Interim Report 2005

CHINA SCI-TECH HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chiu Kong *(Chairman)*
Mr. Kwan Kam Hung, Jimmy
Mr. Wang Guangtian
Mr. Hui Richard Rui

Independent Non-executive Directors

Mr. Miu Frank H.
Mr. Yu Pan
Ms. Tong So Yuet

COMPANY SECRETARY

Mr. Au Yeung Shiu Kau, Peter

REGISTERED OFFICE

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Caledonian House
Mary Street
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Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 4503, 45th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Harbour Trust Company Limited
One Regis Place
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

985

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 2005 with the comparative figures as restated for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2005

		Six months ended 30 September	
		2005	2004
		(Unaudited)	(Unaudited and restated)
	Notes	***HK$'000***	*HK$'000*
Turnover	*4*	**3,038**	1,604
Other operating income		**290**	394
Net unrealised loss arising on fair value changes of investments held for trading		**(71,975)**	–
Net unrealised loss on investments in securities		**–**	(40,434)
Net realised gain on investments held for trading		**1,325**	–
Net realised loss on investments in securities		**–**	(3,436)
Net gains on derivative financial instruments		**2,026**	–
Gain arising from redemption of convertible note receivables		**1,518**	–
Gain arising from redemption of convertible notes		**699**	–
Impairment loss recognised in respect of available-for-sale investment		**(4,190)**	–
Administrative expenses and other operating expenses		**(6,370)**	(4,471)
Loss from operations		**(73,639)**	(46,343)
Gain on disposal of subsidiaries		**–**	7,547
Finance costs	*5*	**(3,921)**	(550)
Share of results of an associate		**8,003**	–
Loss before taxation	*6*	**(69,557)**	(39,346)
Taxation	*7*	**(43)**	(28)
Loss for the period		**(69,600)**	(39,374)
Loss per share – basic	*8*	**HK(4.05) cents**	HK(3.36) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2005

	Notes	As at 30 September 2005 (Unaudited) HK$'000	As at 31 March 2005 (Audited and restated) HK$'000
Non-current assets			
Property, plant and equipment		**52**	109
Investment properties	10	**21,600**	21,600
Interest in an associate	11	**69,951**	61,948
Investments in securities	12	**–**	25,100
Available-for-sale investment		**910**	–
Convertible note receivables – loan portion		**19,883**	–
		112,396	108,757
Current assets			
Other receivables, deposits and prepayments		**7,861**	8,165
Investments held for trading	12	**116,227**	–
Investments in securities	12	**–**	114,952
Derivative financial instruments		**1,582**	–
Bank balances and cash		**105,667**	214,429
		231,337	337,546
Current liabilities			
Other payables and accrued charges		**1,931**	1,801
Amounts due to directors		**320**	300
Taxation payable		**632**	632
Derivative financial instruments		**405**	–
		3,288	2,733
Net current assets		**228,049**	334,813
Total assets less current liabilities		**340,445**	443,570

	Notes	**As at 30 September 2005 (Unaudited)** *HK$'000*	As at 31 March 2005 (Audited and restated) *HK$'000*
Non-current liabilities			
Convertible notes	*13*	**68,077**	96,380
		68,077	96,380
Net assets		**272,368**	347,190
Capital and reserves			
Share capital	*14*	**171,748**	171,748
Share premium and reserves		**100,620**	175,442
Equity attributable to equity holders of the Company		**272,368**	347,190

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005

	Share capital	Share premium	Capital reserve	Other capital reserve	Convertible notes equity reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2005							
– As originally stated	171,748	168,166	7,700	396,347	–	(408,039)	335,922
– Effects of changes in accounting policies *(see note 3)*	–	346	–	–	11,541	(619)	11,268
At 31 March 2005, restated	171,748	168,512	7,700	396,347	11,541	(408,658)	347,190
– Effects of changes in accounting policies *(see note 3)*	–	–	–	–	–	(1,531)	(1,531)
At 1 April 2005, as restated	171,748	168,512	7,700	396,347	11,541	(410,189)	345,659
Redemption of convertible notes	–	–	–	–	(3,691)	–	(3,691)
Loss for the period	–	–	–	–	–	(69,600)	(69,600)
At 30 September 2005	**171,748**	**168,512**	**7,700**	**396,347**	**7,850**	**(479,789)**	**272,368**
At 1 April 2004							
– As originally stated	83,481	17,944	7,700	396,347	–	(397,949)	107,523
– Effects of changes in accounting policies	–	–	–	–	1,989	–	1,989
– As restated	83,481	17,944	7,700	396,347	1,989	(397,949)	109,512
Issue of new shares							
– from share subscription	33,393	30,052	–	–	–	–	63,445
– from exercise of convertible notes	5,000	6,000	–	–	(966)	–	10,034
Expenses incurred in connection with issue of new shares	–	(26)	–	–	–	–	(26)
Loss for the period (restated)	–	–	–	–	–	(39,374)	(39,374)
At 30 September 2004	121,874	53,970	7,700	396,347	1,023	(437,323)	143,591

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2005

	Six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(3,660)**	(9,275)
Net cash used in investing activities		
Purchases of investments held for trading	**(91,970)**	(33,350)
Proceeds from disposal of investments held for trading	**20,618**	–
Others	**–**	1,020
	(71,352)	(32,330)
Net cash (used in) from financing activities		
Redemption of convertible notes	**(33,750)**	–
Proceeds from issue of shares	**–**	63,107
	(33,750)	63,107
Net (decrease) increase in cash and cash equivalents	**(108,762)**	21,502
Cash and cash equivalents at the beginning of the period	**214,429**	6,493
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**105,667**	27,995

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. *BASIS OF PREPARATION*

The condensed 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 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 financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values or revalued amounts, as appropriate.

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

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

Business combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 "Business Combinations" to goodwill acquired in business combinations for which the agreement date was before 1 January 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods goodwill arising on acquisitions after 1 April 2001 was capitalised and amortised over its estimated useful life. The Group has discontinued amortising such goodwill from 1 April 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible loan notes issued that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. Comparative loss for 2004 has been restated in order to reflect the increase in effective interest on the liability component.

Classification and measurement of financial assets and financial liabilities

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

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period.

From 1 April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Unquoted equity investments of which the fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

2. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

On 1 April 2005, the Group reclassified its "investments in securities" with carrying amount of HK$114,952,000 classified under current assets to "investments held for trading". With respect to "investments in securities" with carrying amount of HK$25,100,000 classified under non-current assets, the Group reclassified them to "convertible note receivables – loan portion" of HK$18,232,000, embedded derivatives which are not closely related to the loan portion of the convertible note receivables are classified as "derivative financial instruments" of HK$237,000 and "available-for-sale investment" of HK$5,100,000 respectively, with an opening adjustment of HK$1,531,000 made on accumulated losses.

From 1 April 2005 onwards, loan portion of the convertible note receivables is carried at amortised cost using the original effective interest method at subsequent balance sheet date. Embedded derivatives which are not closely related to the loan portion is carried at fair value at each balance sheet date, with changes in fair value recognised in profit or loss.

Financial assets and financial liabilities other than debt and equity securities

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

Derivatives

From 1 April 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. There was no significant impact resulted on the profit of prior period and no prior period adjustment is necessary.

3. *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:

	Six months ended 30 September	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Decrease in amortisation of goodwill in respect of an associate	**575**	–
Gain on derivative financial instruments	**1,452**	–
Gain arising from redemption of convertible note receivables	**1,518**	–
Effect of recognition of effective interest income on convertible note receivables – loan portion	**57**	–
Gain arising from redemption of convertible notes	**699**	–
Increase in effective interest expense on the liability component of convertible notes	**(1,615)**	(271)
Decrease (increase) in loss for the period	**2,686**	(271)

The cumulative effects of the application of the new HKFRSs on 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (originally stated)	**Adjustments**	**As at 31 March 2005 (restated)**	**Adjustments**	**As at 1 April 2005 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items					
Investments in securities – non-current	25,100	–	25,100	(25,100)	–
Investments in securities – current	114,952	–	114,952	(114,952)	–
Convertible note receivables – loan portion	–	–	–	18,232	18,232
Derivative financial instruments	–	–	–	237	237
Available-for-sale investment	–	–	–	5,100	5,100
Investments held for trading	–	–	–	114,952	114,952
Convertible notes – liability component	(107,648)	11,268	(96,380)	–	(96,380)
Convertible notes reserve equity	–	(11,541)	(11,541)	–	(11,541)
Share premium	(168,166)	(346)	(168,512)	–	(168,512)
Net effects		(619)		(1,531)	

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards and interpretations that have been issued but not yet effective.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

4. *SEGMENT INFORMATION*

(a) 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:

	Turnover		**Segment results**	
	Six months ended 30 September		**Six months ended 30 September**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The People's Republic of China (the "PRC") other than Hong Kong	**509**	288	**315**	4
Hong Kong	**2,529**	1,316	**(73,954)**	(46,347)
	3,038	1,604		
Loss from operations			**(73,639)**	(46,343)
Gain on disposal of subsidiaries			**–**	7,547
Share of results of an associate			**8,003**	–
Finance costs			**(3,921)**	(550)
Loss before taxation			**(69,557)**	(39,346)

4. SEGMENT INFORMATION *(Continued)*

(b) Business segment

An analysis of segment revenue is as follows:

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Corporate and strategic investment holding:		
Dividend income from listed investments held for trading	**1,123**	690
Interest income	**1,406**	626
	2,529	1,316
Rental income from investment properties	**509**	288
	3,038	1,604

5. FINANCE COSTS

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Other loans	**–**	(1)
Amount due to a related company	**–**	(126)
Convertible notes	**(3,921)**	(423)
	(3,921)	(550)

6. LOSS BEFORE TAXATION

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Depreciation	**57**	62
Share of tax of an associate	**2,718**	–
and after crediting:		
Interest income	**1,431**	1,020
Dividend income from investments in securities	**1,123**	690
Commission income	**200**	–

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 PER SHARE

The calculation of basic loss per share is based on the loss for the period of approximately HK$69,600,000 (six months ended 30 September 2004: loss of HK$39,374,000) and on the weighted average number of shares of 1,717,484,600 (six months ended 30 September 2004: 1,170,845,423 adjusted for 10 to 1 share consolidation effective in March 2005) shares in issue during the period.

No diluted loss per share figures have been presented for either 2005 or 2004 because the exercise of the convertible notes would result in a decrease in the loss per share in 2005 and 2004.

9. INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 September 2005 (six months ended 30 September 2004: Nil).

10. 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. All of the Group's property interest held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

11. INTEREST IN AN ASSOCIATE

	HK$'000
Share of net assets	56,265
Goodwill	
At 31 March 2005	13,801
Elimination of amortisation accumulated upon the adoption of HKFRS 3	(115)
At 1 April 2005 and 30 September 2005	13,686
Amortisation	
At 31 March 2005	115
Elimination of amortisation accumulated upon the adoption of HKFRS 3	(115)
At 1 April 2005	–
Goodwill at 31 March 2005 and 30 September 2005	13,686
Carrying values	
At 30 September 2005	69,951
At 31 March 2005	61,948

12. INVESTMENTS HELD FOR TRADING/INVESTMENTS IN SECURITIES

On 1 April 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39 which is effective for annual periods beginning on or after 1 January 2005. Investments in securities which were previously classified as trading securities with carrying amount of HK$114,952,000 were reclassified to investments held for trading on 1 April 2005. With respect to investments in securities with carrying amount of HK$25,100,000 classified under non-current assets, the Group reclassified them to convertible note receivables – loan portion of HK$18,323,000, derivative financial instruments of HK$237,000 and available-for-sale investment of HK$5,100,000 with an adjustment of HK$1,531,000 made to the accumulated losses on 1 April 2005.

13. CONVERTIBLE NOTES

	HK$'000
Convertible notes	
At 31 March 2005, as originally stated	107,648
Effect of changes in accounting policies	(11,268)
At 1 April 2005, as restated	96,380
Finance costs	2,455
Redeemed during the period	(30,758)
At 30 September 2005	68,077

14. SHARE CAPITAL

	Number of ordinary shares	Issued and fully paid share capital
		HK$'000
Ordinary shares of HK$0.1 each		
Balance as at 1 April 2005 and 30 September 2005	1,717,484,600	171,748

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 date, 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

In prior period, the Group entered into the following transactions with related parties, in current period, the Group did not enter into any related parties transactions.

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Interest expenses payable to a related company	**–**	126

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.

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	**735**	50

17. POST BALANCE SHEET EVENT

In October 2005, the Company borrowed two loans from two financial institutions in the amount of HK$15,000,000 and HK$25,000,000 respectively. The loans bear interest at prime rate plus 5% and are due in October 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover for the six months period ended 30 September 2005 (the "Period") was approximately HK$3.04 million. Compared with the corresponding period in the year 2004, there was an increase by approximately HK$1.43 million. The increase is mainly attributable to the increase of interest income from financial institutions and dividend income from securities investment which aggregately represents approximately 83.2% of total turnover. As the occupancy rate of investment properties increased during the Period, rental income also increased from approximately HK$0.29 million in the corresponding period in last year to approximately HK$0.51 million for the Period. Rental income will continue to provide a steady cashflow to the Group. As the Group's securities investment was not satisfactory, net realised and unrealised losses on investments held for trading for the Period was approximately HK$70.65 million. Net realised and unrealised losses on investments held for trading (classified as investments in securities in previous period) for the same period in preceding year was approximately HK$43.87. In addition, the Group recorded an impairment loss of available-for-sale investment in an amount of approximately HK$4.19 million due to unsatisfactory performance. Factors like fluctuation of oil price, increase in interest rate and movement of United States economy are having influence to the atmosphere and direction of the market. The Group recorded a gain arising from redemption of convertible note receivables of approximately HK$1.52 million and a gain arising from redemption of convertible notes of approximately HK$0.70 million as a result of adoption of new Hong Kong Accounting Standard 39 and Hong Kong Accounting Standard 32. Finance costs increased from approximately HK$0.55 million for the six months ended 30 September 2004 to approximately HK$3.92 million for the Period. The reason of such increase is mainly due to the increase in interest expenses for the outstanding convertible notes during the Period as two convertible notes were issued in January and March of 2005. The administration expenses of the Group for the Period amounted to approximately HK$6.37 million which included expenses relating to the acquisition of interest of and further capital increase in Shijazhuang Shuanghuan Autombile Co. Limited. 石家莊雙環汽車有限公司 ("Shuanghuan"), a foreign investment enterprise incorporated in the PRC which is principally engaged in manufacturing, integrating and sales of sport light vehicles, and sales of auto parts. The Group shared the results of this associate, Shuanghuan, for the Period was approximately HK$8.00 million. Overall, net loss for the Period was approximately HK$69,60 million as compared to the net loss of approximately HK$39.37 million of the same period in preceding year.

As at 30 September 2005, the Group had cash and investments held for trading of approximately HK$221.89 million. Fair value of investments held for trading was in an amount of approximately HK$116.23 million. Furthermore, the Group held an available-for-sale investment and a convertible note receivables of approximately HK$0.91 million and HK$19.88 million respectively as at 30 September 2005. The latter was subsequently fully redeemed in December 2005. During the Period, the Group had two unsecured convertible notes originally issued on 31 January 2005 and 31 March 2005 with outstanding principal amount of HK$16.20 million and HK$60.00 million respectively. They bear 3% interest rate per annum and mature on the third anniversary of date of issue. As at 30 September 2005, the carrying values of the convertible notes was approximately HK$68.08 million. Save for the abovementioned convertible notes, the Group had no borrowing and loan from banks or financial institutions as at 30 September 2005. The gearing ratio as at 30 September 2005 was approximately 25% based on the carrying values of convertible notes in the amount of approximately HK$68.08 million and the shareholders' fund in the amount of HK$272.37 million.

The Group had 6 staff as at 30 September 2005. The staff costs (excluding directors' emoluments) was around HK$0.76 million for the Period. Staff remuneration package are normally reviewed annually. The Group has participated in Mandatory Provident Fund Scheme. In addition, the Group provides other staff benefits which include double pay and medical benefits. The Group has no share option scheme.

On 1 April 2005, an agreement was entered into among Shuanghuan, Tian Yang (H.K.) Company Limited ("Tian Yang") (a wholly owned subsidiary of the Company) and Shijiazhuang Shuanghuan Automobile Company Limited ("Shuanghuan Holding") to increase the registered capital of Shuanghuan from USD4.98 million to USD35.18 million (the "Agreement"). Tian Yang agreed to contribute USD30.20 million to Shuanghuan to increase its shareholding from 25% to 50% (the "Capital Increase"). Of the USD30.20 million, approximately USD19.24 million will be financed by internal resource. The remaining balance will be financed by external sources, including but not limited to bank borrowing and further fund raising. Details of the Capital Increase were disclosed in the Company's announcement dated 14 April 2005 and the circular dated 6 June 2005. An ordinary resolution for approving the Capital Increase was passed by the independent shareholders at the extraordinary general meeting on 23 June 2005. However, as the undertaking given on 8 January 2005 by Shuanghuan Holding to obtain approval from the PRC government to extend the period of Shuanghuan's joint venture agreement to not earlier than 28 December 2017 (the "Extension") within six months from the date of the undertaking (details of the undertaking were disclosed in the Company's announcement dated 10 November 2004 and circular dated 31 December 2004 in respect of the acquisition of 25% interest in Shuanghuan) could not be fulfilled, and the approval of Capital Increase from relevant PRC government authorities could not be obtained on or before 31 July 2005 (being the long stop date of the Agreement) because of encountering resistance from the relevant PRC government authorities in respect of the approval of the profit guarantee given by Shuanghuan and Shuanghuan Holding in the agreement (the "Profit Guarantee"). Thus, on 29 July 2005, an extension letter to extend the deadline for Extension for three more months and a supplemental agreement to extend the long stop date from 31 July 2005 to 31 October 2005 were signed by relevant parties. Details of which were disclosed in the Company's announcement dated 29 July 2005.

On 28 September 2005, the Company announced that the relevant PRC government authorities did not approve the Profit Guarantee; therefore, the condition precedents set out in the Agreement could not be fulfilled. After negotiation, Shuanghuan, Tian Yang and Shuanghuan Holding entered into a second supplemental agreement on the even date (the "Second Supplemental Agreement"). The Second Supplemental Agreement is mainly to remove the Profit Guarantee, to further extend the long stop date to 30 April 2006 and to reduce the amount to be injected by the Company from US$30.20 million to US$28.689 million. Details of which were disclosed in the Company's announcement dated 28 September 2005. The circular regarding the Second Supplemental Agreement is expected to be despatched on or before 27 January 2006. The Company will make appropriate announcement if the circular cannot be despatched on time.

Although the PRC automobile market is sluggish and competition is getting fierce recently, the Group is still optimistic on our investment in Shuanghuan. If the Capital Increase can be successfully completed, it will strengthen the earning base of and bring growth to the Group in the years ahead. The increase of investment properties' occupancy rate will also be expected to bring more rental income to the Group and thus will continue to contribute cashflow to the Group. The Group will continue to explore potential business opportunities in order to improve its earning capacity in the long run.

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

As at 30 September 2005, 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 ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, 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 of Shareholder	Number of Shares	Approximate percentage of the Company's issued share capital
Kaison Limited *(note 1)*	369,741,400	21.53%
Radford Capital Investment Limited *(note 2)*	98,466,200	5.73%
Dr. Ho Hung Sun Stanley	93,575,000	5.44%

Notes:

1. Kaison Limited is beneficially owned by Mr. Zhao Zhigang and Ms. Guo Bingli as to 50% and 50% respectively.

2. Pursuant to the Corporate Substantial Shareholder Notice filed by Radford Capital Investment Limited dated 26 May 2005, the 98,466,200 shares of the Company were held by Winning Horsee Limited, a wholly owned subsidiary of Radford Capital Investment Limited which shares are listed on the Stock Exchange.

All the interest stated above represented long positions in the shares of the Company as at 30 September 2005, there were no short positions recorded in the register required to be kept under section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has, during the six months ended 30 September 2005 met the code provisions set out in the Code on Corporate Governance Practices (the " Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the following deviations:

(a) Code provision A.4.1

Non-executive directors are not appointed for a specific term. The Company is in the process of setting the term of appointment for each non-executive director.

(b) Code provision A.4.2

The Code requires every director should be subject to retirement by rotation at least once every three years (the "Rotation Period Restriction"). The Chairman of the Company is not subject to retirement by rotation and the Company's articles of association does not contain that Rotation Period Restriction. The Company intends to amend the articles of association of the Company to comply with this Code provision, and the relevant resolutions for amending the articles of association are expected to be proposed at the next annual general meeting of the Company.

(c) Code provision A.5.4

The Code requires written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers ("Written Guidelines") for relevant employees in respect of their dealings in the securities of the Company should be established. On 28 December 2005, Written Guidelines were established.

(d) Code provision B.1.1

Remuneration committee has not been set up yet. The Company is in the process of establishing a Remuneration Committee with appropriate composition and terms of reference.

(e) Code provision C.3.3

The Code requires the terms of reference of the audit committee should include certain minimum duties. On 28 December 2005, the terms of reference of the audit committee were revised to include all the duties set out in Code provision C.3.3.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding director's securities transactions. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model code during the six months ended 30 September 2005.

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 2005 Interim report has been reviewed by the Company's auditors, Deloitte Touche Tohmatsu and the Company's audit committee which comprises the three independent non-executive directors of the Company.

By order of the Board
Hui Richard Rui
Director

Hong Kong, 29 December 2005