



# CHINA STRATEGIC HOLDINGS LIMITED

## 中策集團有限公司

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

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

The directors of China Strategic Holdings Limited (the “Company”) announce that the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 together with comparative figures are as follows:–

#### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

		Six months ended 30th June,	
		2006	2005
	NOTES	HK\$'000	HK\$'000
		(unaudited)	(unaudited and restated)
<b>Continuing operations</b>			
Turnover		16,326	17,267
Cost of sales		(12,408)	(12,388)
Gross profit		3,918	4,879
Other income	4	24,894	63,883
Distribution costs		(966)	(2,038)
Administrative expenses		(19,706)	(29,201)
Other expenses	5	(13,914)	(91,833)
Change in fair value of conversion option of an unlisted convertible note		–	(39,743)
Gain on disposal of interests in associates		17,180	–
Loss on dilution of interests in associates		(65,762)	(2,754)
Share of results of associates		16,681	12,172
Finance costs		(7,114)	(8,480)
Loss before taxation	6	(44,789)	(93,115)
Taxation	7	3	(433)
Loss for the period from continuing operations		(44,786)	(93,548)
<b>Discontinued operation</b>			
Loss for the period from discontinued operation		(9,818)	–
Loss for the period		(54,604)	(93,548)

Attributable to:		
Equity holders of the parent	(33,801)	(81,501)
Minority interests	(20,803)	(12,047)
	<u>(54,604)</u>	<u>(93,548)</u>
Dividend	<u>1,179,307</u>	<u>–</u>
	<i>HK cents</i>	<i>HK cents</i>
<b>Loss per share</b>	8	
<b>From continuing and discontinued operations:</b>		
– Basic	<u>(7.7)</u>	<u>(18.5)</u>
– Diluted	<u>N/A</u>	<u>N/A</u>
<b>From continuing operations:</b>		
– Basic	<u>(5.5)</u>	<u>(18.5)</u>
– Diluted	<u>N/A</u>	<u>N/A</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
AT 30TH JUNE, 2006

	30.6.2006 <i>HK\$'000</i> (unaudited)	31.12.2005 <i>HK\$'000</i> (restated)
<b>Non-Current Assets</b>		
Property, plant and equipment	28,832	125,957
Prepaid lease payments	27,467	27,763
Goodwill	25,807	34,930
Interests in associates	–	558,738
Available-for-sale investments in securities	56,943	117,919
Deposit paid for acquisition of interest in properties	–	55,716
	<u>139,049</u>	<u>921,023</u>
<b>Current Assets</b>		
Other asset	–	229,288
Inventories	12,810	12,409
Trade receivables	6,318	4,773
Prepaid lease payments	620	620
Amounts due from associates	4,774	159,214
Loans and interest receivables	–	464,232
Other receivables, deposits and prepayments	5,905	42,909
Investments in securities held for trading	7,575	7,552
Available-for-sale investments in securities	4,925	–
Pledged bank deposit	1,056	1,036
Bank balances and cash	2,972	115,813
	<u>46,955</u>	<u>1,037,846</u>

<b>Current Liabilities</b>		
Trade payables, other payables and accrued charges	26,645	56,159
Payables	3,352	3,379
Amounts due to related companies	5,657	200,287
Amount due to an associate	–	286
Income tax payable	1,130	13,387
Bank and other borrowings	8,767	8,627
	<u>45,551</u>	<u>282,125</u>
<b>Net Current Assets</b>	<u>1,404</u>	<u>755,721</u>
<b>Total Assets less Current Liabilities</b>	<u>140,453</u>	<u>1,676,744</u>
<b>Non-Current Liabilities</b>		
Amount due to an associate	4,145	–
Deferred tax liabilities	–	21,175
	<u>4,145</u>	<u>21,175</u>
<b>Total Assets less Liabilities</b>	<u>136,308</u>	<u>1,655,569</u>
<b>Capital and Reserves</b>		
Share capital	44,080	88,160
Reserves	91,901	1,237,154
	<u>135,981</u>	<u>1,325,314</u>
Equity attributable to equity holders of the parent	135,981	1,325,314
Minority interests	327	330,255
	<u>136,308</u>	<u>1,655,569</u>

Notes:

## 1. GENERAL AND BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), amendments to Hong Kong Accounting Standards (“HKAS (Amendments)”) and Interpretations (“HK(IFRIC) – INTs”) (hereinafter collectively referred to as the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, 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 that have an effect on how the results for the current or prior accounting periods have been prepared and presented in the following area:

### ***Fair value option***

In the current period, 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 in the amount of approximately HK\$194,050,000 as available-for-sale financial assets which do not meet the conditions to be classified as at fair value through profit or loss on 1st January, 2005. An adjustment of approximately HK\$19,397,000 has been transferred from the Group's deficit to investment revaluation reserve as at 1st January, 2005.

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 financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 "Share-based Payment" <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.

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

The effects of changes in accounting policies described above on the results for the current and prior period are as follows:

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Increase in loss for the period:		
Increase in fair value changes on available-for-sale investment in securities (previously included in other income)	<b>19,354</b>	<b>1,987</b>

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

	<b>As at 1st January, 2005 (as originally stated) HK\$'000</b>	<b>Effect of HKAS 39 (Amendment) HK\$'000</b>	<b>As at 1st January, 2005 (as restated) HK\$'000</b>
Available-for-sale investments in securities	–	194,050	194,050
Investments in securities at fair value through profit or loss	194,050	(194,050)	–
Total effects on assets	<b>194,050</b>	<b>–</b>	<b>194,050</b>

Investment revaluation reserve	–	(19,397)	(19,397)
Deficit	(1,011,072)	19,397	(991,675)
Total effects on equity	(1,011,072)	–	(1,011,072)

### 3. SEGMENT INFORMATION

#### *Business segments*

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

	Continuing operations			Discontinued operation	Consolidated HK\$'000	
	Investment in securities holding and advance of receivables HK\$'000	Manufacturing and trading of battery products and related accessories HK\$'000	Others HK\$'000	Sub-total HK\$'000		Sand mining HK\$'000
<i>For the six months ended 30th June, 2006</i>						
TURNOVER						
External	–	16,326	–	16,326	2,726	19,052
RESULT						
Segment result	5,612	(1,498)	(1,548)	2,566	(9,818)	(7,252)
Unallocated corporate expenses				(8,340)	–	(8,340)
Gain on disposal of interests in associates	–	–	17,180	17,180	–	17,180
Loss on dilution of interests in associates	–	–	(65,762)	(65,762)	–	(65,762)
Share of results of associates	–	–	16,681	16,681	–	16,681
Finance costs	–	(443)	(6,671)	(7,114)	–	(7,114)
Loss before taxation				(44,789)	(9,818)	(54,607)
Taxation				3	–	3
Loss for the period				(44,786)	(9,818)	(54,604)

	Continuing operations			Consolidated HK\$'000
	Investment in securities holding and advance of receivables HK\$'000	Manufacturing and trading of battery products and related accessories HK\$'000	Others HK\$'000	
<i>For the six months ended 30th June, 2005</i>				
TURNOVER				
External	–	17,267	–	17,267

RESULT				
Segment result	<u>(39,921)</u>	<u>(131)</u>	<u>(3,684)</u>	(43,736)
Unallocated corporate expenses				(10,574)
Change in fair value of conversion option of unlisted convertible note	–	–	(39,743)	(39,743)
Loss on dilution of interests in associates	–	–	(2,754)	(2,754)
Share of results of associates	–	(136)	12,308	12,172
Finance costs	–	(303)	(8,177)	(8,480)
Loss before taxation				(93,115)
Taxation				<u>(433)</u>
Loss for the period				<u>(93,548)</u>

### Geographical segments

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

	Turnover	
	2006	2005
	HK\$'000	HK\$'000
Continuing operations:		
The People's Republic of China ("PRC"), other than Hong Kong	11,266	16,134
Hong Kong	5,060	1,133
	<u>16,326</u>	<u>17,267</u>
Discontinued operation:		
The PRC, other than Hong Kong	2,726	–
Total	<u>19,052</u>	<u>17,267</u>

### 4. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	22,819	29,489	–	–	22,819	29,489
Dividend income from available-for-sale investments in securities	687	519	–	–	687	519
Exchange gain	388	868	–	–	388	868
Changes in fair value on investments in securities held for trading	23	18,781	–	–	23	18,781
Gain on disposal of available-for-sale investments in securities	–	9,303	–	–	–	9,303
Others	977	4,923	97	–	1,074	4,923
	<u>24,894</u>	<u>63,883</u>	<u>97</u>	<u>–</u>	<u>24,991</u>	<u>63,883</u>

## 5. OTHER EXPENSES

	<u>Continuing operations</u>		<u>Discontinued operation</u>		<u>Consolidated</u>	
	Six months ended 30th June,					
	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>
Allowance for other receivables	5,372	18,550	-	-	5,372	18,550
Allowance for loans and interest receivables	6,282	73,283	-	-	6,282	73,283
Impairment loss recognised in respect of available-for-sale investments in securities	2,260	-	-	-	2,260	-
	<u>13,914</u>	<u>91,833</u>	<u>-</u>	<u>-</u>	<u>13,914</u>	<u>91,833</u>

## 6. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	<u>Continuing operations</u>		<u>Discontinued operation</u>		<u>Consolidated</u>	
	Six months ended 30th June,					
	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>
Amortisation of prepaid lease payments	296	260	-	-	296	260
Depreciation of property, plant and equipment	1,047	1,008	4,452	-	5,499	1,008
Impairment loss recognised in respect of goodwill	-	-	4,561	-	4,561	-
	<u>-</u>	<u>-</u>	<u>4,561</u>	<u>-</u>	<u>4,561</u>	<u>-</u>

## 7. TAXATION

	<u>Continuing operations</u>		<u>Discontinued operation</u>		<u>Consolidated</u>	
	Six months ended 30th June,					
	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>
The (credit) charge comprises taxation in other jurisdictions attributable to the Company and its subsidiaries	(3)	433	-	-	(3)	433
	<u>(3)</u>	<u>433</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>433</u>

No provision for Hong Kong Profits Tax has been made since there was no assessable profit arising in Hong Kong from the Group.

Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Group has no significant unrecognised deferred taxation at reporting dates or during both periods.

## 8. LOSS PER SHARE

### *From continuing and discontinued operations*

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

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss:		
Loss for the period attributable to equity holders of the parent for the purposes of basic and diluted loss per share	<u>33,801</u>	<u>81,501</u>

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
Number of shares:		
Weighted average 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 and diluted loss per share from continuing operations attributable to equity holders of the parent for the period is based on the following data:

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss:		
Loss for the period attributable to equity holders of the parent	33,801	81,501
Less: Loss for the period from discontinued operation attributable to equity holders of the parent	<u>9,480</u>	<u>–</u>
Loss for the purpose of basic and diluted loss per share from continuing operations	<u>24,321</u>	<u>81,501</u>

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>440,797,543</u>	<u>440,797,543</u>

The weighted average number of ordinary shares for the purposes of basic loss per share for the six months ended 30th June, 2005 was adjusted for the effect of the shares consolidation carried out by the Company during the period.

The following table summarises the impact on the basic loss per share from continuing and discontinued operations as a result of:

	<b>Six months ended 30th June,</b>	
	<b>2006</b>	2005
	<i>HK cents</i>	<i>HK cents</i>
Figures before adjustments	(3.3)	(18.0)
Adjustments arising from changes in accounting policies (see note 2)	<u>(4.4)</u>	<u>(0.5)</u>
Adjusted	<u>(7.7)</u>	<u>(18.5)</u>



No diluted loss per share has been presented for both periods as there were no dilutive potential ordinary shares in issue.

## **9. COMPARATIVE INFORMATION**

In accordance with the application of HKAS 39 (Amendment) “The fair value option”, other income for the six months ended 30th June, 2005 has been restated by an amount of HK\$1,987,000.

### **INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006 (2005: Nil).

However, pursuant to the Group Reorganisation, shares in Group Dragon Investments Limited (“GDI”), were distributed as dividend in specie to the shareholders of the Company on the basis of one GDI share for every share in the Company after the Capital Reorganisation. The amount of dividend in specie, approximately HK\$1,179,307,000, representing the net assets value of GDI, was distributed on 19th May, 2006, which is the completion date of the Group Reorganisation.

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **Analysis of the Group’s performance**

During the period, the Group had consolidated the results of the subsidiaries carrying on property development, investment holding business and sand mining business, and equity accounted for the results of all other associates of the Group carrying on the manufacturing and marketing of tires and business of providing package tour, travel and other related services up to the date until the Group Reorganisation took effect.

The turnover of the Group for the six months ended 30 June 2006 totaled HK\$16.3 million, decreased slightly 5.8% from HK\$17.3 million from the same period in 2005. The turnover for the period was generated from the manufacturing and trading of batteries products. Although the production and sales in China’s battery industry maintained steady growth in 2006, there were lower volumes driven by weaker demand from some core customers which have negatively impact the revenue of the Group as the international competition in battery market has become more intense.

The unaudited consolidated net loss attributable to equity holders of the Company for the six months ended 30 June 2006 decreased from approximately HK\$81.5 million for the same period in 2005 to approximately HK\$33.8 million in the current period of 2006. The notable improvement was noted in the decrease in other expenses which resulted from lower allowance for loans and interest receivables being recognised during the period. The net loss incurred for the current period was mainly attributable to the general and administrative expenses as well as the loss on dilution of interest in associates.

#### **Liquidity and financial resources**

During the first half of fiscal 2006, the Group financed its operations mainly through cash generated from its business activities and banking facilities provided by its principal bankers. As at 30th June 2006, the Group had working capital calculated by current assets less current liabilities of approximately HK\$1.4 million and the current ratio decreased to 1.03, compared with working capital of approximately HK\$755.7 million and current ratio of 3.68 as at 31st December 2005.

In the first half of fiscal 2006, the net cash provided by operating activities was approximately HK\$7.8 million compared with HK\$215.5 million provided by operating activities in the same period of 2005. The net cash used in investing activities and provided by financing activities in the first half of fiscal 2006 was approximately HK\$134.0 million and HK\$9.3 million, respectively; compared with approximately HK\$79.8 million and HK\$14.9 million, respectively.

The Group's short-term bank loans and other borrowings slightly increased from approximately HK\$8.6 million as at 31st December 2005 to approximately HK\$8.8 million as at 30th June 2006, representing an increase of 2.3%. There were no long-term bank loans and other borrowings as at 30th June 2006 and 31st December 2005. Gearing ratio which is expressed as a ratio of total long-term liabilities and other borrowings to the shareholders' funds, remains nil as at 30th June 2006 and 31st December 2005. As at 30th June 2006, the Group's total borrowings of approximately HK\$8.8 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\$14.7 million for the six months ended 30th June 2006 was mainly used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK\$4.0 million as at 30th June 2006, and is mainly denominated in Hong Kong dollars. During the six months ended 30th June 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 production and sales of batteries and battery-related accessories. Its major products are the primary battery and the re-chargeable battery. Super Energy is also actively engaged in new product development by introducing the latest technology into its products. Over the past years, Super Energy has managed research and development delicately towards creating advanced manufacturing technologies in order to enhance the quality of the batteries. The excellent research and development capabilities and stringent quality control have also enabled it to become an original equipment manufacturer with solid and reputable track record.

Since 2004, all Super Energy's batteries have been manufactured in compliance with the standards of International Organization for Standardization 9001 and provide full range of batteries free of mercury and cadmium and proud to present its invention of "No Mercury Button Cell Battery" and "Lithium-Ion Battery" that represent high quality, high capacity and advance technology.

A new factory is currently under construction and occupies the area over 110,000 square meters. The new factory is fully equipped with advanced machineries based on the best combination of Japanese and European technologies and facilities. Direct and onsite supervision from our technical experts will ensure that the 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 remainder of fiscal 2006, we aspire to achieving further growth in revenue by increasing advertising campaigns and plans to rapidly expand new production to meet customer demand. In fact, management is focusing our sales and product development resources towards the growing markets and will support the growth by devoting resources to operational efficiencies, customer satisfaction, capacity planning, and employee development. Operating performance is one of our highest priorities, as it is the delivery of superior products and quality service that customers expect from our Group.

## **PROSPECTS**

Following the issuance of the National Eleventh Five-Year Plan of the People's Republic of China 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 last year's 10,493 yuan renminbi to 13,390 yuan renminbi, while rural per capita net income will rise from 3,255 yuan renminbi to 4,110 yuan renminbi (Sourced from: [http://english.gov.cn/2006-03/08/content\\_246945.htm](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.

## **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, would result in below.

### **Group Reorganisation**

- (i) the Company continuing to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments;
- (ii) all other subsidiaries of the Company carrying on property development, vessels for sand mining and investment holding 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 being grouped under Group Dragon Investments Limited ("GDI"), and its subsidiaries; and
- (iii) the distribution in specie of the GDI share to the shareholders of the Company whose names appear on the register of members of the Company on the record date on the basis of one GDI share for one consolidated share of the Company.

### **Capital Reorganisation**

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

- (i) subdivision of the Company's shares into two shares of HK\$0.05 each;
- (ii) consolidation of two shares of HK\$0.05 each into one ordinary share of HK\$0.10 each;
- (iii) cancellation of the paid-up capital of 440,797,544 issued shares of HK\$0.10 each ("Capital Cancellation") and the cancellation of the entire share premium account of the Company;
- (iv) the credits of approximately HK\$44,080,000 and HK\$1,900,916,000 resulting from the Capital Cancellation 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 at the date of 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 constitutes a major transaction for the Company under the Listing Rules. Accordingly, the Subscription and the transactions contemplated under the agreement are 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 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 upon 4:00 p.m. 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 are 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 float of shares of the Company is 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 is restored as required under the Listing Rules.

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

As at 30th June, 2006 the Group employed approximately 370 staff. Remuneration packages comprised of salary and year-end bonus based on individual merits.

No share options were granted or exercised during the six months ended 30th June, 2006.

## COMMITMENTS

At 30th June, 2006, the Group had the following commitments in respect of acquisition of property, plant and equipment:

	<b>30.6.2006</b> <i>HK\$'000</i>	31.12.2005 <i>HK\$'000</i>
Contracted for but not provided in the interim financial report	<u>20,841</u>	<u>–</u>
Authorised but not contracted for	<u>106,455</u>	<u>–</u>

## PLEDGE OF ASSETS

At 30th June, 2006, listed equity securities with a carrying value of approximately HK\$47,045,000 (31.12.2005: HK\$30,861,000) were pledged to secure margin account credit facilities and banking facilities granted to the Group. No facility was utilised by the Group as at 30th June, 2006.

At 30th June, 2006, bank deposit of approximately HK\$1,056,000 (31.12.2005: HK\$1,036,000) was also pledged to secure credit facilities granted to the Group.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 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 of the Company comprises Mr. Wong King Lam, Joseph, Mr. Sin Chi Fai and Ms. Ching Yuen Man, Angela who are Independent Non-Executive Directors. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial report for the six months ended 30th June, 2006.

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

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

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises Mr. Gao Yang, Mr. Kwok Ka Lap, Alva and Ms. Chan Ling, Eva as executive directors and Mr. Wong King Lam, Joseph, Mr. Sin Chi Fai and Ms. Ching Yuen Man, Angela as independent non-executive directors.

By Order of the Board

**Gao Yang**

*Chairman*

Hong Kong, 26th September, 2006