sheet items

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

THE GDI GROUP	As at 31st December, 2004 (original stated)	Effect of HKFRS 3	Effect of HKAS 39	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items				
Interests in associates				
— Negative goodwill	(47,058)	47,058	—	—
	(47,058)	47,058	—	—
Investments in securities				
— non-current	71,959	—	(71,959)	—
Investments in securities at fair value through profit or loss	—	—	71,959	71,959
Total effects on assets	24,901	47,058	—	71,959
Goodwill on consolidation	(59,343)	59,343	—	—
Accumulated losses	1,168,583	(106,401)	—	1,062,182
Total effects on equity	1,109,240	(47,058)	—	1,062,182

2(c). SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost basis except for investments in securities and financial instruments, which are measured at fair values as explained in the accounting policies set out below. The financial information has been prepared in accordance with HKFRS(s) issued by HKICPA.

Recognition of revenue

Turnover represents the fair value of amounts received and receivable for goods sold by the GDI Group less discount allowances and goods returned.

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

Sales of goods are recognised when goods are delivered and title has passed.

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 effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that's net carrying amount.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the GDI Group's interest in the fair value of the identifiable assets, liabilities of the relevant subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 previously recognised in reserves, and have been transferred to the GDI Group's accumulated losses at 1st January, 2005.

For previous capitalised goodwill arising on acquisitions after 1st January, 2001, the GDI Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st January, 2005 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 the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which the goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition of a subsidiary in a financial year, the cash-generating unit to which the goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of that unit, the impairment loss is allocated to reduce the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the combined income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

2(c). **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Goodwill *(Cont'd)*

Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition of an associate (which is accounted for using the equity method) is included as income in determination of the investor's share of results of the associate in the Relevant Periods in which the investment is acquired.

Negative goodwill arising on acquisition after 1st 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.

All negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the GDI Group's accumulated losses.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investment in associates are carried in the combined balance sheet at cost as adjusted for post-acquisition changes in the GDI Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the GDI Group's share of losses of an associate equals or exceeds its interest in that associate (which include any long-term interests that, in substance, form part of the GDI Group's net investment in the associate), the GDI Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the GDI Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill (included in interests in associates) are tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. If the recoverable amount of goodwill is estimated to be less than its carrying amount. The carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When the GDI Group transacts with an associate, profits and losses are eliminated to the extent of the GDI Group's interest in the relevant associate.

Impairment losses (other than goodwill (see the accounting policy in respect of goodwill above))

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.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment

Construction in progress

Construction in progress are stated at cost, which includes amortisation of land cost, the related construction costs, less accumulated impairment losses. No depreciation is provided on construction in progress until the construction is completed and the properties and assets are available for use.

Other property, plant and equipment

Property, plant and equipment, other than construction in progress are stated at cost less subsequent accumulated depreciation, accumulated amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined income statement in the year in which the item is derecognised.

Non-current assets held for sales

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the Relevant Periods in which they are incurred.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of to the lessee. All other leases are classified as operating leases.

The GDI Group as lessee

Assets held under finance leases are recognised as assets of the GDI Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating lease are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefit received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the Relevant Periods in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the Relevant Periods except for the differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies *(Cont'd)*

For the purpose of presenting the combined financial information, the assets and liabilities of the GDI Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average rates for the year, unless exchange rates fluctuate significantly during the Relevant Periods, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the Relevant Periods in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences are recognised in the exchange reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1st January, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefit costs

Payment to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Financial instruments

Prior to 1st January, 2005, 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.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

From 1st January, 2005 onwards, financial assets and financial liabilities are recognised on the balance sheet when the GDI Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are add to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The GDI Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two categories , including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the Relevant Periods in which they arise.

Embedded derivatives

The conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the convertible note and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option is estimated using a relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. Changes in fair value of the conversion option of the unlisted convertible note are recognised directly in profit and loss.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including receivables, trade receivables, amounts due from associates, amounts due from former fellow subsidiaries) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the GDI Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the GDI Group after deducting all of its liabilities. The GDI Group's major financial liabilities are generally other financial liabilities. The accounting policy adopted are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued charges, payables, amounts due to associates, amounts due to former fellow subsidiaries, bank loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issue by the Company are recorded at the proceeds received, net of direct issue costs.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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 profit as reported in the combined 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the combined 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 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 as a parent 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 combined 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.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The GDI Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the GDI Group anticipate that the application of these standards or Interpretations will have no material impact on the financial statements of the GDI Group except that HKAS 39 (Amendment) — The fair value option require the GDI Group shall de-designate any financial asset or financial liability previously designated as at fair value through profit or loss only if it does not qualify for such designation in accordance with those new and amended paragraphs. When a financial asset or financial liability will be measured at amortised cost after de-designation, the date of de-designation is deemed to be its date of initial recognition.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS — INT 4	Determining whether an arrangement contains a lease[2]
HKFRS — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) — INT 8	Scope of HKFRS 2[5]
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives[6]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June, 2006.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the GDI Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial information are disclosed below:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the GDI Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the three years ended 31st December, 2005, management of the GDI Group determined that there were no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in note 20.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Estimated impairment on loan and interest receivables

The assessment of the impairment loss on loan and interest receivables of the GDI Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness of each borrowers or debtors. If the financial conditions of borrowers or debtors of the GDI Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Allowances made in the loans and interest receivables as at 31st December, 2003, 2004 and 2005 were approximately HK$50,645,000, HK$32,419,000 and HK$31,116,000 respectively.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The GDI Group's major financial instruments include loans and interest receivables, amounts due from associate, trade receivables, other receivables and deposits, investments in securities at fair value through profit and loss, trade payables, payables, amounts due to associates, amounts due to related companies and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The GDI Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the balance sheet dates is in relation to the carrying amount of such item on balance sheet and other class of financial assets as stated in the combined balance sheet. In order to minimise the credit risk, the management of the GDI Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the GDI Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the GDI Group's credit risk is significantly reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned in international credit-rating agencies.

The GDI Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the GDI Group to foreign currency risk. Also, certain trade receivables, trade payables, bank balances and bank borrowings of the GDI Group are denominated in foreign currencies. The GDI Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Other price risk

The GDI Group's investments in securities at fair value through profit or loss is measured at fair value at each balance sheet date. Therefore, the GDI Group is exposed to equity security and debt price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

The GDI Group's objective is to maintain a balance between continuity of funding and flexibility through the funds generated from its operations. The Directors have given careful consideration on the measures currently undertaken by the GDI Group in respect of the GDI Group's liquidity position. During the year, the GDI Group has continued to tighten cost controls over operating costs to improve the cash flows, profitability and operations of the GDI Group. The directors believe that the Group will have sufficient working capital for its future operational requirements.

6. TURNOVER

Turnover represents the net amount received and receivable from outside customers net of sales and business tax during the Relevant Periods and is analysed as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods, net of returns and sales taxes	—	—	5,298

7. SEGMENT INFORMATION

Business segments

Pursuant to the Group Reorganisation, companies carrying on property development, sand mining and investment holding will be acquired by GDI, which represent the GDI Group's current main business segment. For the purpose of the presentation of the business segments and except for the segment of sand mining business which commenced in 2005, the segment of property development and investment holding during the Relevant Periods are grouped under "Others" segment.

During the Relevant Periods, certain companies under the GDI Group were engaged in the operations of manufacturing and trading of chinese and western medicine products, tire operation, consumer goods, electronic products and heavy industry which were discontinued upon the disposal of these operations held by these companies. Details of these discontinuing operations are set out below.

An analysis of the GDI Group's turnover segment results and segment assets and liabilities by business segments is presented below:

	Discontinued 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 31st December, 2003							
(i) TUROVER							
— External	2,635,235	249,258	2,884,493	—	—	—	2,884,493
(ii) OTHER INCOME							
— Interest income	4,457	49	4,506	25,175	3,521	28,696	33,202
— Dividend income	—	—	—	60	—	60	60
— Gain on disposal of property, plant and equipment	15,573	—	15,573	—	422	422	15,995
— Others	2,248	2,937	5,185	—	26,701	26,701	31,886
	22,278	2,986	25,264	25,235	30,644	55,879	81,143
RESULT							
Segment result	100,304	(20,184)	80,120	19,548	(18,097)	1,451	81,571
Unallocated corporate expenses							(30,763)
Finance costs	(31,689)	(2,352)	(34,041)	(55)	—	(55)	(34,096)
Gain on disposal of interests in subsidiaries	3,711	8,587	12,298	—	11	11	12,309
Loss on deemed disposal of associate	—	—	—	(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)
Profit/(loss) before taxation			114,442			(310,310)	(195,868)
Taxation			(10,367)			(567)	(10,934)
Profit/(loss) for the year			104,075			(310,877)	(206,802)

7. **SEGMENT INFORMATION** *(Cont'd)*

Business segments *(Cont'd)*

	Tires	Pharmaceutical products	Investments in securities and advance	Others	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities at 31st December, 2003					
ASSETS					
Segment assets	—	88,395	1,335,051	70,324	1,493,770
Interests in associates	—	15,416	—	492,694	508,110
Unlisted convertible notes and loans receivable due from an associate	—	—	—	320,674	320,674
Unallocated total assets					241,544
Combined total assets					2,564,098
LIABILITIES					
Segment liabilities	—	(56,505)	(4,110)	(16,232)	(76,847)
Unallocated corporate liabilities					(3,102,039)
Combined total liabilities					(3,178,886)
Other information for the *year ended 31st December, 2003*					
Capital expenditure					
— Property, plant and equipment	260,872	7,978	—	—	268,850
Depreciation and amortisation	47,750	11,454	—	—	59,204
Impairment loss of goodwill on acquisition of subsidiaries	—	—	—	20,387	20,387
Allowances for loans and interest receivable	—	—	50,645	—	50,645
Allowances on receivables advanced to an associate	—	—	12,712	—	12,712
Allowance for bad and doubtful debts	—	—	—	6,919	6,919
Change in fair value on investments in securities at fair value through profit or loss	—	—	8,121	—	8,121
Allowances for amounts due from associates	2,458	—	—	—	2,458
Write-down for inventories	—	4	—	—	4
Loss on disposal of investments in securities	—	—	1,774	—	1,774

7. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinued 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 31st December, 2004						
(i) TURNOVER						
— External	96,262	—	—	—	—	96,262
— Inter-segment	—	—	1,200	1,200	(1,200)	—
	96,262	—	1,200	1,200	(1,200)	96,262
(ii) OTHER INCOME						
— Interest income	17	40,622	5,509	46,131	—	46,148
— Others	446	6,529	—	6,529	—	6,975
	463	47,151	5,509	52,660	—	53,123
RESULT						
Segment result	6,777	20,217	2,758	22,975	—	29,752
Unallocated corporate expenses						(21,606)
Finance costs	—	(486)	(1,005)	(1,491)	—	(1,491)
Change in fair value of conversion option of unlisted convertible note	—	—	76,959	76,959	—	76,959
Loss on disposal of interests in subsidiaries	(5,266)	—	—	—	—	(5,266)
Gain on disposal of interests in associates	—	—	57,542	57,542	—	57,542
Share of results of associates	—	—	(37,521)	(37,521)	—	(37,521)
Profit before taxation	1,511			96,858		98,369
Taxation	—			(5,257)		(5,257)
Profit for the year	1,511			91,601		93,112

Inter-segment sales are charged at terms determined and agreed between the GDI Group's companies.

7. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Pharmaceutical products	**Investments in securities and advance**	**Others**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities at 31st December, 2004				
ASSETS				
Segment assets	—	300,009	231,803	531,812
Interests in associates	—	—	309,149	309,149
Unlisted convertible notes and loans receivables due from an associate	—	—	187,967	187,967
Unallocated total assets				1,508,442
Combined total assets				2,537,370
LIABILITIES				
Segment liabilities	—	(580)	(25,590)	(26,170)
Unallocated corporate liabilities				(3,073,568)
Combined total liabilities				(3,099,738)
Other information for the year ended 31st December, 2004				
Capital expenditure				
— Property, plant and equipment	1,370	—	494	1,864
— Deposit paid for acquisition of interest in properties	—	—	47,012	47,012
Depreciation and amortisation	2,000	—	31	2,031
Allowances for loans and interest receivable	—	32,419	—	32,419
Allowance for bad and doubtful debts	—	—	1,724	1,724
Allowances for amounts due from associates	—	—	4,099	4,099
Loss on disposal of interests in subsidiaries	5,266	—	—	5,266

7. SEGMENT INFORMATION *(Cont'd)*

	Investments in securities and advance *HK$'000*	Sand mining *HK$'000* *(Note)*	Others *HK$'000*	Combined *HK$'000*
For the year ended 31st December, 2005				
(i) TURNOVER				
— External	—	5,298	—	5,298
(ii) OTHER INCOME				
— Interest income	24,395	—	5,367	29,762
— Others	1,124	2,059	677	3,860
	25,519	2,059	6,044	33,622
RESULT				
Segment result	(25,528)	1,576	(26,984)	(50,936)
Unallocated corporate expenses				(3,198)
Loss on disposal of investments in securities at fair value through profit or loss	(716)	—	—	(716)
Change in fair value of conversion option of unlisted convertible note	—	—	(39,743)	(39,743)
Loss on disposal of interests in associates				(2,814)
Share of results of associates				43,103
Loss before taxation				(54,304)
Taxation				(4,247)
Loss for the year				(58,551)

Note: During the year, the GDI Group acquired 88% and 100% of the issued capital of 東莞市江海 and 廣州耀陽 for an aggregate cash consideration of HK$50 million respectively. The two newly acquired subsidiaries are engaged in the business of sand mining. The segment of sand mining is regarded as a new business segment of the GDI Group upon completion of the acquisition.

7. **SEGMENT INFORMATION** *(Cont'd)*

	Investments in securities and advance *HK$'000*	**Sand mining** *HK$'000*	**Others** *HK$'000*	**Combined** *HK$'000*
Assets and liabilities at 31st December, 2005				
ASSETS				
Segment assets	440,935	110,716	114,151	665,802
Interests in associates	—	—	558,738	558,738
Unallocated total assets				1,275,009
Combined total assets				2,499,549
LIABILITIES				
Segment liabilities	(6,674)	(736)	(18,796)	(26,206)
Unallocated corporate liabilities				(3,048,586)
Combined total liabilities				(3,074,792)
Other information for the year ended 31st December, 2005				
Capital expenditure				
— Property, plant and equipment	331	113,183	—	113,514
— Goodwill arising from acquisition of subsidiaries	—	9,123	—	9,123
— Goodwill arising from acquisition of associates	—	—	10,181	10,181
Depreciation and amortisation	40	5,811	14	5,865
Allowance for bad and doubtful debts	7,823	—	10,752	18,575
Allowance for loans and interest receivable	31,116	—	—	31,116

7. SEGMENT INFORMATION *(Cont'd)*

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 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
PRC	—	—	5,298
Hong Kong	—	—	—
Overseas	—	—	—
	—	—	5,298

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 31st December,			Year ended 31st December,		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
PRC	752,431	—	118,579	260,872	47,012	113,183
Hong Kong	1,638,133	2,371,568	2,126,456	7,978	1,864	331
Overseas	173,534	165,802	165,656	—	—	—
	2,564,098	2,537,370	2,410,691	268,850	48,876	113,514

8. OTHER INCOME

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Interest income from loans receivable	24,579	38,637	24,390
Interest income from banks	3,274	3,197	350
Interest income from unlisted convertible notes	843	4,297	5,022
Net exchange gain	22,352	3,072	—
Change in fair value on investments in securities at fair value through profit or loss	—	70	1,208
Gain on disposal of investments in securities	—	2,959	—
Dividend income from listed investments	60	—	—
Gain on disposal of property, plant and equipment	422	—	—
Others	4,349	428	2,652
	55,879	52,660	33,622

9. OTHER EXPENSES

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Impairment loss of goodwill on acquisition of subsidiaries *(Note)*	20,387	—	—
Allowances for bad and doubtful debts	6,919	1,724	18,575
Change in fair value on investments in securities at fair value through profit or loss	8,121	—	—
Loss on disposal of investment in securities through profit or loss	1,774	—	716
Allowances for amounts due from associates	2,458	4,099	—
Net exchange loss	—	—	3,739
Others	1,123	3,197	—
	40,782	9,020	23,030

Note:

On 19th March, 2004, the GDI Group entered into a conditional agreement 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 operating losses of Tung Fong Hung and have identified the impairment loss attributable to the goodwill arising from acquisition of Tung Fong Hung amounting to approximately HK$20 million. The amount was charged to the combined income statement accordingly.

10. ALLOWANCES FOR LOANS AND INTEREST RECEIVABLE

As at 31st December, 2003, 2004 and 2005, the directors have reviewed the carrying value of the GDI Group's loans and interest receivables and determined that the recoverable amount of certain loans and interest receivables is below their carrying value with reference to present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Accordingly, an impairment loss of approximately HK$50,645,000, HK$32,419,000 and HK$31,116,000 had been charged to the income statement for the year ended 31st December, 2003, 31st December, 2004 and 31st December, 2005 respectively.

11. (LOSS) PROFIT BEFORE TAXATION

	Discontinued operation			Continuing operation			Combined		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss) profit before taxation has been arrived at after charging:									
Staff costs									
— directors' remuneration *(note 12(a))*	—	—	—	77	117	458	77	117	458
— other staff costs *(note 12(b))*	144,530	11,619	—	525	618	1,306	145,055	12,237	1,306
— retirement benefit scheme contributions, excluding directors	26,925	469	—	23	26	50	26,948	495	50
— redundancy payment	1,938	—	—	—	—	—	1,938	—	—
Total staff costs	173,393	12,088	—	625	761	1,814	174,018	12,849	1,814
Auditors' remuneration									
Current year	725	427	—	3,174	3,286	4,721	3,899	3,713	4,721
Underprovision in prior years	—	392	—	—	—	—	—	392	—
Depreciation of property, plant and equipment	57,576	2,000	—	—	31	5,865	57,576	2,031	5,865
Amortisation of goodwill included in administrative expenses	1,628	155	—	—	—	—	1,628	155	—

12. DIRECTORS' AND EMPLOYEE'S REMUNERATION

(a) Directors' remuneration

The emoluments of the directors for the Relevant Periods are as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Basic salaries and allowance	77	117	458
	77	117	458
Name of director			
Chan Kwok Keung, Charles	—	—	—
Yap, Allan	77	117	229
Chau Mei Wah, Rosanna	—	—	—
Chan Ling, Eva	—	—	229
Li Bo	—	—	—
Chan Kwok Hung	—	—	—
Lui Siu Tsuen, Richard	—	—	—
	77	117	458

The directors' emoluments are presented as if the directors of GDI Group 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 Group'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.

12. DIRECTORS' AND EMPLOYEE'S REMUNERATION *(Cont'd)*

(b) Employees' remuneration

Of the five individuals with the highest emoluments in the GDI Group, none, none and two was director of the Company for the three years ended 31st December, 2005, whose emolument is included in the disclosures in note 12(a) above. The emoluments of the remaining five, five and three individuals are as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	4,732	3,535	1,306
Retirement benefit scheme	—	20	50
Bonus	—	—	—
	4,732	3,555	1,356

	Number of employees Year ended 31st December,		
	2003	**2004**	**2005**
Nil to HK$1,000,000	5	5	3

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.

13. FINANCE COSTS

	Year ended 31st December, 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
Bank borrowings wholly repayable within five years	—	482	—
Other borrowings and payables	55	1,009	—
	55	1,491	—

14. TAXATION

	Discontinued operation 2003	2004	2005	Continuing operation 2003	2004	2005	Combined 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The charge comprises:									
Taxation in other jurisdictions									
— Current year	11,137	—	—	329	1,340	1,010	11,466	1,340	1,010
— Under(over)provision in prior years	—	—	—	238	—	(663)	238	—	(663)
Hong Kong Profits Tax									
— Current year	—	—	—	—	3,917	1,300	—	3,917	1,300
— Under provision in prior years	—	—	—	—	—	2,600	—	—	2,600
Deferred tax credit *(note 25)*	(770)	—	—	—	—	—	(770)	—	—
Taxation attributable to the GDI Group	10,367	—	—	567	5,257	4,247	10,934	5,257	4,247

Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for the year ended 31st December, 2003, 2004 and 2005. No provision for Hong Kong Profits Tax was made in the financial statements for the year ended 31st December, 2003 as GDI and companies comprising the GDI Group had no assessable profit for those years.

14. TAXATION *(Cont'd)*

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 31st December, 2003, no companies comprising the GDI Group were exempted from Tax Reduction.

The tax charge for the year can be reconciled to the (loss) profit before taxation as per the combined income statements as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit before taxation	(310,310)	96,858	(54,304)
Tax at the average income tax rate *(Note a)*	(73,113)	18,258	(20,293)
Tax effect of share of results of associates	—	5,899	10,182
Tax effect of income not taxable for tax purpose	(27,389)	(50,770)	(31,142)
Tax effect of expenses not deductible for tax purpose	92,749	29,636	35,373
Underprovision in respect of prior year	238	—	1,937
Tax effect of deductible temporary differences not recognised	12,546	1,979	8,410
Tax effect of tax losses not recognised	—	255	—
Utilisation of tax losses previously not recognised	(4,464)	—	(220)
Tax expense for the year	567	5,257	4,247

Notes:

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

(b) As at 31st December, 2003, 2004 and 2005, the GDI Group had unused tax loss of approximately HK$8,364,000, HK$9,214,000 and HK$8,480,000 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.

15. DISCONTINUED OPERATIONS

During year 2003, the GDI Group disposed of its 51% interest in Yinchuan C.S.I., (Greatwall) Rubber Company Limited, 25% in Hangzhou Zhongce Rubber Company Limited and 50% interest in Pacific Wins Development Ltd, which are engaged in the manufacturing of tires, the business segment of manufacturing of tires was regarded as discontinued operation during the year ended 31st December, 2003.

During year 2004, the GDI Group disposed of the 100% interests in Tung Fong Hung Investment Limited and its subsidiaries which are engaged in the manufacturing and trading of pharmaceutical products, the business segment of manufacturing and trading of pharmaceutical products was regarded as discontinued operation during the year ended 31st December, 2004.

The profits for the year ended 31st December, 2003 and 31st December, 2004 from the discontinued operations were analysed as follows:

	2003	**2004**
	HK$'000	*HK$'000*
Profits of tires and pharmaceutical products segment for the year	91,777	6,777
Gains/(losses) on disposal of tires and pharmaceutical products segment	12,298	(5,266)
	104,075	1,511

15. DISCONTINUED OPERATIONS *(Cont'd)*

The profit of tire and pharmaceutical products segment for the year 31st December, 2003 and 31st December, 2004, which have been included in the combined income statements and analysed as follows:

	1st January, 2003 to 31st December, 2003	1st January, 2004 to 30th April, 2004
	HK$'000	*HK$'000*
Turnover	2,884,493	96,262
Cost of sales	(2,520,175)	(60,381)
Other income	25,264	419
Distribution costs	(174,955)	(21,056)
Administrative expenses	(90,187)	(8,467)
Finance costs	(34,041)	—
Other expenses	(2,445)	—
Share of results of associates	14,190	—
Profit before tax	102,144	6,777
Taxation	(10,367)	—
Profit for the period	91,777	6,777

The carrying amounts of the assets and liabilities of Yinchuan C.S.I., (Greatwall) Rubber Company Limited, Hangzhou Zhongce Rubber Company Limited, Pacific Wins Development Ltd. and Tung Fong Hung Investment Limited and its subsidiaries at the date of disposal are disclosed in note 35.

16. LOSS PER SHARE

Loss per share had not been presented as such information is not required for disclosure for a private company.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and fixtures HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Sand vessels HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1st January, 2003	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 31st 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 31st December, 2004	—	—	—	494	—	—	494
Currency realignment	—	—	4	—	2,062	—	2,066
Additions	—	—	12	319	—	—	331
Arising from acquisition of subsidiaries	—	—	164	—	113,019	—	113,183
Disposals	—	—	(124)	—	—	—	(124)
At 31st December, 2005	—	—	56	813	115,081	—	115,950
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS							
At 1st January, 2003	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 31st 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 31st December, 2004	—	—	—	274	—	—	274
Provided for the year	—	—	10	101	5,754	—	5,865
At 31st December, 2005	—	—	10	375	5,754	—	6,139
NET BOOK VALUES							
At 31st December, 2005	—	—	46	438	109,327	—	109,811
At 31st December, 2004	—	—	—	220	—	—	220
At 31st December, 2003	4,212	28,880	1,075	1,147	—	760	36,074

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

The above items of property, plant and equipment were depreciated on a straight-line basis at the following rates per annum:

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%
Sand vessels	10%

At 31st December, 2003, 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 31st December, 2003 included an amount of approximately HK$154,000 respectively in respect of assets held under finance leases.

18. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES

During the year ended 31st 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.

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

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).

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

Provided that if the conditions are not fulfilled on or before 1st 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.

However, the conditions stated above for the change of the use of the Properties has not yet fulfilled within the said period and accordingly the Vendor and the GDI Group had entered into another agreement dated 3rd 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$20,663,000) 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.

Further, the GDI Group had advanced an additional RMB8,000,000 (equivalent to approximately HK$7,512,000) 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 (approximately HK$55,716,000) as of 31st December, 2005.

In June 2005, the GDI Group had commenced legal proceedings against the Vendor, among other things, to demand the Vendor to fulfil 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 Orders"). 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 to 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 Orders, the GDI Group had issued a counter guarantee of RMB402,000,000 (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 transaction can be continued with the payment of outstanding consideration of RMB392 million (approximately to HK$376 million) and 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;

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

(b) the usage of the Properties can be changed to both commercial and residential when the GDI Group obtains the legal title to the Properties and makes the 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 31st December, 2005; and 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.

The directors of GDI are of the view that the carrying amount of deposit is not less than its recoverable amount at the balance sheet dates.

19. DEPOSIT FOR ACQUISITION OF SUBSIDIARIES

During the year ended 31st December, 2004, the GDI Group entered into conditional agreements with third parties ("Vendor Parties") to acquire the entire interest in 廣州耀陽 and 88% interest in 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. During the year ended 31st December, 2005, the conditions have been fulfilled and the acquisition was completed and details in note 36.

20. GOODWILL

	HK$'000
COST	
At 1st January, 2003	33,082
Arising from acquisition of subsidiaries	387
At 31st December, 2003	33,469
Disposal of subsidiaries	(33,469)
At 31st December, 2004	—
Arising from acquisition of subsidiaries	9,123
At 31st December, 2005	9,123
AMORTISATION AND IMPAIRMENT	
At 1st January, 2003	2,129
Provided for the year	1,628
Impairment loss recognised	20,387
At 31st December, 2003	24,144
Provided for the year	155
Eliminated on disposal of subsidiaries	(24,299)
At 31st December, 2004 and 31st December, 2005	—
NET BOOK VALUES	
At 31st December, 2005	9,123
At 31st December, 2004	—
At 31st December, 2003	9,325

On 19th March, 2004, the GDI Group entered into a conditional agreement to dispose of its entire interests in 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 Hung amounting to approximately HK$20 million. The amount was charged to the combined income statement accordingly.

Prior to 31st December, 2004, goodwill was amortised on a straight-line basis and the amortisation period for goodwill is 10 years.

20. GOODWILL *(Cont'd)*

Particulars regarding impairment testing on goodwill are disclosed below:

The carrying value of goodwill as at 31st December, 2005 is attributable to the acquisition of 廣州耀陽 and 東莞市江海 of HK$9,123,000. 廣州耀陽 and 東莞市江海 are engaged in the business segment of sand mining activities ("Cash Generating Unit of Sand Mining").

During the year ended 31st December, 2005, management of the GDI Group determines that there is no impairment of goodwill of the GDI Group to the cash generating unit.

The basis of the recoverable amount of the Cash Generating Unit of Sand Mining and the major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a 10-year period, and discount rate of 8%. This cash generating unit's cash flow within the first 5-year period are extrapolated using a steady 10% growth rate and no growth rate for the remaining years of the cash flows. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Interests in associates			
Share of net assets	537,692	354,201	546,551
Goodwill *(note (i))*			
At beginning of year	91,785	91,785	2,006
Accumulated amortisation at beginning of year	(1,148)	(10,326)	—
Arising from acquisition of associates	—	3,931	10,181
Less: amortisation provided for the year	(9,178)	(3,059)	—
Realised upon deemed disposal of interest in associates	—	(80,325)	—
As at year ended	81,459	2,006	12,187
Negative goodwill *(note (i))*			
At beginning of year	(123,379)	(123,379)	(69,994)
Accumulated release of negative goodwill at beginning of year	—	12,338	22,936
Release of negative goodwill during the year	12,338	10,598	—
Derecognition of negative goodwill to retained profit as at 1st January, 2005	—	—	47,058
Release upon disposal of interests in associates	—	53,385	—
As at year ended	(111,041)	(47,058)	—
	508,110	309,149	558,738

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

Notes:

(i) Prior to 31st December, 2004, 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 1st January, 2005.

(ii) The carrying value of the unlisted convertible notes as at 31st December, 2003 represented investments in convertible note issued by Wing On Travel (Holdings) Limited ("Wing On") ("Wing On Note"). The Wing On Note carried interest at 2% per annum and was due for redemption on 19th 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 19th 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). The effective interest rate for the unlisted convertible notes during the Relevant Periods is 8%.

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 the Wing On Note and HK$70,200,000 were used to settle the receivables due from Wing On. The New Wing On Note carried interest at 2% per annum and is due for redemption on 14th 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 14th 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 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%.

On 30th 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 31st December, 2004.

The GDI Group further subscribed 8,740 million new ordinary shares of US$0.01 each 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 share of HK$0.01 each in Wing On at the conversion price of HK$0.02 per share and the interest in Wing On held by the GDI Group was increased to 27.74%

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

Notes: (Cont'd)

(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 31st December, 2003, 2004 and 2005. 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 31st December, 2003, 2004 and 2005 were 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) Loans and interest receivables due from associates are unsecured, carries interest at prevailing market rate (effective interest rate ranged from 5% – 8% per annum) and repayable after one year from balance sheet date. The fair value of the GDI Group's loans and interest receivables due from associates at each balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates.

(v) In March 2004, Pacific Century Premium Development Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited whose shares are listed on The Stock Exchange of Hong Kong Limited ("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 and resulted in gain in deemed disposal of associates of approximates HK$28,510,000. 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 31st December, 2004.

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from associates	129	54,373	151,206
Amounts due to an associate	—	673	286

During the year ended 31st December, 2003, all receivables due from associates were unsecured, non-interest bearing and repayable on demand. During the year ended 31st December, 2004 and 2005, all amounts are repayable on demand and except for amount due from an associate of approximately HK$54,247,000 and HK$151,073,000 respectively are interest bearing at prevailing interest rate ranged from 5% to 8% per annum, all remaining amounts due from associates were non-interest bearing. The fair value of the amounts due from associates at balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates. The amounts due to an associate is unsecured, non-interest bearing and repayable on demand. The fair value of the amounts due to an associate at balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates.

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

Particulars of the principal associates to be acquired by GDI pursuant to 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	22.65	Property investment and development in the PRC
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 above table lists the associates of the GDI 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.

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

The summarised financial information in respect of the GDI Group's associates is set out below:

	For the year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,680,756	6,519,685	8,382,622
(Loss) profit for the year	(631,017)	(102,198)	133,498
(Loss) profit for the year attributable to the GDI Group	(175,697)	(37,521)	43,103

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	4,097,522	5,875,595	7,431,386
Total liabilites	(2,721,716)	(4,049,781)	(5,037,199)
Net assets	1,375,806	1,825,814	2,394,187

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Share of net assets by the GDI Group:			
As at 31st December	508,110	309,149	523,373
Market value of interest held by the GDI Group	323,245	311,480	317,752

22. LOANS AND INTEREST RECEIVABLES

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Loans and interest receivables			
— secured *(note a)*	114,784	120,819	121,223
— unsecured *(note b)*	190,723	558,038	355,709
Receivable due from related companies *(note c)*	10	—	—
	305,517	678,857	476,932
Less: Allowances	(53,826)	(109,643)	(27,971)
	251,691	569,214	448,961
Less: Amounts due within one year and shown under current assets	(251,691)	(540,931)	(448,961)
Amounts due after one year	—	28,283	—

The directors consider that the carrying amount of receivables due after one year approximates their fair value.

Notes:

(a) The secured loans and interest receivables represented the amount due from Lucklong Venture Limited ("Lucklong"). Ms. Chau Mei Wah, Rosanna, director of the CSH, was also a director of Lucklong during the year ended 31st December, 2003. Allowances made in the loans receivables due from Lucklong as at 31st December, 2003, 2004 and 2005 were approximately HK$24,000,000, HK$50,619,000 and HK$81,222,000 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 loans receivables carry interest at the prevailing market rate ranging from 8% to 12% and repayable on demand.

(c) Details of the receivables due from related companies are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
PYI Corporation Limited ("Paul Y") (formerly known as "Paul Y.-ITC Construction Holdings Limited")	5	—	—
ITC Corporation Limited	5	—	—
	10	—	—

22. LOANS AND INTEREST RECEIVABLES *(Cont'd)*

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

Paul Y is a substantial shareholder of CSH and ITC Corporation Limited is a shareholder of Paul Y.

The fair value of the GDI Group's loan and interest receivables at each balance sheet date approximated to the carrying amount of the receivables.

23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The carrying amount of the other receivables, deposits and prepayments at each balance sheet date approximate the corresponding fair value at respective balance sheet date.

24. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENTS

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Equity securities:			
Listed	2,761	2,252	3,297
Unlisted	125	43,623	43,619
	2,886	45,875	46,916
Debt securities:			
Unlisted	24,420	26,084	24,431
Total	27,306	71,959	71,347
Total and reported as:			
Listed			
Hong Kong	835	—	—
Elsewhere	1,926	2,252	3,297
	2,761	2,252	3,297
Unlisted	24,545	69,707	68,050
	27,306	71,959	71,347

24. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENTS *(Cont'd)*

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Classified under			
Current	1,142	—	—
Non-current	26,164	71,959	71,347
	27,306	71,959	71,347

The fair values of the listed securities at balance sheet date are determined based on the quoted market bid prices available on the relevant exchanges.

The carrying value of unlisted securities in Hong Kong at 31st December, 2004 and 31st December, 2005 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 31st 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 31st December, 2004. The fair value of the unlisted equity securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximate to the corresponding carrying amount.

The carrying value of unlisted debt securities at balance sheet dates represented a convertible note issued by a company incorporated in Australia which is engaged in the trading of fruit business. The convertible note bears interest at 8% per annum and will be matured on 29th March, 2008. The fair value of the unlisted equity securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximate to the corresponding carrying amount.

25. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movement during the Relevant Periods:

	Bad and doubtful debts and allowance	**Revaluation of property, plant and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2003	13,454	—	13,454
Credit to the combined income statement	770	—	770
	14,224	—	14,224
Realised on disposal of subsidiaries	(14,224)	—	(14,224)
At 31st December, 2003 and 2004	—	—	—
Arising on acquisition of subsidiaries	—	(20,796)	(20,796)
Exchange difference	—	(379)	(379)
At 31st December, 2005	—	(21,175)	(21,175)

26. AMOUNTS DUE FROM/TO FORMER FELLOW SUBSIDIARIES

Following the completion of the Group Reorganisation, CSH has remained 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 has been assigned to GDI upon the completion of Group Reorganisation.

The carrying value of the amounts due from former fellow subsidiaries at each balance sheet dates approximates to the corresponding fair value at respective balance sheet dates.

The carrying value of amount due to former fellow subsidiaries at each balance sheet date approximates to the corresponding fair value at respective balance sheet dates.

27. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the GDI Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximated their fair value. The average interest rate ranged from 2.3% to 4.0% for the three years ended 31st December, 2005.

The bank balances and cash of the GDI Group are mainly denominated in Australia dollars, Renminbi, Hong Kong dollars and United States dollars. Included in the bank balances and cash as at the three years ended 31st December, 2005 were an amount in Australia dollars approximately of A$9,884,000, A$8,041,000 and A$8,286,000.

28. 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$226,718,000, HK$227,167,000 and HK$229,288,000 as at 31st December, 2003, 2004 and 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 at the date of this report, the GDI Group has appointed property agent to negotiate with potential investors and the directors considered that the other asset will be sold in the next year, and the directors do not expect material further cost will be incurred for the sale of Other Asset.

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.

29. INVENTORIES

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	12,146	—	102
Work in progress	163	—	—
Finished goods	54,667	—	—
	66,976	—	102

The cost of inventories recognised as an expense during the year ended 31st December, 2003 and 2005, were approximately HK$2,459,991,000 and HK$4,457,000 respectively.

30. TRADE RECEIVABLES

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 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
0 - 90 days	12,011	—	—
91 - 180 days	762	—	—
Over 180 days	945	—	—
	13,718	—	—

The carrying amount of the GDI Group's trade receivables for the three years ended 31st December, 2005 approximates to the corresponding fair value.

31. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

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

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
0 - 90 days	39,468	—	—
91 - 180 days	1,413	—	—
Over 180 days	622	293	299
	41,503	293	299
Add: Other payables and accrued charges	37,331	25,204	17,176
	78,834	25,497	17,475

The carrying amount of the GDI Group's trade payables at each balance sheet dates approximates to the corresponding fair value at respective balance sheet dates.

32. PAYABLES

Details of the payables are as follows:

		As at 31st December,		
		2003	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Payables due to related companies	*(a)*	3,181	417	556
Payables due to third parties	*(b)*	27,192	27	27
		30,373	444	583
Less: Amounts shown under current liabilities		(29,180)	(444)	(583)
		1,193	—	—

32. PAYABLES *(Cont'd)*

Notes:

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

		As at 31st December,		
		2003	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
PYI Management Limited (formerly known as "Paul Y.-ITC Management Limited")	*(i)*	450	—	—
Cycle Company Limited and Gunnell Properties Limited	*(i)*	693	417	556
ITC Corporation Limited	*(ii)*	744	—	—
Paul Y. (E&M) Company Limited (formerly known as "Paul Y.-ITC (E&M) Company Limited")	*(i)*	1,014	—	—
Paul Y. (E&M) Contractors Limited (formerly known as "Paul Y.-ITC (E&M) Contractors Limited")	*(i)*	280	—	—
		3,181	417	556

Notes:

(i) These companies are non wholly-owned subsidiaries of the substantial shareholders of CSH.

(ii) ITC Corporation Limited is a shareholder of the CSH's substantial shareholder.

The amounts are unsecured, carry interest at prevailing market rate ranging from 8% to 10% per annum and are repayable on demand. The fair value of the GDI Group's payables at three years ended 31st December, 2005 approximates to the corresponding carrying amount.

Except for the payable of HK$1,193,000 as at 31st December, 2003 which was 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 ranging from 8% to 10% per annum and are repayable on demand. The fair value of the GDI Group's payables at balance sheet dates approximates to the corresponding carrying amount at respective balance sheet date.

The fair value of the GDI Group's payables at each balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates.

33. BANK LOANS AND OTHER BORROWINGS

	As at 31st December,		
	2003	**2004**	**2005**
	HK$’000	*HK$’000*	*HK$’000*
Bank loans	12,990	—	—
Obligations under finance leases *(note a)*	151	—	—
Bank overdrafts	2	—	—
Other borrowings *(note b)*	13,000	—	—
	26,143	—	—
Secured	151	—	—
Unsecured	25,992	—	—
	26,143	—	—
Repayable as follows:			
Within one year	26,014	—	—
Between one and two years	21	—	—
Between two and five years	108	—	—
	26,143	—	—
Less: Amount due within one year included under current liabilities	(26,014)	—	—
Amount due after one year	129	—	—

Bank overdrafts are repayable on demand. The bank loans carry interest at prevailing market rate ranging from 8% to 10% and were secured by the GDI Group’s bank deposits and investment in securities. There were no undrawn facilities for the three years ended as at 31st December, 2005.

The GDI Group’s bank and other borrowings are denominated in Hong Kong Dollars.

The fair value of the GDI Group’s bank and other borrowings at 31st December, 2003 approximates to the corresponding carrying amount.

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

Notes:

(a)

	Minimum lease payments			Present value of minimum lease payments		
	As at 31st December,			As at 31st December,		
	2003	2004	2005	2003	2004	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Amounts payable under finance leases:						
Within one year	31	—	—	20	—	—
In the second to fifth years inclusive	147	—	—	131	—	—
	178	—	—	151	—	—
Less: Future finance charges	(27)	—	—	—	—	—
Present value of lease obligations	151	—	—	151	—	—
Less: Amount due within one year				(22)	—	—
Amount due after one year				129	—	—

The average lease term was five years. The average effective borrowing rate was 6.7% for the year ended 31st December, 2003. 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) As at 31st December, 2003, the amount was secured, carried interest at prevailing market rates ranged from 8% to 12% per annum and was fully repaid during the year 2004.

34. SHARE CAPITAL

For the purpose of the preparation of the combined balance sheets, the balances of share capital at 31st December, 2003, 2004 and 2005, respectively represent share capital of companies now comprising the GDI Group.

35. DISPOSAL OF INTERESTS IN SUBSIDIARIES

Year ended 31st 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.

Year ended 31st 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 year ended 31st December, 2003 and 2004 were as follows:

	Year ended 31st December,	
	2003	**2004**
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	901,368	34,924
Deferred tax assets	14,224	—
Interests in associates	103,064	14,808
Receivables due from associates	81,551	—
Investments in securities	5,216	—
Inventories	737,767	49,319
Trade receivables	530,528	12,112
Other receivables, deposits and prepayments	207,315	8,436
Pledged bank deposits	70,098	—
Bank balances and cash	282,356	22,176
Trade payables, other payables and accrued charges	(757,379)	(43,316)
Income and other taxes payable	(34,335)	(30)
Bank loans and other borrowings	(1,274,058)	(60,197)
Obligations under finance leases	—	(149)
Minority interests	(481,183)	—
	386,532	38,083
Less: Interest retained as interests in associates	(178,053)	—
	208,479	38,083
Goodwill realised	6,852	9,170
Exchange reserve realised	(3,848)	13
	211,483	47,266
Gain (loss) on disposal	12,309	(5,266)
	223,792	42,000

35. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(Cont'd)*

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Satisfied by:			
Cash	223,792	35,500	—
Promissory note included in receivables	—	6,500	—
	223,792	42,000	—
Analysis of the net (outflow) inflow of cash and cash equivalents in connection with the disposal of subsidiaries:			
Cash consideration received	223,792	35,500	—
Bank balances and cash disposed of	(282,356)	(22,176)	—
Net (outflow) inflow of cash and cash equivalents	(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 before taxation:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Amount contributed to the GDI Group's turnover	2,653,540	92,262	—
(Loss) profit contributed to the GDI Group's loss before taxation	(90,362)	6,778	—

36. PURCHASE OF SUBSIDIARIES

Year ended 31st December, 2005

On 30th June, 2005, the GDI Group acquired 88% and 100% of the issued share capital of 東莞市江海and 廣州耀陽, respectively, for an aggregate cash consideration of HK$50 million. The two newly acquired subsidiaries are incorporated in the PRC and engaged in the business of sand mining. These transactions have been accounted for using the purchase method of accounting. The directors are of the view that it is impracticable to disclose the revenue and the results for the six months ended 30th June, 2005 as if the acquisition had been effected on 1st January, 2005 since such information was not provided by the vendor.

	Year ended 31st December, 2005		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	50,165	63,019	113,184
Inventories	6	—	6
Trade receivables	75	—	75
Other receivables, deposits and prepayments	647	—	647
Bank balances and cash	349	—	349
Trade payables, other payables and accrued charges	(244)	—	(244)
Amounts due to former shareholders	(49,770)	—	(49,770)
Deferred tax liabilities	—	(20,796)	(20,796)
	1,228	42,223	43,451
Minority interests	(48)	(2,526)	(2,574)
	1,180	39,697	40,877
Goodwill arising on acquisition			9,123
			50,000
Satisfied by:			
— Cash			10,000
— Deposit paid for acquisition of subsidiaries in 2004			40,000
			50,000
Net cash outflow arising or acquisition			
Cash consideration paid			(10,000)
Cash and cash equivalents acquired			349
			(9,651)

36. PURCHASE OF SUBSIDIARIES *(Cont'd)*

Year ended 31st December, 2003 and 2004

	Year ended 31st December,	
	2003	**2004**
	HK$'000	*HK$'000*
Net assets acquired:		
Trade payables, other payables and accrued charges	(12)	—
Minority interests	410	—
	398	—
Goodwill arising on acquisition	387	—
	785	—
Satisfied by:		
Cash	785	—
Analysis of the net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	(785)	—
Net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries	(785)	—

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the GDI Group's products in the new markets.

東莞市江海 and 廣州耀陽 contributed HK$5,298,000 to the GDI Group's turnover and loss before taxation of HK$3,735,000 to the GDI Group's loss before taxation for the period between the date of acquisition and 31st December, 2005.

37. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2003, the major non-cash transaction was the 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 31st 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 transferred from loans receivables due from associates.

(b) Addition to investment in securities of approximately HK$43,588,000 were as result of disposal 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.

During the year ended 31st December, 2005, the major non-cash transaction was amount due to former shareholders of approximately HK$50,000,000 was settled by the assignment of loans and interest receivable from outsiders.

38. COMMITMENTS

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

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Contracted for but not provided in the financial information in respect of			
(i) Acquisition of interest in properties *(note)*	—	377,516	—
(ii) Other assets	91,489	91,981	93,301
(iii) Acquisition of subsidiaries *(note 18)*	—	10,000	—
	91,489	479,497	93,301

Note:

In respect of the conditional agreement entered into by the GDI Group in 2004 to acquire properties interest of 香樟花園 located in Shanghai, PRC at a consideration of RMB450 million (of which deposit of RMB58 million was paid by the GDI Group as at 31st December, 2005), the GDI Group has commenced legal proceedings in 2005 to demand the vendor of the properties to fulfil its obligations under the agreement. Having consulted the legal counsel and under certain considerations, the GDI Group has at present decided to exercise its discretion to proceed with the acquisition of the properties.

39. OPERATING LEASE COMMITMENTS

Lessee

The GDI Group made minimum lease payments in respect of office premises of approximately HK$25,707,000, HK$7,460,000 and $Nil under operating leases for the years ended 31st December, 2003, 2004 and 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 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	15,639	—	—
In the second to fifth year inclusive	16,930	—	—
	32,569	—	—

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

40. PLEDGE OF ASSETS

As at 31st December, 2004 and 2005, the GDI Group had no pledge of assets.

As at 31st 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 approximately HK$3,000 included in bank loans and other borrowings were utilised by the GDI Group.

41. 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 31st December, 2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*
Lucklong	Loan interest income received and receivable by the GDI Group	*(a)*	5,984	—	—
Hanny Magnetics Limited	Sale of goods made by the GDI Group	*(b)*	63	—	—
PYI Management Limited (formerly known as "Paul Y.-ITC Manngement Limited")	Loan interest paid and payable by the GDI Group	*(b)*	1,193	—	—
	Sales of goods by the GDI Group		687	3	—
Paul Y. (E & M) Company Limited (formerly known as "Paul Y.-ITC (E&M) Company Limited")	Repair and maintenance fee paid and payable by the GDI Group	*(b)*	58	42	—
	Project management fee paid and payable by the GDI Group		872	—	—
	Mechanical and electrical service fee paid and payable by the GDI Group		7	—	—
Cycle Company Limited and Gunnell Properties Limited	Rental expenses paid and payable by the GDI Group	*(b)*	554	553	138
Paul Y. Interior Contractors Limited (formerly known as "Paul Y.-ITC Interior Contractors Limited")	Project management fee paid and payable by the GDI Group	*(b)*	15	—	—
Millennium Target Holdings Limited	Loan interest income received and receivable by the GDI Group	*(c)*	31	—	—
Wing On	Loan interest income received and receivable by the GDI Group	*(d)*	2,198	1,466	3,175
China Velocity	Loan interest income received and receivable by the GDI Group	*(d)*	3,249	—	—
Rosedale Park Limited	Sale of goods made by the GDI Group	*(f)*	11	—	—
	Hotel expense paid and payable by the GDI Group		14	—	—

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

Name of company	Nature of transactions	*Notes*	Year ended 31st December, 2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*
Hong Kong Wing On Travel Service Limited	Air ticketing and travel service expenses paid and payable by the GDI Group	*(c)*	73	260	—
	Sale of goods made by the GDI Group		209	—	—
Apex	Loan interest income received and receivable by the GDI Group	*(e)*	248	3,280	2,931
Chief Altantic Profits Limited	Loan interest income received and receivable by the GDI Group	*(g)*	306	303	—

Notes:

(a) Ms. Chau Mei Wah, Rosanna ("Ms. Chau"), a director of CSH, ceased to be a director of Lucklong during the year ended 31st 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, PYI Management Limited, Paul Y. (E & M) Company Limited, Cycle Company Limited and Gunnell Properties Limited, Paul Y. Interior Contractors Limited are wholly-owned subsidiaries of a substantial shareholder of CSH.

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

(d) Wing On and China Velocity are associates of the GDI Group.

(e) Apex ceased to be associate of the GDI Group during the year ended 31st December, 2004.

(f) Rosedale Park Limited is a wholly-owned subsidiary of Apex.

(g) 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 31st December, 2004.

Details of balances with related parties as at the balance sheet dates are set out in the combined balance sheet and in note 21, 22 and 32.

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.

42. 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 1st March, 2005 and accordingly, GDI has no reserve available for distribution to the shareholders as at 31st December, 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 31st December, 2005.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this composite document other than those relating to the Hanny Group (including Well Orient), Paul Y, ITC and the Offeror and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this composite document other than those relating to the Hanny Group (including Well Orient), Paul Y, ITC, and the Offeror, have been arrived at after due and careful consideration and there are no other facts not contained in this composite document, the omission of which would make any statement in this composite document misleading.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this composite document other than those relating to the Hanny Group (including Well Orient), Paul Y, ITC, the Group and GDI and confirms, having made all reasonable enquiries, that to the best of his knowledge and belief, opinions expressed in this composite document other than those relating to the Hanny Group (including Well Orient), Paul Y, ITC, the Group and GDI, have been arrived at after due and careful consideration and there are no other facts not contained in this composite document, the omission of which would make any statement in this composite document misleading.

The information (including the GDI Offer, the respective shareholding and the board composition) in this composite document relating to the Hanny Group (including Well Orient), Paul Y and ITC have been extracted or summarised from the Joint Announcement and their respective announcements and annual reports. The Directors and the sole director of the Offeror 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, none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or 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.

(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 and according to the list of substantial Shareholders extracted from the website of the Stock Exchange (www.hkex.com.hk), 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
The Offeror	Long position	Beneficial owner	*1*	Personal interest	135,000,000	30.63%
Mr. Gao Yang	Long position	Interest held by controlled corporation	*1*	Corporate interest	135,000,000	30.63%
Calisan Developments Limited ("Calisan")	Long position	Beneficial owner	*2*	Personal interest	61,909,897	14.04%
Great Decision Limited ("GDL")	Long position	Interest held by controlled corporation	*2*	Corporate interest	61,909,897	14.04%
PYI Investments Group Limited ("PYIIG")	Long position	Interest held by controlled corporation	*2*	Corporate interest	61,909,897	14.04%
Paul Y	Long position	Interest held by controlled corporation	*2*	Corporate interest	61,909,897	14.04%

Name	Long position/ Short position	Capacity	*Notes*	Nature of interest	Number of Shares	Approximate percentage of shareholding
Well Orient	Long position	Beneficial owner	*3*	Personal interest	61,909,897	14.04%
Powervote Technology Limited	Long position	Interest held by controlled corporation	*3*	Corporate interest	61,909,897	14.04%
Hanny Magnetics (B.V.I.) Limited	Long position	Interest held by controlled corporation	*3*	Corporate interest	61,909,897	14.04%
Hanny	Long position	Interest held by controlled corporation	*3*	Corporate interest	61,909,897	14.04%
Christian Emil Toggenburger	Long position	Beneficial owner		Personal interest	31,966,250	7.25%

Notes:

1. The 135,000,000 Shares represent the Shares acquired by 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 acquired by the Offeror under the SFO. Pursuant to the Share Mortgages entered into between the Offeror and Hanny, 20,250,000 Shares were charged to Hanny. Pursuant to the Share Mortgages entered into between the Offerer and Paul Y, 20,250,000 Shares were charged to Paul Y. Pursuant to an agreement between the Offeror and Kingston Securities regarding the provision of the Credit Facility I, 94,500,000 Shares were deposited with Kingston Securities as collateral.

2. Paul Y owns the entire interest of PYIIG. PYIIG owns the entire interest of GDL which in turn owns the entire interest in Calisan. Accordingly, GDL, PYIIG and Paul Y are deemed to be interested in 61,909,897 Shares which are 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 61,909,897 Shares which were held by Well Orient.

(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 5% 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)**
Principal Diamond Limited	Wonder Wealth Limited	80%	20%
		8 shares	2 shares
Talent Cosmos Limited	Cheung Kwok Keung, So So	80%	20%
	Chung Tat Yan	10,400 shares	246 shares
	Wong Leung Ngai		163 shares
	Happy Trade Ltd.		328 shares
	Wong Kwok Chu		1,734 shares
			129 shares

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) Offeror's interests in the securities of the Company

As at the Latest Practicable Date, the interests of the Offeror in the securities of the Company were as follows:

Name	**Capacity**	**Number of Shares**	**Approximate shareholding Percentage (%)**
Offeror	Beneficial owner	135,000,000	30.63

Save as the aforesaid, the Offeror did not have any interests in the securities of the Company as at the Latest Practicable Date.

(IV) Save for (i) the 129,409,897 Shares (adjusted for the Capital Reorganisation) held by each of Paul Y and Hanny (presumed parties acting in concert with the Offeror) before the Share Sale; (ii) the 135,000,000 Shares acquired by the Offeror under the Share Sale Agreement (out of which 20,250,000 Shares were pledged to each of Paul Y and Hanny as security and 94,500,000 Share were deposited with Kingston Securities as collateral for the Credit Facility I); and (iii) the 61,909,897 Shares held by each of Paul Y and Hanny, as at the Latest Practicable Date, none of the Offeror, any person acting in concert with the Offeror or Mr. Gao Yang, who is the sole director of the Offeror, had any interest in the securities of the Company as at the Latest Practicable Date nor had any of them dealt for value in such securities during the period beginning six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date.

(V) Neither the Company nor any Director had any interest in the securities of the Offeror as at the Latest Practicable Date nor had any of them dealt for value in such securities during the period beginning six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date.

(VI) None of the subsidiaries of the Company, any pension fund of the Company or its subsidiaries, nor any of the advisers to the Company as specified in class (2) of the definition of associate under the Takeovers Code but excluding exempt principal traders had any interest in the securities of the Company as at the Latest Practicable Date nor had any of them dealt for value in such securities beginning six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date.

(VII) As at the Latest Practicable Date, no Shares were managed on a discretionary basis by fund managers connected with the Company. No fund managers connected with the Company had dealt for value in any securities of the Company beginning six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date.

(VIII) No person had irrevocably committed, in respect of his/her/its own shareholding, to accept or to reject the China Strategic Offer as at the Latest Practicable Date.

(IX) As at the Latest Practicable Date, none of the Directors directly held or owned any securities in the Company.

(X) Save for (i) the Share Mortgages; (ii) the Credit Facility I; (iii) the Credit Facility II; and (iv) the appointment of Kingston Securities by the Company as it agent for matching odd lot Shares (the "Appointment"), no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any person acting in concert with it as at the Latest Practicable Date.

(XI) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with (i) the Company; and (ii) any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(XII) As at the Latest Practicable Date, there was no agreement, arrangement or understanding existing between the Offeror or any persons acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company which has connection with, is conditional on or dependent upon the outcome of the China Strategic Offer.

(XIII) As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror was a party which relate to circumstances in which it might or might not invoke or seek to invoke a condition to the China Strategic Offer, for the China Strategic Offer is unconditional.

DEALINGS IN SECURITIES

Save as disclosed in the paragraphs headed "Disclosure of interests" in this appendix, the acquisition of 67,500,000 Shares by the Offeror from each of Paul Y and Hanny pursuant to the Share Sale Agreement and the Group Reorganisation, neither of the Directors, including their respective spouses, children under the age of 18, related trusts and companies controlled by them, nor Dao Heng Securities, Hercules, Kingston Securities, Kingston Corporate Finance and Deloitte Touche Tohmatsu, or any other advisers to the Company as specified in class (2) of the definition of associate (excluding exempt principal traders) under the Takeovers Code, had dealt for value in the securities of the Company during the period beginning six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date.

MARKET PRICES

The table below shows the closing prices of the Shares (adjusted for the Capital Reorganisation) on the Stock Exchange on the (i) last day on which trading took place in each of the six calendar months immediately preceding 15th October, 2004, being the date of the initial announcement relating to the China Strategic Offer, and that of the calendar months up to the Latest Practicable Date; (ii) 14th October, 2004, being the last trading day immediately preceding the date of such initial announcement; and (iii) 7th March, 2005, being the last trading day immediately preceding the Joint Announcement:

	HK$ per Share
30th April, 2004	0.94
31st May, 2004	0.88
16th June, 2004	0.76
30th July, 2004	0.79
31st August, 2004	0.72
30th September, 2004	0.94
14th October, 2004	1.04
29th October, 2004	1.20
25th November, 2004	1.12
31st December, 2004	1.10
31st January, 2005	1.20
28th February, 2005	1.14
7th March, 2005	1.08
29th April, 2005	1.70
31st May, 2005	1.62
30th June, 2005	1.60
29th July, 2005	1.56
31st August, 2005	1.66
30th September, 2005	1.66
31st October, 2005	1.86
30th November, 2005	1.72
30th December, 2005	1.70
27th January, 2006	2.00
28th February, 2006	1.92
31st March, 2006	2.00
28th April, 2006	1.68
Latest Practicable Date	0.38

The trading of the Shares was suspended from 17th June, 2004 to 7th July, 2004, 26th November, 2004 to 30th November, 2004 and 8th March, 2005 to 19th April, 2005. The highest and lowest closing prices of Shares (adjusted for the Capital Reorganisation) recorded on the Stock Exchange between 16th April, 2004, being the date falling six months prior to the date of the initial announcement relating to the China Strategic Offer, and the Latest Practicable Date were HK$2.12 on 23rd February, 2006 and HK$0.38 on 24th May, 2006 respectively.

ARRANGEMENTS AFFECTING DIRECTORS

There is no benefit (other than statutory compensation) to be given to any Director as compensation for loss of office or otherwise in connection with the China Strategic Offer.

There is no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the China Strategic Offer or is otherwise connected with the China Strategic Offer.

There is no material contract entered into by the Offeror in which any Director has a material personal interest.

SERVICE CONTRACTS

None of the Directors has entered into any service contract with any member of the Group or associated companies of the Company which are in force and which are continuous contracts with a notice period of 12 months or more, or which has been entered into or amended within six months prior to 15th October, 2004, being the commencement date of the Offer Period, or which are fixed term contracts with more than 12 months to run irrespective of the notice period.

EXPERTS AND CONSENTS

The following are the qualifications of the experts whose letters or reports are contained in this composite document:

Name	Qualifications
Dao Heng Securities	a licensed corporation under the SFO
Hercules	a licensed corporation under the SFO
Kingston Securities	a licensed corporation under the SFO
Kingston Corporate Finance Limited ("Kingston Corporate Finance")	a licensed corporation under the SFO
Deloitte Touche Tohmatsu	certified public accountants

Each of Dao Heng Securities, Hercules, Kingston Securities, Kingston Corporate Finance and Deloitte Touche Tohmatsu has given and has not withdrawn their written consents to the issue of this composite document with the inclusion of their respective letters or reports and the references to their respective names in the form and context in which they respectively appear.

As at the Latest Practicable Date, save for the deposit of 94,500,000 Shares acquired by the Offeror in pursuance of the Share Sale with Kingston Securities from time to time as collateral, Dao Heng Securities, Hercules, Kingston Securities, Kingston Corporate Finance and Deloitte Touche Tohmatsu were not interested beneficially or otherwise in any Shares or shares in any of the Company's subsidiaries or associated companies and did not have any right, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any Shares or shares in any of the Company's subsidiaries or associated companies nor did they have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Company 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.

LITIGATION

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, entered into by any members of the Group within the two years immediately preceding 15th October, 2004, being the date of the initial announcement relating to the China Strategic Offer which are, or may be, material:

(a) on 18th March, 2004, the Company entered into a sale and purchase agreement with Mr. Wang Yung-Tyng, an independent third party, in respect of the disposal of 12.88% interests in the share capital of Apex Quality Group Limited at a consideration of HK$10,722,600. On 5th August, 2004, the Company entered into a supplemental agreement to extend the completion date of transaction. The disposal was completed in September 2004;

(b) a sale and purchase agreement dated 19th 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.

(c) an agreement dated 4th October, 2004 entered into between the Company and Mr. Ling Yao Ping and Mr. Chan Chung Chiu, both are 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 Co. Ltd), a company incorporated in the PRC, for a consideration of approximately RMB27,300,000; and

(d) an agreement dated 6th October, 2004 entered into between the Company and 田承強先生, 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 Co. Ltd), a company incorporated in the PRC, for a consideration of approximately RMB25,700,000;

MISCELLANEOUS

(a) The registered office of the Company is at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong. The share registrar and transfer office of the Company is Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(b) The registered office of the Offeror is at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.

(c) The registered office of Kingston Securities and Kingston Corporate Finance is Suite 2801, 28/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(d) The principal members of the Offeror concert group include (i) the Offeror and Mr. Gao Yang, being the sole beneficial owner and director of the Offeror; (ii) Paul Y, which was beneficially owned as to approximately 28.15% by ITC and Dr. Chan Kwok Keung, Charles as at the Latest Practicable Date and has a board of directors comprising one executive director, namely Mr. Lau Ko Yuen, Tom, one non-executive director, namely Dr. Chan Kwok Keung, Charles and three independent non-executive directors, namely Dr. Chow Ming Kuen, Joseph, Mr. Kwok Shiu Keung, Ernest and Mr. Chan Shu Kin; (iii) ITC, which was beneficially owned as to approximately 34.97% of the issued ordinary share capital by Dr. Chan Kwok Keung, Charles as at the Latest Practicable Date and its board of directors comprised five executive directors, namely Dr. Chan Kwok Keung, Charles, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung, Mr. Chan Fut Yan and Mr. Cheung Hon Kit and three independent non-executive directors, namely Mr. Chuck Winston Calptor, Mr. Lee Kit Wah and Mr. Wong Kam Cheong, Stanley; and (iv) Hanny, which was beneficially owned as to approximately 24.28% by ITC as at the Latest Practicable Date and its board of directors comprised three executive directors, namely Dr. Chan Kwok Keung, Charles, Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard and four independent non-executive directors, namely Mr. Yuen Tin Fan, Francis, Mr. Kwok Ka Lap, Alva, Mr. Wong King Lam, Joseph and Mr. Sin Chi Fai.

(e) The company 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.

(f) The English texts of this composite document and the accompanying Form of Acceptance shall prevail over their respective Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during business hours at the register office of the Company at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong; (ii) on the transaction specific website (www.irasia.com/listco/hk/chinastrategic/comoffdoc.htm); and (iii) the website of the SFC (www.sfc.hk) from the date of this composite document up to and including the closing date of the China Strategic Offer:

(a) the memorandum of association and the articles of association of the Company;

(b) the memorandum of association and the articles of association of the Offeror;

(c) the letter from the Independent Board Committee to the Qualifying Shareholders, the text of which is set out on page 27 to this composite document;

(d) the letter of advice from Hercules, the text of which is set out on pages 28 to 46 to this composite document;

(e) the letter from Kingston Securities, the text of which is set out on pages 17 to 26 to this composite document;

(f) the letters of consent referred to in the section headed "Experts and consents" in this appendix;

(g) the annual reports of the Company for the three years ended 31st December, 2005;

(h) the unaudited pro forma balance sheet, income statement and cash flow statement of the Group upon completion of the Group Reorganisation as contained in Appendix III to this composite document;

(i) the accountants' report on the GDI Group as contained in Appendix IV to this composite document;

(j) the material contracts referred to in the section headed "Material contracts" in this appendix;

(k) the comfort letters from Deloitte Touche Tohmatsu and Dao Heng Securities as contained in Appendix III to this composite document;

(l) Credit Facility I;

(m) Credit Facility II; and

(n) the Share Mortgages.