

CHINA SCI-TECH HOLDINGS LIMITED



**CHINA SCI-TECH
HOLDINGS LIMITED**

(Incorporated in Cayman Islands with limited liability)

Interim Report

2003-2004

UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of China Sci-Tech Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2004 with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004 – Unaudited

	Notes	Six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000
Turnover	3	1,604	366
Other operating income		394	348
Unrealised (loss) gain on investments in securities		(40,434)	15,311
Realised loss on investments in securities		(3,436)	–
Administrative expenses and other operating expenses		(4,471)	(3,370)
Deficit on revaluation of investment properties		–	(2,880)
(Loss) profit from operations	4	(46,343)	9,775
Gain (loss) on disposal of subsidiaries	5	7,547	(5,829)
Finance costs	6	(279)	(1,021)
(Loss) profit before taxation		(39,075)	2,925
Taxation	7	(28)	(82)
Net (loss) profit for the period		<u>(39,103)</u>	<u>2,843</u>
(Loss) earnings per share – basic	8	<u>HK(0.33) cent</u>	<u>HK0.05 cent</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

		30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	10	161	223
Investment properties	11	22,200	22,200
Investments in securities	12	39,200	19,200
		<u>61,561</u>	<u>41,623</u>
Current assets			
Other receivables, deposits and prepayments		5,929	20,809
Investments in securities	12	60,154	70,674
Bank balances and cash		27,995	6,493
		<u>94,078</u>	<u>97,976</u>
Current liabilities			
Other payables and accrued charges		1,321	3,517
Amounts due to directors		–	233
Taxation payable		573	573
		<u>1,894</u>	<u>4,323</u>
Net current assets		<u>92,184</u>	93,653
Total assets less current liabilities		<u>153,745</u>	135,276
Non-current liabilities			
Amount due to a related company		–	6,006
Convertible notes	13	10,906	21,747
		<u>10,906</u>	<u>27,753</u>
Net assets		<u>142,839</u>	<u>107,523</u>
Capital and reserves			
Share capital	14	121,874	83,481
Share premium and reserves		20,965	24,042
Shareholders' funds		<u>142,839</u>	<u>107,523</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2004 – Unaudited*

	Share capital	Share premium	Capital reserve	Other capital reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2003	58,068	–	7,700	396,347	(337,415)	124,700
Issue of new shares	11,500	11,500	–	–	–	23,000
Net profit for the period	–	–	–	–	2,843	2,843
Balance at 30 September 2003						
and 1 October 2003	69,568	11,500	7,700	396,347	(334,572)	150,543
Issue of new shares	13,913	6,957	–	–	–	20,870
Expense incurred in connection with issue of new shares	–	(513)	–	–	–	(513)
Net loss for the period	–	–	–	–	(63,377)	(63,377)
Balance at 31 March 2004						
and 1 April 2004	83,481	17,944	7,700	396,347	(397,949)	(107,523)
Issue of new shares						
– from share subscription	33,393	30,052	–	–	–	63,445
– from exercise of convertible notes	5,000	6,000	–	–	–	11,000
Expense incurred in connection with issue of new shares	–	(26)	–	–	–	(26)
Net loss profit for the period	–	–	–	–	(39,103)	(39,103)
Balance at 30 September 2004	121,874	53,970	7,700	396,347	(437,052)	142,839

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2004 – Unaudited*

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Net cash used in operating activities	(9,275)	(3,833)
Net cash used in investing activities	(32,330)	(37,732)
Net cash from financing activities	63,107	42,341
	<hr/>	<hr/>
Net increase in cash and cash equivalents	21,502	776
Cash and cash equivalents at the beginning of the period	6,493	827
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	27,995	1,603
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	27,995	1,603
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investments properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 March 2004.

3. SEGMENT INFORMATION

Geographical segments

The Group is engaged in the corporate and strategic investment holding and investment in property. Corporate and strategic investment holding represents the investments in securities. The directors of the Company consider the geographical segments by location of assets as source of the Group's risks and return.

A geographical breakdown of the Group's turnover and segment results by geographical market is as follows:

	(Unaudited)			
	Six months ended 30 September			
	Turnover		Segment results	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The People's Republic of China (the "PRC") other than Hong Kong	288	120	4	32
Hong Kong	1,316	246	(46,347)	9,743
	<u>1,604</u>	<u>366</u>		
(Loss) profit from operations			(46,343)	9,775
Gain (loss) on disposal of subsidiaries			7,547	(5,829)
Finance costs			(279)	(1,021)
(Loss) profit before taxation			<u>(39,075)</u>	<u>2,925</u>

Business segment

An analysis of segment revenue is as follows:

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Corporate and strategic investment holding:		
Dividend income from listed investments in securities	690	246
Interest income from held-to-maturity debt securities	626	-
	<u>1,316</u>	<u>246</u>
Rental income from investment properties	288	120
	<u>1,604</u>	<u>366</u>

4. (LOSS) PROFIT FROM OPERATIONS

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Depreciation	62	65
and after crediting:		
Interest income	1,020	–
Dividend income from investments in securities	690	246
	<u>690</u>	<u>246</u>

5. GAIN (LOSS) ON DISPOSAL OF SUBSIDIARIES

During the period, the Group disposed of its entire interests in certain subsidiaries. The gain (loss) on disposal of subsidiaries is computed as follows:

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Net (liabilities) assets disposal of:		
Property, plant and equipment	–	12
Land held for development	–	53,000
Trade and other receivables	–	1,013
Bank balances and cash	–	34
Amount due to a related company	(6,132)	–
Other payables and accrued charges	(1,415)	(6,272)
	<u>(7,547)</u>	47,787
Gain (loss) on disposal of subsidiaries	<u>7,547</u>	<u>(5,829)</u>
Cash consideration received	<u>–</u>	<u>41,958</u>

6. FINANCE COSTS

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years:		
Other loans	(1)	(832)
Amount due to a related company	(126)	(189)
Convertible notes	(119)	–
	<u>(246)</u>	<u>(1,021)</u>
Amortisation of the issue costs of convertible notes	(33)	–
	<u>(279)</u>	<u>(1,021)</u>

7. TAXATION

The taxation charge for the period represents taxation in jurisdictions other than Hong Kong calculated at the rates prevailing in the PRC.

No provision for Hong Kong Profits Tax has been made in the condensed financial statements since the Company and its subsidiaries did not have any assessable profits arising in Hong Kong for both periods.

8. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the net loss for the period of approximately HK\$39,103,000 (six months ended 30 September 2003: net profit of HK\$2,843,000) and on the weighted average number of shares of 11,708,454,234 (six months ended 30 September 2003: 6,290,649,785) shares in issue during the period.

No diluted (loss) earnings per share figures have been presented for either 2004 or 2003 because the exercise price of the Company's share options which were terminated in January 2004 was higher than the average market price of the Company's shares in 2003; and the exercise of the convertible notes which were issued in March 2004 would result in a decrease in the loss per share in 2004.

9. INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 September 2004 (six months ended 30 September 2003: Nil).

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group did not acquire any property, plant and equipment (1.4.2003 to 31.3.2004: HK\$7,000).

11. INVESTMENT PROPERTIES

The Group's investment properties are situated in the PRC under medium term leases and are stated at the valuation estimated by the directors of the Company with reference to the market condition.

12. INVESTMENTS IN SECURITIES

	30.9.2004 (Unaudited) HK\$'000	31.3.2004 (Audited) HK\$'000
Trading securities listed in Hong Kong and carried at market value	60,154	70,674
Unlisted non-trading securities and carried at fair value	19,200	19,200
Held-to-maturity debt securities	20,000	–
	<u>99,354</u>	<u>89,874</u>
Carrying amount analysed for reporting purposes as:		
Non-current	39,200	19,200
Current	60,154	70,674
	<u>99,354</u>	<u>89,874</u>

13. CONVERTIBLE NOTES

	<i>HK\$'000</i>
Convertible notes	
At 1 April 2004	22,000
Exercised during the period	<u>(11,000)</u>
At 30 September 2004	<u>11,000</u>
Issue costs	
At 1 April 2004	253
Released during the period	(126)
Amortised during the period	<u>(33)</u>
At 30 September 2004	<u>94</u>
Carrying value	
At 31 March 2004	<u>21,747</u>
At 30 September 2004	<u>10,906</u>

14. SHARE CAPITAL

	Number of ordinary shares	Issued and fully paid share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Balance as at 1 April 2004	8,348,124,004	83,481
Issue of shares		
– from share subscription	3,339,248,000	33,393
– from exercise of convertible notes	500,000,000	5,000
Balance as at 30 September 2004	<u>12,187,372,004</u>	<u>121,874</u>

- (a) On 30 March 2004, an agreement was entered into by Sunderland Properties Limited (“Sunderland”), a substantial shareholder of the Company, and a placing agent (the “Placing Agent”) for a placement of 1,669,624,000 existing shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share to not less than six independent investors on a fully underwritten basis.

On the same date, Sunderland also entered into a subscription agreement with the Company to subscribe for 1,669,624,000 new shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share. The subscription was completed on 13 April 2004. These shares ranked *pari passu* with the then existing share in all respects. The net proceeds of the subscription was used for investments in securities.

- (b) On 30 March 2004, the Company entered into an agreement with the Placing Agent for the placement of 1,669,624,000 ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share on a fully underwritten basis. The placement was completed on 7 May 2004 and these shares rank *pari passu* in all respects with the then existing shares of the Company. The net proceeds of the placement was retained for general working capital purposes.
- (c) On 16 April 2004, a holder of the convertible notes of the Company exercised its rights to convert an amount of HK\$11,000,000 convertible notes into 500,000,000 ordinary shares of HK\$0.01 each in the capital of the Company at a conversion price of HK\$0.022 per share. The newly issued shares rank *pari passu* in all respects with the then existing shares of the Company.

15. PENDING LITIGATION

- (a) On 1 September 1999, a former officer of the Company entered into a supply contract with an independent third party (the "Supplier") for the supply of 20,000 cable modems for a total consideration of US\$6,000,000 (approximately HK\$46,560,000), purportedly on behalf of the Company. On 8 September 1999, the Company announced that the supply contract was entered into without being properly authorised by the Company and, therefore, disputed the validity of the contract. On the same day, the Company issued a legal letter to the Supplier confirming that the Company would not recognise the supply contract and it should not be binding on the Company. The Supplier is claiming damages of a sum of US\$3.6 million (approximately HK\$28 million) in respect of the Group's failure to take delivery of the cable modems.

Having considered legal counsel's advice, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

- (b) On 6 December 1999, Mr. Yeung Kang Lam ("Mr. Yeung"), who was appointed and subsequently resigned as a director of the Company during the year ended 31 March 2000, filed a High Court proceeding against the Company for a sum of HK\$932,958 and damages, interest and costs arising from the termination of an alleged employment letter which was signed between Mr. Yeung and Mr. Chiu, a former director of the Company. The directors of the Company consider that since no board meeting was ever called to approve the alleged employment letter of Mr. Yeung and the alleged remuneration relating thereto, the Company disputes the validity of the alleged employment letter. On 23 February 2000, the Company filed its defence against the claim.

Having considered legal counsel's advice, the directors of the Company believe that the Company has a favourable defence to the allegation. Accordingly, the directors of the Company consider that no provision for the claim alleged by Mr. Yeung is necessary.

16. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Interest expenses payable to a related company	<u>126</u>	<u>189</u>

The above transactions were carried out after negotiations between the Group and the related parties with reference to the estimated market rates and actual costs incurred.

17. POST BALANCE SHEET EVENT

- (a) Pursuant to a placing agreement dated 10 November 2004 entered into between the Company and Kingston Securities Limited ("Kingston"), the Company agreed to place the convertible notes which are proposed to be issued in an aggregate principal amount of HK\$49.95 million and bear interest at a rate of 3% per annum, payable semi-annually to independent investors, subject to the approval of The Stock Exchange of Hong Kong Limited and of the shareholders. The net proceeds of the placement will be used to finance part of the consideration for the acquisition mentioned in the following paragraph (b). However, if the acquisition is completed before the completion of this placing agreement, the net proceeds will then be retained as general working capital.
- (b) Pursuant to a sale and purchase agreement dated 10 November 2004 entered into between Zeal Advance Limited ("Zeal Advance"), a wholly-owned subsidiary of the Company, and the vendors, Zeal Advance agreed to acquire the entire interest in Tian Yang (H.K.) Company Limited ("Tian Yang") at an aggregate consideration of HK\$60 million. Tian Yang is incorporated in Hong Kong which holds 25% equity interest in Shijiazhuang Shuanghuan Automobile Co. Ltd 石家莊雙環汽車有限公司, subject to relevant authority approval.
- (c) On 24 November 2004, holders of the convertible notes of the Company exercised their rights to convert the remaining principal amount of HK\$11,000,000 convertible notes into 550,000,000 ordinary shares of the Company at a conversion price of HK\$0.02 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover for the six months ended 30 September, 2004 (the "Period") was HK\$1,604,000 representing approximately 338.25% increase as compared to the corresponding period in year 2003. The increase is mainly due to the increase in dividend income and interest income from its investments in securities which accounted for 82% of the total turnover. Volatile of the market performance gave pressure on the performance of the Group's investments in securities. As a result, realised and unrealised loss on investments in securities amounted to HK\$43,870,000 whereas an unrealised gain on investment in securities in the amount of HK\$15,311,000 was recorded for the same period in preceding year. The Company has a conservative view of the market direction. The volatile of the market seems to be prolonged for a period of time as many factors such as continuation of political argument and fluctuation of the oil price and the exchange rate of US dollar will affect the market sentiment. The financial costs for the Period was decrease from HK\$1,021,000 for the corresponding period in 2003 to HK\$279,000 for the Period representing a 72.67% decrease. Such decrease was attributable to the decrease of loan interest expenses. As at 30 September 2004, the Group had no borrowing from banks or financial institutions. Overall, net loss for the Period was HK\$39,103,000 whereas a net profit of HK\$2,843,000 was recorded for the corresponding period in 2003.

As at 30 September 2004, the Group had bank balance and cash of HK\$27,995,000 and total investments in securities of HK\$99,354,000 at fair value. The net book value of convertible notes was HK\$10,906,000 as at 30 September 2004. The convertible notes were issued on 29 March 2004 and is unsecured. They bear interest at a rate of 2% per annum payable semi-annually and mature on the second anniversary of the date of issue of the convertible notes. Other than the convertible notes, there was no borrowing and loan from banks or financial institutions as at 30 September 2004. The gearing ratio was 7.64% based on the net book value of the convertible notes in the amount of HK\$10,906,000 and the shareholders' funds in the amount of HK\$142,839,000. The convertible notes holders exercised their rights to convert all the remaining principal amount of the convertible redeemable notes into 550,000,000 ordinary shares of the Company at a conversion price of HK\$0.02 per share on 24 November 2004. The Company has given a guarantee of HK\$50 million to a financial institution for credit facilities granted to a subsidiary. No facilities were utilised at 30 September 2004.

The Group had 5 staff as at 30 September 2004. The staff costs (excluding directors' emoluments) amounted to approximately HK\$581,000 for the Period. Staff remuneration packages are normally reviewed annually. The Group has participated

in the Mandatory Provident Fund Scheme. In addition, the Group provides other staff benefits which include double pay and medical benefits. As the share option scheme was terminated in January 2004, the Group did not renew the share option scheme. Thus, no share option had been granted during the Period.

On 10 November 2004, a sale and purchase agreement was entered into between Zeal Advance Limited, a wholly owned subsidiary of the Company, as purchaser and Mr. Liu Wentan and Mr. Qi Zhousha as vendors to acquire vendors' entire shares in Tian Yang (H.K.) Company Limited ("Tian Yang") at a total consideration of HK\$60,000,000. Tian Yang is incorporated in Hong Kong which holds 25% equity interest in Shijazhuang Shuanghuan Automobile Co. Ltd. 石家莊雙環汽車有限公司 ("Shuanghuan") (the "Acquisition"). Shuanghuan, a foreign investment enterprise incorporated in PRC, is principally engaged in manufacturing, integrating and sales of sport light truck, and sales of auto parts with encouraging increasing sales in recent few years. The long stop date for this Acquisition will be 31 January 2005. Details of the Acquisition were disclosed in the Company's announcement dated 18 November 2004.

On 10 November 2004, a placing agreement was entered in between the Company and Kingston Securities Limited as placing agent to place convertible notes in an aggregate principal amount of HK\$49,950,000. The convertible notes bear interest at a rate of 3% per annum, payable semi-annually to notes holders. The net proceeds of the placement will be used to finance part of the consideration for the Acquisition. However, if the Acquisition is completed before the completion of this placing agreement, the net proceeds will be retained as general working capital. The long stop date for this placing agreement will be 31 January 2005. Details of the placing of convertible notes were disclosed in the Company's announcement dated 18 November 2004.

The Group has been looking for potential business opportunity to diversify its investments to reduce the market risk and to improve its earnings capacity in long run. With the economic growth and improvement of the living standard in PRC, cars are considered to be popular durable goods. The demand of cars is increasing. The automobile market in PRC after rapid growth for many years is entering into a steady growth stage. According to the Chinese Automobile Industry Forum 2004, the growth rate of the automobile industry is around 15% to 20%. However, the penetration rate remains comparatively low. Pursuant to the Standard and Poor report, there was only 0.95 car for per every 100 households in 2003. Thus, the Acquisition provides an opportunity to start its investment in the car manufacturing industry in the PRC. The Group can be further benefited from the growth of the industry as the Acquisition also secure a further investment opportunity for the Group to invest in Shuanghuan up to 50% of the interest in Shuanghuan. The Acquisition will strengthen the earning base of and bring growth to the Group in the year ahead.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, none of the directors and chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be recorded in the register required to be kept under section 352 of the SFO; or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the interests or short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of shares	Convertible notes (Note 1)	Percentage holding	Notes
Kaison Limited	1,669,624,000	–	13.70%	2
Sunderland Properties Limited	1,337,330,000	–	10.97%	3
Dollar Group Limited	608,000,000	330,000,000	7.70%	4
Dr. Ho Hung Sun Stanley	935,750,000	–	7.35%	
Everfull International Limited	834,812,000	–	6.84%	5

Notes:

1. The convertible notes of an aggregate amount of HK\$22,000,000 of the Company was issued on 29 March 2004 with interest at 2% per annum. The adjusted conversion price is HK\$0.02 per share. During the period, HK\$11,000,000 convertible notes were converted.
2. Kaison Limited is ultimately and beneficially owned by Ms. Guo Bingli & Mr. Zhao Zhigang as to 50% and 50% respectively.
3. Sunderland Properties Limited is ultimately and beneficially owned by Mr. Eugene Chuang Yue-chien.
4. Dollar Group Limited is ultimately and beneficially owned by Heritage International Holdings Limited.
5. Everfull International Limited is ultimately and beneficially owned by Hebei Enterprises Limited.

All the interest stated above represented long positions in the shares of the Company as at 30 September 2004, there were no short positions recorded in the register required to be kept under section 336 of the SFO.

CODE OF THE BEST PRACTICE

The independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation at the Company's annual general meeting, as specified by the Company's articles of association. In the opinion of the directors, this meets the same objective as the Code of Best Practice set out in the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Save as aforesaid, none of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

REVIEW BY AUDIT COMMITTEE

The 2004 Interim report has been reviewed by the Company's auditors, Deloitte, Touche & Tohmatsu and the Company's audit committee.

As at the date of this interim report, the Board of the Company comprises Mr. Chiu Kong, Mr. Kwan Kam Hung, Jimmy, Mr. Hui Richard Rui and Mr. Wang Guangtian as Executive Directors, and Mr. Ong Peter, Mr. Miu Frank H. and Mr. Yu Pan as Independent Non-executive Directors.

By order of the Board
Wang Guangtian
Director

Hong Kong, 23 December 2004