



CHINA STRATEGIC HOLDINGS LIMITED

中策集團有限公司

(incorporated in Hong Kong with limited liability)
(Stock Code: 235)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2006

The directors of China Strategic Holdings Limited (the “Company”) announce the financial results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2006 together with comparative figures for the previous year are as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	NOTES	2006 HK\$'000	2005 HK\$'000 (restated)
Continuing operations			
Revenue	3	32,846	33,161
Cost of sales		<u>(24,199)</u>	<u>(28,479)</u>
Gross profit		8,647	4,682
Other income	4	31,551	91,797
Distribution costs		(2,968)	(1,609)
Administrative expenses		(27,695)	(52,926)
Other expenses	5	(11,909)	(97,642)
Finance costs		(9,940)	(17,630)
Gain (loss) in fair value changes of investments held for trading		564	(4,283)
Change in fair value of conversion option of unlisted convertible note		–	(39,743)
Gain on disposal of interest in an associate		17,180	–
Loss on dilution of interest in an associate		(65,762)	(2,814)
Share of results of associates		<u>16,681</u>	<u>42,864</u>
Loss before taxation		(43,651)	(77,304)
Taxation	7	<u>(5,782)</u>	<u>(4,247)</u>
Loss for the year from continuing operations		(49,433)	(81,551)
Discontinued operation			
Loss for the year from discontinued operation		<u>(9,818)</u>	<u>(5,487)</u>
Loss for the year	6	<u><u>(59,251)</u></u>	<u><u>(87,038)</u></u>

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Attributable to:			
Equity holders of the parent		(38,417)	(81,829)
Minority interests		(20,834)	(5,209)
		<u>(59,251)</u>	<u>(87,038)</u>
Loss per share			
From continuing and discontinued operations	8		
– Basic		<u>HK\$(0.09)</u>	<u>HK\$(0.19)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>
From continuing operations			
– Basic		<u>HK\$(0.07)</u>	<u>HK\$(0.17)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

**CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2006**

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Non-Current Assets		
Property, plant and equipment	46,982	125,957
Prepaid lease payments	27,425	27,763
Deposit paid for acquisition of interest in properties	–	55,716
Goodwill	25,807	34,930
Interests in associates	–	558,738
Club debentures	825	825
Available-for-sale investments	60,127	117,094
	<u>161,166</u>	<u>921,023</u>

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Current Assets			
Other asset		–	229,288
Inventories		18,954	12,409
Trade receivables	9	7,825	4,773
Prepaid lease payments		626	620
Amounts due from associates		6,514	159,214
Loans and interest receivables		25,761	464,232
Other receivables, deposits and prepayments		4,888	42,909
Tax reserve certificates paid		5,916	–
Investments held for trading		8,115	7,552
Pledged bank deposits		1,078	1,036
Bank balances and cash		8,992	115,813
		<hr/> 88,669	<hr/> 1,037,846
Available-for-sale investments – current		17,770	–
		<hr/> 106,439	<hr/> 1,037,846
Current Liabilities			
Trade payables, other payables and accrued charges	10	23,685	56,159
Amounts due to related companies		4,128	200,287
Loan payables		58,568	3,379
Amount due to an associate		–	286
Income tax payable		6,916	13,387
Bank overdrafts		23	7,212
Bank borrowings		12,889	1,415
		<hr/> 106,209	<hr/> 282,125
Net Current Assets		<hr/> 230	<hr/> 755,721
		<hr/> 161,396	<hr/> 1,676,744

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Capital and Reserves		
Share capital	44,080	88,160
Reserves	106,751	1,237,154
	<hr/>	<hr/>
Equity attributable to equity holders of the parent	150,831	1,325,314
Minority interests	262	330,255
	<hr/>	<hr/>
Total equity	151,093	1,655,569
	<hr/>	<hr/>
Non-Current Liabilities		
Amount due to an associate	4,993	–
Amounts due to related companies	5,310	–
Deferred tax liabilities	–	21,175
	<hr/>	<hr/>
	10,303	21,175
	<hr/>	<hr/>
	161,396	1,676,744
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. 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 and financial positions for the current or prior accounting periods have been prepared and presented:

Fair value option

In the current year, the Group has applied HKAS 39 (Amendment) *The fair value option* which is effective for annual periods beginning on or after 1st January, 2006.

Prior to 1st January, 2006, the Group designated certain financial instruments as at fair value through profit or loss.

Financial assets previously designated as at fair value through profit or loss reclassified as available-for-sale investments

The amendment permits designating a financial asset or financial liability as at fair value through profit or loss when certain conditions are met. Upon the application of this amendment, the Group has reclassified certain equity instruments as available-for-sale financial assets which do not meet the conditions to be classified as at fair value through profit or loss. An adjustment of HK\$10,818,000 has been transferred from the Group’s deficit to investment revaluation reserve as at 1st January, 2005 (see note 2 for the financial impact).

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segment ⁷
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁶
HK(IFRIC)-Int 12	Service Concession Arrangement ⁸

¹ Effective for annual periods beginning on or after 1st January, 2007

² Effective for annual periods beginning on or after 1st March, 2006

³ Effective for annual periods beginning on or after 1st May, 2006

⁴ Effective for annual periods beginning on or after 1st June, 2006

⁵ Effective for annual periods beginning on or after 1st November, 2006

⁶ Effective for annual periods beginning on or after 1st March, 2007

⁷ Effective for annual periods beginning on or after 1st January, 2009

⁸ Effective for annual periods beginning on or after 1st January, 2008

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

The effects of the changes in accounting policies described in note 1 on the results for the current and prior years are as follows:

(i) On results

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(Increase) decrease in loss for the year:		
Investment valuation reserves realised upon disposal of available-for-sale investments	–	10,233
(Gain) loss on fair value changes on investments in securities at fair value through profit or loss	<u>(37,925)</u>	<u>3,138</u>
	<u>(37,925)</u>	<u>13,371</u>
Attributable to:		
Equity holders of the parent	(37,925)	13,900
Minority interests	<u>–</u>	<u>(529)</u>
	<u>(37,925)</u>	<u>13,371</u>

(ii) On income statement line items

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Gain on disposal of investments in securities at fair value through profit or loss	–	10,233
(Gain) loss on fair value changes on investments in securities at fair value through profit or loss	<u>(37,925)</u>	<u>3,138</u>
	<u>(37,925)</u>	<u>13,371</u>
Attributable to:		
Equity holders of the parent	(37,925)	13,900
Minority interests	<u>–</u>	<u>(529)</u>
	<u>(37,925)</u>	<u>13,371</u>

(iii) *On balance sheet items*

The cumulative effect of the application of the new HKFRSs as at 1st January, 2005 is summarised as below:

	As at 1st January, 2005 (as originally stated) <i>HK\$'000</i>	Effect of HKAS 39 (Amendment) <i>HK\$'000</i>	As at 1st January, 2005 (as restated) <i>HK\$'000</i>
Available-for-sale investments	–	194,050	194,050
Investments in securities at fair value through profit or loss	194,050	(194,050)	–
Total effects on assets	<u>194,050</u>	<u>–</u>	<u>194,050</u>
Investment revaluation reserve	–	10,818	10,818
Deficit	(1,011,072)	(10,818)	(1,021,890)
Total effects on equity	<u>(1,011,072)</u>	<u>–</u>	<u>(1,011,072)</u>

3. SEGMENT INFORMATION

An analysis of the Group's revenue and segment results by business segments is as follows:

	Continuing operations				Discontinued operation		
	Investments in securities and advance <i>HK\$'000</i>	Battery products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Sand mining <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>For the year ended</i>							
<i>31st December, 2006</i>							
REVENUE							
(i) Revenue							
– External	–	32,846	–	–	32,846	2,726	35,572
– Inter-segment	182	–	–	(182)	–	–	–
	<u>182</u>	<u>32,846</u>	<u>–</u>	<u>(182)</u>	<u>32,846</u>	<u>2,726</u>	<u>35,572</u>
(ii) Other income							
– Interest income	22,068	–	2,169	–	24,237	–	24,237
– Dividend income from available- for-sale investments	4,321	–	–	–	4,321	–	4,321
– Dividend income from investments held for trading	355	–	–	–	355	–	355
– Others	149	1,303	1,186	–	2,638	97	2,735
	<u>26,893</u>	<u>1,303</u>	<u>3,355</u>	<u>–</u>	<u>31,551</u>	<u>97</u>	<u>31,648</u>

	Continuing operations				Discontinued operation		
	Investments in securities and advance <i>HK\$'000</i>	Battery products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Sand mining <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
RESULT							
Segment result	<u>21,538</u>	<u>(771)</u>	<u>2,961</u>	<u>(182)</u>	23,546	(9,818)	13,728
Unallocated corporate expenses					(25,356)	–	(25,356)
Finance costs					(9,940)	–	(9,940)
Gain on disposal of interest in an associate					17,180	–	17,180
Loss on dilution of interest in an associate					(65,762)	–	(65,762)
Share of results of associates					16,681	–	16,681
Loss before taxation					(43,651)	(9,818)	(53,469)
Taxation					(5,782)	–	(5,782)
Loss for the year					<u>(49,433)</u>	<u>(9,818)</u>	<u>(59,251)</u>

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

	Continuing operations				Discontinued operation		
	Investments in securities and advance <i>HK\$'000</i>	Battery products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Sub-total <i>HK\$'000</i> (restated)	Sand mining <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (restated)
<i>For the year ended</i>							
<i>31st December, 2005</i>							
REVENUE							
(i) Revenue							
– External	–	33,161	–	–	33,161	5,298	38,459
– Inter-segment	473	–	1,200	(1,673)	–	–	–
	<u>473</u>	<u>33,161</u>	<u>1,200</u>	<u>(1,673)</u>	<u>33,161</u>	<u>5,298</u>	<u>38,459</u>

	Continuing operations					Discontinued operation	Consolidated HK\$'000 (restated)
	Investments in securities and advance HK\$'000	Battery products HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Sub-total HK\$'000 (restated)	Sand mining HK\$'000	
(ii) Other income							
– Interest income	52,423	–	5,661	–	58,084	–	58,084
– Gain on disposal of available-for-sale investments	20,808	–	–	–	20,808	–	20,808
– Dividend income from available-for-sale investments	7,951	–	–	–	7,951	–	7,951
– Dividend income from investments held for trading	451	–	–	–	451	–	451
– Others	2,888	179	1,436	–	4,503	2,059	6,562
	<u>84,521</u>	<u>179</u>	<u>7,097</u>	<u>–</u>	<u>91,797</u>	<u>2,059</u>	<u>93,856</u>
RESULT							
Segment result	<u>25,596</u>	<u>(5,907)</u>	<u>(64,497)</u>	<u>(1,673)</u>	(46,481)	1,576	(44,905)
Unallocated corporate expenses					(13,500)	(7,063)	(20,563)
Change in fair value of conversion option of unlisted convertible notes					(39,743)	–	(39,743)
Finance costs					(17,630)	–	(17,630)
Loss on dilution of interest in an associate					(2,814)	–	(2,814)
Share of results of associates					42,864	–	42,864
Loss before taxation					(77,304)	(5,487)	(82,791)
Taxation					(4,247)	–	(4,247)
Loss for the year					<u>(81,551)</u>	<u>(5,487)</u>	<u>(87,038)</u>

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

Geographical segments

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Continuing operations:		
People's Republic of China ("PRC")	17,097	21,791
Hong Kong	15,749	11,370
	<u>32,846</u>	<u>33,161</u>
Discontinued operation:		
PRC	<u>2,726</u>	<u>5,298</u>

4. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Interest income from loans and interest receivables	21,295	52,423	-	-	21,295	52,423
Interest income from banks	2,169	640	-	-	2,169	640
Interest income from available-for-sale investments	773	5,021	-	-	773	5,021
Gain on disposal of available-for-sale investments	-	20,808	-	-	-	20,808
Dividend income from available-for-sale investments	4,321	7,951	-	-	4,321	7,951
Dividend income from investments held for trading	355	451	-	-	355	451
Others	2,638	4,503	97	2,059	2,735	6,562
	<u>31,551</u>	<u>91,797</u>	<u>97</u>	<u>2,059</u>	<u>31,648</u>	<u>93,856</u>

5. OTHER EXPENSES

	Continuing operations		Discontinued operation		Consolidated	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Allowances for loans and interest receivables	6,283	37,445	-	-	6,283	37,445
Allowances for other receivables	5,626	18,575	-	-	5,626	18,575
Impairment loss on available-for-sale investments	-	37,189	-	-	-	37,189
Net exchange loss	-	3,709	-	-	-	3,709
Others	-	724	-	-	-	724
	<u>11,909</u>	<u>97,642</u>	<u>-</u>	<u>-</u>	<u>11,909</u>	<u>97,642</u>

6. LOSS FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Loss for the year has been arrived at after charging:						
Staff costs						
– directors remuneration	1,707	2,092	–	–	1,707	2,092
– other staff costs	13,364	14,176	356	548	13,720	14,724
– retirement benefits scheme contributions, excluding directors	353	393	4	12	357	405
Total staff costs	15,424	16,661	360	560	15,784	17,221
Auditors' remuneration	1,000	6,600	–	22	1,000	6,622
Depreciation of property, plant and equipment	1,986	2,340	4,452	5,762	6,438	8,102
Amortisation of prepaid lease payments	622	519	–	–	622	519
Cost of inventories recognised as expense	17,258	22,438	2,411	4,342	19,669	26,780
Impairment loss recognised in respect of goodwill	–	–	4,561	–	4,561	–
(Gain) loss on disposal of property, plant and equipment	(102)	4	–	124	(102)	128

7. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The (credit) charge comprises:						
Taxation in other jurisdictions						
– Current year	(3)	1,010	–	–	(3)	1,010
– Overprovision in prior years	–	(663)	–	–	–	(663)
Hong Kong Profits Tax						
– Current year	–	1,300	–	–	–	1,300
– Underprovision in prior years	5,785	2,600	–	–	5,785	2,600
Taxation attributable to the Company and its subsidiaries	5,782	4,247	–	–	5,782	4,247

Hong Kong Profits Tax is calculated at 17.5% (2005: 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.

8. 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:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Loss		
Loss for the purpose of basic loss per share loss for the year attributable to the equity holders of the parent	<u>38,417</u>	<u>81,829</u>
Number of shares		
Number of ordinary shares for the purposes of basic loss per share	<u>440,797,543</u>	<u>440,797,543</u>

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:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss for the year attributable to equity holders of the parent	38,417	81,829
<i>Less:</i> Loss for the year from discontinued operation attributable to equity holders of the parent	<u>(9,480)</u>	<u>(5,269)</u>
Loss for the year for the purpose of basic loss per share from continuing operations	<u>28,937</u>	<u>76,560</u>

The number of ordinary shares for the purposes of calculation of basic loss per share from continuing operations used as denominators is same as those detailed above.

The number of ordinary shares for the purposes of basic loss per share for the year ended 31st December, 2005 was adjusted for the effect of the shares consolidation .

The calculation of the basic loss per share for the year ended 31st December, 2006 and 2005 have been adjusted as a result of the application of new HKFRSs and details are shown below:

	2006 Basic earnings per share	2005 Basic earnings per share
Figures before adjustments	–	(0.22)
Adjustment arising from application of new HKFRS (<i>see note 2</i>)	<u>(0.09)</u>	<u>0.03</u>
Adjusted	<u>(0.09)</u>	<u>(0.19)</u>

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares in issue during both years.

From discontinued operation

Basic loss per share for discontinued operation is HK\$0.02 per share (2005: HK\$0.01 per share), based on the loss for the year from the discontinued operation attributable to the equity holders of the parent of HK\$9,480,000 (2005: HK\$5,269,000) and the denominators detailed above for basic earnings per share.

9. TRADE RECEIVABLES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trade receivables	8,806	5,737
Less: accumulated impairment	(981)	(964)
	<u>7,825</u>	<u>4,773</u>

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:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 90 days	7,067	4,408
91 – 180 days	620	365
Over 180 days	138	–
	<u>7,825</u>	<u>4,773</u>

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of approximately HK\$5,501,000 (2005: HK\$5,336,000) with the following aged analysis:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 90 days	3,836	2,980
91 – 180 days	1,025	929
Over 180 days	640	1,427
	<u>5,501</u>	<u>5,336</u>

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December, 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of the Group's performance

During the year, the Group has adopted the newly effective Hong Kong Financial Reporting Standards. As a result, certain comparative figures for the year ended 31st December, 2005 have been restated.

For the year ended 31st December, 2006, the Group had consolidated the results of the subsidiaries carrying on manufacturing and trading of batteries products and related accessories, investment in securities holding and advance as well as sand mining activities in the People's Republic of China. The operation of sand mining was discontinued during the year following the Group Reorganisation.

The revenue of the Group for the year ended 31st December 2006 totaled HK\$32.8 million, a slight decrease of 1.2% from HK\$33.2 million as compared to the financial year ended in 2005. The revenue for the year was mainly generated from the manufacturing and trading of batteries products and related accessories. The production and sales in China's battery industry remained fairly stable in 2006 but the international competition in battery market remained keen and pricing was still under competitive pressure which had negatively impacted the revenue of the Group. The Group nevertheless continued to embark on new efficiency and cost cutting measures to minimise the effects of such negative external influences.

The consolidated net loss attributable to equity holders of the parent for the year ended 31st December 2006 decreased from approximately HK\$81.8 million for the same year ended in 2005 to approximately HK\$38.4 million in the current year of 2006. There was notable decrease in the areas of administrative expenses as well as other expenses which resulted from lower allowance for loans and interest receivables being recognized during the year. The net loss incurred for the current year was mainly attributable to the loss on dilution of interest in an associate.

Liquidity and financial resources

During the financial year of 2006, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and external borrowings. As at 31st December, 2006, the Group had working capital calculated by current assets less current liabilities of approximately HK\$0.2 million and the current ratio decreased to 1.00, compared with working capital of approximately HK\$755.7 million and current ratio of 3.68 as at 31st December 2005.

In the fiscal year of 2006, the net cash used in operating activities was approximately HK\$27.7 million compared with HK\$11.8 million used in operating activities in the same period of 2005. The net cash used in investing activities and used in financing activities in the fiscal year of 2006 was approximately HK\$58.3 million and HK\$15.7 million, respectively; compared with the net cash from investing activities approximately HK\$56.9 million and net cash used in financing activities HK\$45.4 million, respectively, in the same period of 2005.

The Group's short-term bank overdraft and bank borrowings increased from approximately HK\$8.6 million as at 31st December 2005 to approximately HK\$12.9 million as at 31st December 2006, representing an increase of 50%. There were no long-term bank loans and other borrowings as at 31st December 2006 and 31st December 2005. The gearing ratio, calculated to the total long-term borrowing bank loans and other borrowing divided by total shareholders' funds, remains nil as at 31st December 2006 and 31st December 2005. As at 31st December 2006, the Group's total borrowings of approximately HK\$12.9 million were mainly denominated in Hong Kong dollar, the maturity profile were all within one year, and bear interest at floating rates.

Capital expenditure aggregated to approximately HK\$34.2 million for the year ended 31st December 2006 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances and pledged bank deposits amounted to approximately HK\$10.1 million as at 31st December, 2006, and is mainly denominated in Hong Kong dollars. During the year ended 31st December 2006, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

SIGNIFICANT INVESTMENT

Super Energy Group Limited

Super Energy Group Limited ("Super Energy") is principally engaged in the manufacturing and trading of batteries products and related accessories. Its major products are the primary battery and the re-chargeable battery. Super Energy is also actively engaged in new product development by introducing the latest technology into its products.

Since 2004, all Super Energy batteries are manufactured in compliance with the standards of ISO 9001 and Super Energy provides full range of batteries free mercury and cadmium and proud to present its invention of "No Mercury Button Cell Battery" and "Lithium-Ion Battery" are representing high quality, high capacity and advance technology.

Over the years, Super Energy insists on quality production as the crucial path to gain reputation. In order to produce high quality and reliable batteries, high-level vertical integration is employed in our manufacturing process. Starting from electro-plating of metal case, plastic injection, all processes are manufactured and controlled by experienced teams.

A new factory is scheduled to set up in the coming year and occupy over 110,000 square meters. The new set up of the factory are fully equipped with advanced machinery based on the best combination of Japanese and European technologies and facilities. Direct and onsite supervision from our technical experts will ensure that highest quality and efficiency are achieved.

With the recovery of the world economy, the import and export of the battery products in China has increased. For the coming future, Super Energy aspires to achieving further growth in revenue by introducing more high margin products.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31st December, 2006, the Group employed approximately 165 staff, remuneration packages comprised of salary and year-end bonuses based on individual merits.

No options were granted or exercised during the year ended 31st December, 2006.

CORPORATE DEVELOPMENTS

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

Group Reorganisation

- (i) the Company continuing to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products and investments in securities;
- (ii) all other subsidiaries of the Company carrying on property development, investment holding business and vessels for sand mining business, and all other associates of the Company carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services were grouped under Group Dragon Investments Limited (“GDI”, a former wholly-owned subsidiary of the Company) and its subsidiaries and operated by the former management of the Company; and
- (iii) shares in GDI were distributed as dividend in specie to the then shareholders of the Company on the effective date of the Group Reorganisation, on the basis of one GDI share for every share in the Company after the shares consolidation pursuant to the capital reorganisation.

Capital Reorganisation

The Company has carried out the Capital Reorganisation during the year which involves, inter alia, the following:

- (i) subdivision of the Company’s shares into two shares of HK\$0.05 each;
- (ii) cancellation of the paid-up capital of 881,595,087 issued shares of HK\$0.05 each (“Capital Reduction”) and the cancellation of the entire share premium account of the Company;
- (iii) consolidation of two shares of HK\$0.05 each into one ordinary share of HK\$0.10 each;
- (iv) the credits of approximately HK\$44,080,000 and HK\$1,900,916,000 resulting from the Capital Reduction and the cancellation of the share premium account, respectively transferred to the special capital reserve account of the Company; and
- (v) such special capital reserve set off against the accumulated deficit of the Company as the date of the completion of the Group Reorganisation.

Details of the Group Reorganisation and the Capital Reorganisation are set out in the Company’s circular dated 10th September, 2005.

The abovementioned proposals relating to the Capital Reorganisation; and the Group Reorganisation have been completed on 18th May, 2006 and 19th May, 2006 respectively.

The Company had been informed by Hanny Holdings Limited (“Hanny”) and PYI Corporation Limited (“PYI”) that they have entered into the share sale agreement with Nation Field Limited (“Nation Field”) on 10th March, 2005 pursuant to which and subject to, inter alia, the implementation of the Group Reorganisation in full, Nation Field agreed to acquire 135,000,000 shares (equivalent to 67,500,000 consolidated shares of the Company upon the Capital Reorganisation having become effective) from each of Hanny and PYI, which shares represent approximately an aggregate of 30.6% of the issued share capital of the Company, for an aggregate consideration of HK\$52,110,000, equivalent to about HK\$0.193 per share (or HK\$0.386 per consolidated share). The share sale agreement has been completed on 24th May, 2006.

On 23rd March, 2006, China Enterprises Limited, a former non-wholly owned subsidiary of the Company, entered into an agreement with Wing On Travel (Holdings) Limited (“Wing On”) for the subscription of the 2% convertible exchangeable note issued by Wing On to the Group for the consideration of HK\$300,000,000 (the “Subscription”). The Subscription under an agreement constituted a major transaction for the Company under the Listing Rules. Accordingly, the Subscription and the transactions contemplated under the agreement were subject to the approval of the shareholders of the Company at general meeting. This transaction has been completed in June, 2006.

The composite offer document containing terms and details of the offer made by Kingston Securities Limited (“Kingston Securities”) on behalf of Nation Field to acquire all the issued shares in the Company other than those already owned by Nation Field and parties acting in concert with it, together with the acceptance form have been despatched to the shareholders of the Company on 26th May, 2006. The offer has been closed on 16th June, 2006.

Immediately following the close of the offer, the valid acceptance of 135,782,321 shares of the Company received under the offer, Nation Field and parties acting in concert with it, (including Hanny and PYI), owned or controlled an aggregate of 394,602,115 shares of the Company, representing approximately 89.52% of the issued share capital of the Company as at the date of close of offer (out of which 270,782,321 shares of the Company, representing approximately 61.43% of the issued share capital of the Company, are held by Nation Field) and there were 46,195,428 shares of the Company in the hands of the public, representing approximately 10.48% of the voting rights of the Company.

Given that the public of shares of the Company was less than 25% of the issued share capital of Company after the close of offer, the Company is required to suspend trading in the shares of the Company until the public float was restored as required under the Listing Rules.

On 29th January, 2007, Nation Field, a controlling shareholder of the Company, entered into the placing agreement (the “Placing Agreement”) with Kingston Securities. Pursuant to the Placing Agreement, Nation Field agreed to place, through Kingston Securities, an aggregate of 65,000,000 existing shares of the Company, on a fully underwritten basis, at a price of HK\$0.32 per placing share (the “Placing”).

Immediately after completion of the Placing, there were 111,195,428 shares of the Company in the hands of the public, representing approximately 25.23% of the issued shares of the Company. The Company confirmed that the public float of the shares of the Company had been restored. The trading of shares of the Company had resumed on 1st February, 2007.

PROSPECT

Following the issuance of the National Eleventh Five-Year Plan of the PRC in March 2006, the long-term stability and prosperity of Hong Kong was once again being brought to the headline of the Chinese Government.

To cope with such favorable regional economic atmosphere, the Group has once again taken the leading role among most medium-sized locally listed enterprises striving to be the frontier of re-positioning itself and to explore best investment opportunities for the long term benefit of our shareholders.

A sequence of fundamental reorganization in the corporate structure of the Group has been put forth and it is now at its most flexible and prepared posture for seizing whatever profitable and challenging investment opportunity that may come.

China remains to be the centerpoint of the Group's target investments. According to the National Development and Reform Commission of China, it is expected that the gross domestic product per capita of the country would reach 2,400 U.S. dollars in year 2010 (upon the completion of the National Eleventh Five-Year Plan) and China would then be even more powerful in its overall strength.

In addition, the country's average urban per capita disposable income would then be increased from the current level to RMB13,390 by year 2010, while rural per capita net income will rise from RMB3,587 to RMB4,110 (Sourced from: http://english.gov.cn/2006-03/08/content_246945.htm). Strong growth in personal consumption and other form of domestic consumption will bring forth the overall growth in its service industry including retailing and the logistics industry.

Moreover, upto 45 million jobs will be created in urban areas and the same number of farmers will be trained to take up industrial jobs in such five years. It is not only a news for the existing battery manufacturing and trading business of the Group but it also denotes a wide spectrum of investment opportunities the Group now faces.

Given all such favorable attractions, the management of the Group would maintain its prevailing conservative attitude towards new investments. Similar to those great years just passed, the management would consolidate its precious experience in corporate deals and investments to strive for the utmost interest of the Group and all its shareholders.

CONTINGENT LIABILITIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(a) Corporate guarantee given by the Company for banking facilities granted to:		
(i) an associate	8,000	8,000
Other guarantees issued to former associates	—	30,780
	<u>8,000</u>	<u>38,780</u>
(b) As at 31st December, 2005, the Company had granted a guarantee in favour of MTR Corporation Limited ("MTR") in respect of outstanding rent and obligation under the tenancy agreement entered into between Tung Fong Hung Medicine (Retail) Limited, a former wholly-owned subsidiary of the Company and MTR for the leased properties. As at 31st December, 2006, such guarantee has been released.		
(c) During the year ended 31st December, 2005 and 31st December, 2006, 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\$3,046,000 (2005: HK\$1,987,000) was utilised by that non-wholly owned subsidiary and no amount were utilised by an associate as at 31st December, 2006 and 31st December, 2005.		

PLEDGE OF ASSETS

- (a) As at 31st December, 2006, bank deposits of approximately HK\$1,078,000 (2005: HK\$1,036,000) was pledged to banks to secure credit facilities granted to the Group.
- (b) At 31st December, 2006, available-for-sale investments and investment held for trading with a carrying value of approximately HK\$64,476,000 (2005: HK\$30,787,000) and HK\$309,000 (2005: HK\$74,000) respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2006 and 31st December, 2005, no margin loan facility were utilised by the Group.
- (c) At 31st December, 2006, prepaid lease payment with a carrying value of approximately HK\$8,678,000 (2005: Nil) was pledged to secure short-term bank loan granted to the Group.

COMMITMENTS

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Contracted for but not provided in the financial statements in respect of		
(i) Acquisition of property, plant and equipment	14,562	–
(ii) Other assets	–	93,301
Authorised but not contracted for in respect of acquisition of property, plant and equipment	20,000	–
	<hr/> 34,562 <hr/>	<hr/> 93,301 <hr/>

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Company adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Based on specific enquiry of all the directors of the Company, the directors complied throughout the year in review with the required standards as set out in the Model Code.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2006, except for the following deviations:

1. Code Provision A.4.1. stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment as subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.
2. Code Provision E.1.2. stipulates that the chairman of the board should attend the annual general meeting. The Chairman was unable to attend the annual general meeting held on 29th June, 2006 as he had another engagement that was important to the business of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, financial reporting process and internal control matters including a review of the financial report for the year. The Audit Committee comprises three independent non-executive directors of the Company, Mr. Wong King Lam, Joseph, Mr. Sin Chi Fai and Ms. Ching Yuen Man, Angela.

ANNUAL GENERAL MEETING

The 2007 Annual General Meeting of the Company will be held on 6th June 2007. Notice convening the meeting will be issued in due course.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

LIST OF DIRECTORS OF THE COMPANY

As at the date of this announcement, the board of Directors comprises as below:–

Executive Directors:

Gao Yang
Kwok Ka Lap, Alva
Chan Ling, Eva

Independent non-executive Directors:

Wong King Lam, Joseph
Sin Chi Fai
Ching Yuen Man, Angela

By order of the Board
Gao Yang
Chairman

Hong Kong, 23rd April, 2007