



Sino Katalytics Investment Corporation

德泰中華投資有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 2324)

**2005** Interim Report

## Corporate Information

### Board of Directors

#### *Executive Directors*

Chui Tak Keung, Duncan  
Yau Chung Hong  
Chow Ka Wo, Alex

#### *Non-executive Director*

Ma Kwok Keung, Kenneth

#### *Independent Non-executive Directors*

Lam Kwan  
Chan Ming Sun, Jonathan  
Shiu Siu Tao

### Company Secretary

Chan Kwan Pak

### Members of the Audit Committee

Lam Kwan  
Chan Ming Sun, Jonathan  
Shiu Siu Tao

### Authorised Representatives

Chui Tak Keung, Duncan  
Chan Kwan Pak

### Custodian

Standard Chartered Bank  
15th Floor, Standard Chartered Tower  
388 Kwun Tong Road  
Kwun Tong  
Kowloon  
Hong Kong

### Investment Manager

Guotai Junan Assets (Asia) Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road  
Central  
Hong Kong

### Auditors

BDO McCabe Lo Limited

### Hong Kong Share Registrar and Transfer Office

Tengis Limited  
Level 25  
Three Pacific Place  
1 Queen's Road East  
Hong Kong

**Principal Banker**

Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road  
Central  
Hong Kong

**Registered Office**

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
GT George Town  
Grand Cayman  
British West Indies

**Principal Place of Business in Hong Kong**

Suites 403-404  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

**Legal Advisers to the Company**

*As to Hong Kong law*  
Chiu & Partners  
41st Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

*As to Cayman Islands law*  
Conyers Dill & Pearman, Cayman  
Century Yard  
Cricket Square  
Hutchins Drive  
George Town  
Grand Cayman  
British West Indies

**Stock Code**

2324

## **Interim Financial Statements**

The board of directors (the “Board”) of Sino Katalytics Investment Corporation (the “Company”) (formerly known as “China Northern Enterprises Investment Fund Limited”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2005 (the “Period”). The unaudited consolidated interim financial statements (the “Interim Financial Statements”) have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee (the “Audit Committee”).

## Condensed Consolidated Profit and Loss Account

|  | <i>Note</i> | Six months<br>ended<br>31-12-2005<br>(Unaudited)<br>HK\$ | Six months<br>ended<br>31-12-2004<br>(Unaudited)<br>HK\$ |
|--|-------------|--|--|
| TURNOVER   | 2           | <b>22,012,188</b>  | 27,254,979   |
| Cost of sales  |             | <b>(22,006,092)</b>                                      | (28,155,667)   |
| Gross profit/(loss)  |             | <b>6,096</b>   | (900,688)  |
| Other income   | 2           | <b>692,070</b>   | 244,831  |
| Unrealised gains on other<br>financial assets at fair value<br>through profit and loss |             | <b>7,188,533</b>   | —  |
| Unrealised holding gains<br>on other investments                                       |             | —  | 2,838,759  |
| Operating and administrative<br>expenses   |             | <b>(2,997,402)</b>                                       | (5,035,040)  |
| PROFIT/(LOSS) FROM<br>OPERATIONS   |             | <b>4,889,297</b>   | (2,852,138)  |
| Finance costs  | 4           | <b>(257,697)</b>   | (22,181)   |
| Profit/(loss) before taxation  | 4           | <b>4,631,600</b>   | (2,874,319)  |
| Taxation   | 5           | —  | —  |
| PROFIT/(LOSS) ATTRIBUTABLE<br>TO THE EQUITY HOLDERS<br>OF THE COMPANY                  |             | <b>4,631,600</b>   | (2,874,319)  |
| EARNINGS/(LOSS) PER SHARE  |             |  |  |
| Basic  | 7           | <b>5.97 cents</b>  | (5.3 cents)  |
| Diluted  | 7           | <b>N/A</b>   | N/A  |

## Condensed Consolidated Balance Sheet

|  |             | <b>31-12-2005</b><br><b>(Unaudited)</b><br><b>HK\$</b> | 30-06-2005<br>(Audited)<br>HK\$ |
|--|-------------|--|---------------------------------|
|  | <i>Note</i> |  |                                 |
| <b>NON-CURRENT ASSETS</b>                                    |             |  |                                 |
| Property, plant and equipment                                | 8           | <b>1,044,920</b>                                       | 1,122,074                       |
| Interest in an associate                                     |             | <b>179,460</b>   | 179,460                         |
| Investments in securities                                    | 9           | —  | 7,000,000                       |
|  |             | <b>1,224,380</b>                                       | 8,301,534                       |
| <b>CURRENT ASSETS</b>  |             |  |                                 |
| Available-for-sale financial assets                          | 10          | <b>31,460,000</b>                                      | —                               |
| Other financial assets at fair value through profit and loss | 11          | <b>14,323,193</b>                                      | —                               |
| Investments in securities                                    | 9           | —  | 20,982,845                      |
| Amounts due from a related company                           |             | <b>5,500</b>   | 7,600                           |
| Prepayment, deposits and other receivables                   |             | <b>11,462,179</b>                                      | 9,791,373                       |
| Cash and cash equivalents                                    |             | <b>4,244,787</b>                                       | 3,314,730                       |
|  |             | <b>61,495,659</b>                                      | 34,096,548                      |
| <b>TOTAL ASSETS</b>  |             | <b>62,720,039</b>                                      | 42,398,082                      |
| <b>CURRENT LIABILITIES</b>                                   |             |  |                                 |
| Accruals and other payables                                  |             | <b>2,263,429</b>                                       | 998,613                         |
| Amount due to a director                                     | 13          | <b>630,000</b>   | 135,000                         |
| Obligation under finance lease                               |             | <b>113,333</b>   | 113,333                         |
|  |             | <b>3,006,762</b>                                       | 1,246,946                       |

**Condensed Consolidated Balance Sheet** (Continued)

|   |             | <b>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | 30-06-2005<br>(Audited)<br>HK\$ |
|---|-------------|--|---------------------------------|
|   | <i>Note</i> |  |                                 |
| <b>NON-CURRENT LIABILITIES</b>                                    |             |  |                                 |
| Amounts due to a related company                                  | 14          | <b>6,842,934</b>                           | 6,116,250                       |
| Obligation under finance lease                                    |             | <b>255,000</b>                             | 311,667                         |
|   |             | <b>7,097,934</b>                           | 6,427,917                       |
| <b>TOTAL LIABILITIES</b>  |             | <b>10,104,696</b>                          | 7,674,863                       |
| <b>TOTAL NET ASSETS</b>   |             | <b>52,615,343</b>                          | 34,723,219                      |
| <b>CAPITAL AND RESERVES</b>                                       |             |  |                                 |
| Share capital   | 12          | <b>868,409</b>                             | 742,000                         |
| Reserves  |             | <b>51,746,934</b>                          | 33,981,219                      |
| <b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b> |             | <b>52,615,343</b>                          | 34,723,219                      |

## Condensed Consolidated Statement of Changes in Equity

|                                    | Issued<br>capital<br>HK\$ | Share<br>premium<br>HK\$ | Accumulated<br>losses<br>HK\$ | Equity<br>attributable to<br>equity holders<br>and total<br>HK\$ |
|------------------------------------|---------------------------|--------------------------|-------------------------------|--|
| At 1 July 2005<br>(Audited)        | 742,000                   | 56,862,230               | (22,881,011)                  | 34,723,219   |
| Issuance of shares                 | 126,409                   | 13,778,591               | —                             | 13,905,000   |
| Share issue expenses               | —                         | (644,476)                | —                             | (644,476)  |
| Net profit for the Period          | —                         | —                        | 4,631,600                     | 4,631,600  |
| At 31 December 2005<br>(Unaudited) | <b>868,409</b>            | <b>69,996,345</b>        | <b>(18,249,411)</b>           | <b>52,615,343</b>  |
|                                    | Issued<br>capital<br>HK\$ | Share<br>premium<br>HK\$ | Accumulated<br>losses<br>HK\$ | Equity<br>attributable to<br>equity holders<br>and total<br>HK\$ |
| At 1 July 2004<br>(Audited)        | 530,000                   | 46,320,000               | (13,630,653)                  | 33,219,347   |
| Issuance of shares                 | 106,000                   | 4,876,000                | —                             | 4,982,000  |
| Share issue expenses               | —                         | (74,730)                 | —                             | (74,730)   |
| Net loss for the Period            | —                         | —                        | (2,874,319)                   | (2,874,319)  |
| At 31 December 2004<br>(Unaudited) | <b>636,000</b>            | <b>51,121,270</b>        | <b>(16,504,972)</b>           | <b>35,252,298</b>  |



**Condensed Consolidated Cashflow Statement**

|  | <b>Six months<br/>ended<br/>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | Six months<br>ended<br>31-12-2004<br>(Unaudited)<br>HK\$ |
|--|---|--|
| Net cash outflow from operating activities                   | <b>(13,401,895)</b>   | (3,803,656)  |
| Net cash outflow from investing activities                   | <b>(93,589)</b>   | (202,346)  |
| Net cash inflow from financing activities                    | <b>14,425,541</b>   | 4,907,270  |
| <b>INCREASE IN CASH AND<br/>CASH EQUIVALENTS</b>             | <b>930,057</b>  | 901,268  |
| <b>CASH AND CASH EQUIVALENTS<br/>AT 1 JULY</b>               | <b>3,314,730</b>  | 3,465,426  |
| <b>CASH AND CASH EQUIVALENTS<br/>AT 31 DECEMBER</b>          | <b>4,244,787</b>  | 4,366,694  |
| <b>ANALYSIS OF BALANCES OF CASH AND<br/>CASH EQUIVALENTS</b> |   |  |
| Bank balances and cash on hand                               | <b>4,244,787</b>  | 4,366,694  |

## Notes to Interim Financial Statements

For the six months ended 31 December 2005

### 1. Principal Accounting Policies

Basis of preparation and significant accounting policies

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

The Interim Financial Statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

These Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the audited financial statements of the Group for the year ended 30 June 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRS”, which also include HKAS and interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

|         |   |
|---------|---|
| HKAS 1  | Presentation of Financial Statements                            |
| HKAS 7  | Cash Flow Statements  |
| HKAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after Balance Sheet Date                                 |
| HKAS 12 | Income Taxes  |
| HKAS 17 | Leases  |
| HKAS 18 | Revenue   |
| HKAS 19 | Employee Benefits   |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates                |
| HKAS 24 | Related Party Disclosures                                       |
| HKAS 26 | Accounting and Reporting by Retirement Benefit Plans            |
| HKAS 32 | Financial Instruments: Disclosure and Presentation              |
| HKAS 33 | Earnings Per Share  |

**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**1. Principal Accounting Policies** (Continued)

Basis of preparation and significant accounting policies (Continued)

|         |  |
|---------|--|
| HKAS 36 | Impairment of Assets                                     |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measure           |

The adoption of the above HKFRSs has no material impact in the accounting policies and results of the Group except that of HKAS 32 and HKAS 39.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition, disclosure and presentation of financial instruments. At 30 June 2005, investments of the Group were classified as investments in securities, and were stated in the balance sheet at cost less any provision for impairment losses and fair value respectively. In accordance with the provision of HKAS 39, the investments have been classified into available-for-sale financial assets, and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. HKAS 39 does not permit to recognize, derecognize and measure financial assets in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investment in securities" to investment in securities and also to hedge relationships for the 2004 comparative information.

The adoption of HKAS 39 resulted in the following adjustments to the balance sheet at 31 December 2005:

|  | Six months ended<br>31-12-2005<br>(Unaudited)<br>HK\$ |
|--|---|
| Increase in available-for-sale financial assets                            | 7,000,000   |
| Decrease in investments in securities (non-current)                        | (7,000,000)   |
| Increase in other financial assets at<br>fair value through profit or loss | 14,323,193  |
| Decrease in investments in securities (current)                            | (14,323,193)  |

**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**2. Turnover and other income**

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of turnover and other income is as follows:

|  | <b>Six months<br/>ended<br/>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | Six months<br>ended<br>31-12-2004<br>(Unaudited)<br>HK\$ |
|--|---|--|
| Turnover   |   |  |
| Sale of other financial assets/<br>investments in securities                       | <b>22,012,188</b>   | 27,254,979   |
| Other income   |   |  |
| Dividend income from other<br>financial assets/investments<br>in listed securities | <b>71,270</b>   | 190,384  |
| Interest income  | <b>620,800</b>  | 41,637   |
| Others   | —   | 12,810   |
|  | <b>692,070</b>  | 244,831  |
|  | <b>22,704,258</b>   | 27,499,810   |

**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**3. Segment information**

The Group is principally engaged in investing in listed and unlisted companies, no analysis by business segment for the Period is provided.

In determining the Group's geographical segments, assets are attributed to the segments based on the location of assets.

The following table presents certain assets and expenditure information for the Group's geographical segments:

|                            | Hong Kong         |                   | People's Republic<br>of China |                   | Others           |                  | Consolidated      |                   |
|----------------------------|-------------------|-------------------|-------------------------------|-------------------|------------------|------------------|-------------------|-------------------|
|                            | At                | At                | At                            | At                | At               | At               | At                | At                |
|                            | 31-12-05          | 30-06-05          | 31-12-05                      | 30-06-05          | 31-12-05         | 30-06-05         | 31-12-05          | 30-06-05          |
|                            | (Unaudited)       | (Audited)         | (Unaudited)                   | (Audited)         | (Unaudited)      | (Audited)        | (Unaudited)       | (Audited)         |
|                            | HK\$              | HK\$              | HK\$                          | HK\$              | HK\$             | HK\$             | HK\$              | HK\$              |
| Segment assets             | 17,853,866        | 12,531,648        | 42,263,520                    | 27,672,924        | 2,423,193        | 2,014,050        | 62,540,579        | 42,218,622        |
| Interest in an associate   | 179,460           | 179,460           | —                             | —                 | —                | —                | 179,460           | 179,460           |
| <b>Total assets</b>        | <b>18,033,326</b> | <b>12,711,108</b> | <b>42,263,520</b>             | <b>27,672,924</b> | <b>2,423,193</b> | <b>2,014,050</b> | <b>62,720,039</b> | <b>42,398,082</b> |
| Segment liabilities        | 10,104,696        | 7,674,863         | —                             | —                 | —                | —                | 10,104,696        | 7,674,863         |
| Other segment information: |                   |                   |                               |                   |                  |                  |                   |                   |
| Capital expenditure        | 93,589            | 1,307,764         | —                             | —                 | —                | —                | 93,589            | 1,307,764         |
| Depreciation               | 170,743           | 267,531           | —                             | —                 | —                | —                | 170,743           | 267,531           |

**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**4. Profit/(loss) before taxation**

The Group's profit/(loss) before taxation has been arrived at after charging/(crediting) the following:

|  | <b>Six months<br/>ended<br/>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | Six months<br>ended<br>31-12-2004<br>(Unaudited)<br>HK\$ |
|--|---|--|
| Charging:  |   |  |
| Total staff costs (including directors' remuneration)                            | <b>971,045</b>  | 1,359,800  |
| Depreciation on property, plant and equipment                                    |   |  |
| – owned assets   | <b>90,743</b>   | 93,809   |
| – leased assets  | <b>80,000</b>   | —  |
| Operating lease rentals of land and building                                     | <b>276,318</b>  | 138,216  |
| Loss on disposal of plants and equipments  | —   | 370,464  |
| Interest on borrowings   | <b>257,697</b>  | 22,181   |
| Crediting:   |   |  |
| Unrealised gains on other financial assets at fair value through profit and loss | <b>(7,188,533)</b>  | —  |
| Unrealised holding gains on other investments                                    | —   | (2,838,759)  |

**5. Taxation**

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not generate any assessable profits during the Period (2004: NIL).

**6. Dividend**

The directors do not recommend the payment of an interim dividend for the Period (2004: Nil).

## Notes to Interim Financial Statements (Continued)

For the six months ended 31 December 2005

### 7. Earnings/(Loss) per share

The calculation of earnings per share is based on the Group's profit attributable to the shareholders of HK\$4,631,600 (2004: Loss of HK\$2,874,319) and on the weighted average number of 77,584,724 (2004: 54,613,043) ordinary shares in issue during the Period.

There were no dilutive shares during the periods ended 31 December 2005 and 31 December 2004 respectively, therefore, no dilutive earnings/(loss) per share has been presented during the Period.

### 8. Property, plant and equipment

|                                    | Leasehold<br>improvement<br>HK\$ | Furniture<br>& fixtures<br>HK\$ | Office<br>equipment<br>HK\$ | Computer<br>equipment<br>HK\$ | Motor<br>vehicle<br>HK\$ | Total<br>HK\$ |
|------------------------------------|----------------------------------|---------------------------------|-----------------------------|-------------------------------|--------------------------|---------------|
| Cost                               |                                  |                                 |                             |                               |                          |               |
| At 1 July 2005<br>(audited)        | 467,504                          | 159,395                         | 13,212                      | 16,940                        | 640,000                  | 1,297,051     |
| Additions                          | 36,500                           | 23,889                          | 17,400                      | 15,800                        | —                        | 93,589        |
| At 31 December 2005<br>(unaudited) | 504,004                          | 183,284                         | 30,612                      | 32,740                        | 640,000                  | 1,390,640     |
| Accumulated depreciation           |                                  |                                 |                             |                               |                          |               |
| At 1 July 2005 (audited)           | 37,892                           | 9,433                           | 2,769                       | 4,883                         | 120,000                  | 174,977       |
| Charge for the period              | 62,240                           | 21,172                          | 3,239                       | 4,092                         | 80,000                   | 170,743       |
| At 31 December 2005<br>(unaudited) | 100,132                          | 30,605                          | 6,008                       | 8,975                         | 200,000                  | 345,720       |
| Net Book Values                    |                                  |                                 |                             |                               |                          |               |
| At 31 December 2005<br>(unaudited) | 403,872                          | 152,679                         | 24,604                      | 23,765                        | 440,000                  | 1,044,920     |
| At 30 June 2005<br>(audited)       | 429,612                          | 149,962                         | 10,443                      | 12,057                        | 520,000                  | 1,122,074     |

The carrying amount of the Group's motor vehicle includes an amount of HK\$440,000 (2004: Nil) in respect of assets acquired under finance leases.

**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**9. Investments in securities**

|  | <b>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | 30-06-2005<br>(Audited)<br>HK\$ |
|--|--|---------------------------------|
| Unlisted equity securities at cost                     |  |                                 |
| – Non-current  | —  | 7,000,000                       |
| – Current  | —  | 17,055,000                      |
|  | —  | 24,055,000                      |
| Listed equity securities in Hong Kong<br>at fair value | —  | 3,927,845                       |
|  | —  | 27,982,845                      |

**10. Available-for-sale financial assets**

|  | <b>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | 30-06-2005<br>(Audited)<br>HK\$ |
|--|--|---------------------------------|
| Designated as available-for-sale<br>financial assets | <b>24,055,000</b>                          | —                               |
| Additions  | <b>7,405,000</b>                           | —                               |
|  | <b>31,460,000</b>                          | —                               |
| Unlisted equity securities outside<br>Hong Kong      | <b>20,957,000</b>                          | —                               |
| Unlisted equity securities in<br>Hong Kong           | <b>10,503,000</b>                          | —                               |
|  | <b>31,460,000</b>                          | —                               |



**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**11. Other financial assets at fair value through profit and loss**

|   | <b>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | 30-06-2005<br>(Audited)<br>HK\$ |
|---|--|---------------------------------|
| Listed equity securities in<br>Hong Kong at market value      | <b>2,423,193</b>                           | —                               |
| Unlisted equity securities outside<br>Hong Kong at fair value | <b>11,900,000</b>                          | —                               |
|   | <b>14,323,193</b>                          | —                               |

**12. Share capital**

|  | <b>No. of shares</b> | <b>(Unaudited)<br/>HK\$</b> |
|--|----------------------|-----------------------------|
| Authorised: ordinary share of<br>HK\$0.01 each<br>At 1 July 2005 and<br>31 December 2005 | 200,000,000          | 2,000,000                   |
| Issued and fully paid: ordinary share<br>of HK\$0.01 each<br>At 1 July 2005              | 74,200,000           | 742,000                     |
| Allotted, issued and fully paid<br>on 13 November 2005                                   | 12,640,909           | 126,409                     |
| <b>At 31 December 2005</b>   | <b>86,840,909</b>    | <b>868,409</b>              |

**13. Amount due to a director**

The amount is unsecured, non-interest bearing and repayable on demand.

**14. Amounts due to a related company**

The amounts are unsecured, interest bearing at rates ranging from 7.5% to 8% per annum and will be repayable after one year but not exceeding two years.

**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**15. Operating leases commitments**

At 31 December 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|                                       | <b>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | 30-06-2005<br>(Audited)<br>HK\$ |
|---------------------------------------|--|---------------------------------|
| Land and building:                    |  |                                 |
| Within one year                       | <b>623,268</b>                             | 662,526                         |
| In the second to fifth year inclusive | <b>519,390</b>                             | 706,848                         |
|                                       | <b>1,142,658</b>                           | 1,369,374                       |

**16. Post balance-sheet events**

Subsequent to 31 December 2005, 10,500,000 shares were issued and allotted at HK\$0.70 each on 13 January 2006 under a placing agreement and a top-up subscription agreement signed on 30 December 2005 (as supplemented on 9 January 2006), and the net proceeds of approximately HK\$7.15 million have been used as general working capital of the Group.

A placing agreement was signed on 9 March 2006 for placement of 17,300,000 shares at HK\$0.75 each but no share has been issued and allotted as at the date hereof. The net proceeds of approximately HK\$12,500,000 would be used for investment and as general working capital of the Group.

**Notes to Interim Financial Statements** (Continued)

For the six months ended 31 December 2005

**17. Material related party and connected transactions**

During the Period, the Group had the following significant related parties and connected transactions:

|  | <b>Six month<br/>ended<br/>31-12-2005<br/>(Unaudited)<br/>HK\$</b> | Six month<br>ended<br>31-12-2004<br>(Unaudited)<br>HK\$ |
|--|--|---|
| Custodian fee paid to Standard Chartered Bank                          | <b>34,936</b>  | 35,070  |
| Investment management fees paid to Guotai Junan Assets (Asia) Limited  | <b>300,000</b>   | 300,000   |
| Company secretarial fee paid to Mr. Yau Chung Hong, executive director | —  | 90,000  |
| Legal fees paid to Chiu & Partners                                     | <b>338,500</b>   | —   |
| Financial advisory fee paid to Karl Thomson Financial advisory Limited | <b>150,000</b>   | —   |
| Interest paid to Coqueen Company Limited                               | <b>226,684</b>   | —   |

**18. Approval of Interim Financial Statements**

The Interim Financial Statements were approved by the Board on 22 March 2006.

## Management Discussion and Analysis

### Interim Results

During the Period, the Company recorded a turnover of HK\$22,012,188 (2004: HK\$27,254,979), representing a decrease of approximately 19.23%; and a net profit attributable to shareholders of HK\$4,631,600, compared to a net loss of HK\$2,874,319 for the same period in 2004, indicating that the Company is successfully turning around the performance of its investment activities and is beginning to show signs of positive returns.

The decrease in the Company's turnover reflected our policy to focus our investment activities and resources in direct investment opportunities instead of relying on the trading of listed equities. This sharper focus has helped the Company better align its resources to source, evaluate, structure, invest, and manage higher quality direct investment or alternative investment opportunities in China, and the result is evident by the net profitability achieved by the Company as compared to the net loss for the same period in previous year.

The net asset value ("NAV") per share of the Company was HK\$0.61 at 31 December 2005.

The Board resolved not to recommend the payment of any interim dividend for the Period.

### Business Overview and Prospects

During the Period, the Company changed its name from "China Northern Enterprises Investment Fund Limited" to "Sino Katalytics Investment Corporation". The Board believes that the new company name and identity was necessary to reflect the Company's unique positioning as a premier investor or investment holding company for China focused alternative asset classes such as direct investments and proprietary industry oriented funds.

## **Management Discussion and Analysis** (Continued)

### **Business overview and Prospects** (Continued)

And in order to start setting precedents on the new investment approach that the Company is taking, the Company has taken a series of measures to re-organize the Company's investment portfolio, to strengthen the internal control procedures, and to improve on the due diligence and evaluation process. Most important of all, the Company felt that it was imperative to better align its interests with that of the underlying assets. Therefore, on 13 September 2005, the Company entered into three independent acquisition agreements to increase its shareholding in Ferndene Limited, CNI Bullion Limited and Quidam Assets Limited, all of which were existing investees of the Company, by way of issuing new ordinary shares of the Company to these investees as the consideration for acquisition. These share transactions represented the investees' commitment to the Company to perform and deliver results as well as the Company's commitment to the investees to help them grow and expand beyond the current size and scale. It is an alignment of common interests to add value to both the underlying assets as well as to the Company itself.

In order to strengthen its shareholder base and increase its financial resources to be in a more flexible position to take on potential investment projects at a sizeable scale, the Company entered into a top-up subscription agreement on 30 December 2005 under which the Company placed 10,500,000 new shares at a price of HK\$0.70 per share. The net proceeds from the placing were approximately HK\$7.15 million.

The vision of the Company is to become the world's premier investor or investment corporation focused on alternative investment opportunities in the PRC. The Company will continue to seek direct investment opportunities that capitalize on the PRC's evolving economy and developing regulatory and economic environment. The objective of these investments is to generate more consistent and less volatile returns and also to offer positive returns even in times of falling traditional market trends.

## Management Discussion and Analysis (Continued)

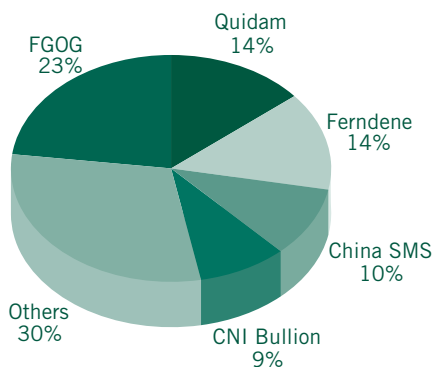
### Business overview and Prospects (Continued)

Given the robust economic growth in the PRC and the improvement in market sentiment of the worldwide financial markets, the Company believes that ample investment opportunities will emerge. Furthermore, as the operations of the Company's investees begin to mature, the Company is looking forward to reaping the benefits of its investments in the near term by way of divestment or value appreciation. The Company will also continue to expand its scale and financial strength in order to be able to increase our stake in existing successful portfolio companies and/or their ancillary businesses, as well as to participate in promising new alternative investment opportunities.

### Investment Portfolio

At 31 December 2005, the total NAV of the Company was \$52,615,343. The portfolio was consisted of the following investments as a percentage of the total NAV:

**Portfolio Breakdown as a Percentage of Total NAV**



## Management Discussion and Analysis (Continued)

### Investment Portfolio (Continued)

During the Period, the Company held the following investments:

#### *China SMS Group Limited (“China SMS”)*

The Company currently holds a 10% interest in China SMS Group China SMS, which is an ensemble of China and Hong Kong based Internet companies providing value-added multimedia products and services. Its primary business segments include corporate based SMS services as well as wireless data services and commercial enterprise solutions.

#### *CNI Bullion Limited (“CNI Bullion”)*

The Company owns a 30% interest in CNI Bullion. CNI Bullion is a member of the Chinese Gold and Silver Exchange Society and was formed in March 2005 by a group of experienced bullion practitioners. CNI Bullion’s services include trading of London Gold, local Hong Kong Gold and London Silver; providing the latest news of major financial markets; and also other ancillary value-added services including price alerts through instant mobile phone messaging. As bullion price continues to achieve record high levels recently, the Directors believe the Company’s interests in CNI Bullion is another good example of the Company’s ability to capture an alternative investment opportunity at the right market at the right time.

#### *Ferndene Limited (“Ferndene”)*

The Company owns a 7.97% interest in Ferndene Limited. At the time of its initial inception, Ferndene was incorporated as a privately held investment fund to organize, operate and manage government designated Internet cafes in the PRC. A wholly-owned subsidiary of Ferndene has secured the exclusive rights from one of the six nation-wide licensees permitted by the Chinese government to invest in and operate a franchise of Internet cafes in ten different administrative regions across China.

## Management Discussion and Analysis (Continued)

### Investment Portfolio (Continued)

#### *Four Gold OG Limited (“FGOG”)*

The Company owns approximately 2.8% interest in FGOG, which develops, owns and operates the only real-time metering and billing infrastructure for digital content distribution in the PRC. FGOG is a Singapore based company which is engaged in the licensing and distribution of digital content, such as online games, music, education, entertainment and financial information, in the PRC. It is also the intellectual property owner of the FGOG L7 Platform which enables third party content providers to distribute their digital content in the PRC whilst being able to monitor the real-time sales and payment status of their services remotely from anywhere in the world. Since the Company's initial investment in FGOG, the valuation of FGOG has risen significantly and it is becoming an important source of deal flow and operating resources for the Company to source, evaluate and manage new investment opportunities in the telecommunications, media, and technology (“TMT”) sector.

#### *Quidam Assets Limited (“Quidam”)*

The Company owns a 16.79% interest in Quidam Assets Limited. Quidam's subsidiary Orbrich International Factors Company Limited (“OIF”) is currently the only wholly foreign-owned financial guaranty and factoring company in China. OIF is licensed by the Tianjin Government and the PRC Ministry of Commerce to provide factoring services that include financing, sales ledger administration and debt collection. It serves companies primarily in Beijing, Tianjin, Shanghai and Dalian.



## **Management Discussion and Analysis** (Continued)

### **Investment Portfolio** (Continued)

#### *Investments in Securities*

The Company also invested in a portfolio of securities mainly in listed companies engaged in a variety of unique and high-growth industries in the PRC market. The Company believes that the proven revenue models and strong company fundamentals of its investments will provide attractive returns to the Company in the long run.

#### *Outlook*

Looking forward, the Group will continue to be actively seeking investment projects in three key sectors of the PRC and Hong Kong markets, including financial services, TMT and fast moving consumer products and distribution. Under the Group's direct investment initiatives, the investment projects must fulfill at least one of the several prerequisites: (i) ownership of proprietary technology, products, or operating status; (ii) possession of undervalued assets; or (iii) control of distribution infrastructure and/or channels. The Group believes that private enterprises which possess one or more of these competitive advantages are likely to sustain high business growth and to have a strong basis for an eventual IPO or equity sale at favorable valuations, hence delivering a positive impact on the Group's net asset value and profitability in the near term, as well as generating consistent investment returns in the long run.

### **Liquidity, Financial Resources, Charge on Assets, Gearing, Capital Commitment and Contingent Liabilities**

The Group continued to maintain a healthy balance sheet. At 31 December 2005, the Group had bank balances of approximately HK\$4.24 million (30 June 2005: HK\$3.31 million) which accounted for 6.9% (30 June 2005: 9.7%) of the Company's total current assets. The Board believes that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

At 31 December 2005, the Group's gearing ratio was 16.11%, which is calculated on the Group's total liabilities divided by its total assets; and the Group had no material capital commitment and contingent liabilities.

## Foreign Currency Exposure

The Company's investments may be denominated in currencies other than Hong Kong dollars, and thus is exposed to fluctuation of the exchange rate. It is expected that a portion of the distributions and payments to the Company from the invested companies will be denominated in Renminbi. However, the Board believes that foreign exchange risks are minimal as Renminbi is relatively stable against Hong Kong dollar and the Company mainly uses Hong Kong dollars to carry out its business.

## Significant Acquisition and Disposal of Subsidiaries

During the Period the Company had not made any significant acquisition and disposal of subsidiaries.

## Employees

At 31 December 2005, the Company had 4 employees excluding directors. The Company's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of individual employees.

## Capital Structure

On 13 November 2005, a total of 12,640,909 new shares were issued and allotted at HK\$1.10 each as consideration shares (3,950,000 for Ferndene; 2,590,909 for CNI Bullion and 6,100,000 for Quidam), making the total number of shares in issue to 86,840,909 shares at 31 December 2005.

Subsequent to the Period end, 10,500,000 shares were issued and allotted at HK\$0.70 each on 13 January 2006 under a placing agreement and a top-up subscription agreement signed on 30 December 2005. Another placing agreement was signed on 9 March 2006 for placement of 17,300,000 shares at HK\$0.75 each but no share has been issued and allotted at the date hereof.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

At 31 December 2005, the Interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be noticed to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

| Name                                       | Capacity           | Number of issued ordinary shares held | Approximate % on issued share capital |
|--|--------------------|---------------------------------------|---------------------------------------|
| Mr. Chui Tak Keung, Duncan ( <i>Note</i> ) | Corporate interest | 22,800,000<br>(Long position)         | 26.25%                                |

*Note: Mr. Chui Tak Keung, Duncan, an executive director, is deemed to be interested in the shares by virtue of his shareholding in Four Gold MS HO1 Limited.*

Save as disclosed above, at 31 December 2005, none of the Directors and chief executives and interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which, they are taken or deemed to have such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

## Substantial Shareholders

So far as was known to the Directors or chief executives of the Company, at 31 December 2005, other than the interests and short positions of the Directors or chief executives of the Company as disclosed above, the parties who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 33G of the SFO, were as follows:

| Name                              | Capacity         | Number of issued ordinary shares held | Approximate % on issued share capital |
|-----------------------------------|------------------|---------------------------------------|---------------------------------------|
| Four Gold MS H01 Limited (Note 1) | Beneficial owner | 22,800,000<br>(Long position)         | 26.25%                                |
| Li Yiu Keung                      | Beneficial owner | 12,700,000<br>(Long position)         | 14.62%                                |
| Elastic Holdings Inc. (Note 2)    | Beneficial owner | 6,100,000<br>(Long position)          | 7.02%                                 |

### Notes:

1. *Mr. Chui Tak Keung, Duncan, an executive director, is deemed to be interested in the shares by virtue of his shareholding in Four Gold MS H01 Limited.*
2. *Mr. Ma Kwan Ho, Lawrence and Mr. Tso Tung are deemed to be interested in the shares by virtue of their shareholding in Elastic Holdings Inc.*

Save as disclosed above, at 31 December 2005, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## Share Option Scheme

Pursuant to the written resolutions passed by all of the then shareholders of the Company on 30 September 2003, the Company adopted a share option scheme (the “Scheme”). Under the Scheme, the Directors of the Company may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive directors (including independent non-executive directors), any supplier of goods or services, any customer and any person or entity that provides research, development or other technological support to the Company to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders’ approval.

Up to the date hereof, no share options have been granted pursuant to the Scheme.

## Directors’ Interest in Competing Business

Mr. Chan Ming Sun, Jonathan holds a position as an Investment Manager of Go-To-Asia Investment Limited. The business of Go-To-Asia Investment Limited is deemed to constitute a competing business to the Group.

## Purchase, Redemption or Sale of Listed Securities of the Company

The Company has not redeemed any of the listed shares during the Period. Neither the Company nor any of its subsidiaries has repurchased or sold any of the Company’s listed securities during the six months ended 31 December 2005.

## Audit Committee

The audit committee comprises three independent non-executive directors, namely, Mr. Lam Kwan, Mr. Chan Ming Sun, Jonathan and Mr. Shiu Siu Tao with written terms of reference in compliance. The audit committee has reviewed with management the accounting principles and practices adopted by the Company, and discussed internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 31 December 2005.

## **Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all directors regarding any non-compliance with the Model Code during the Period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## **Code of Corporate Governance Practice**

During the Period, the Company has complied with the code provisions in the Code of Corporate Governance Practice (the “CGP Code”) contained in Appendix 14 to the Listing Rules, except the deviations from the Code as described below:

1. Under provision A.2.1 of the CGP Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has not appointed chairman and chief executive officer, whose functions are collectively performed by all the executive directors. The Board considers that this arrangement allows contributions from all executive directors with different expertise. The Board will review the effectiveness of this arrangement from time to time.
2. Under provision A.4.1 of the CGP Code, non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company’s articles of association. The Board will review, and if thought fit, change this practice later.
3. Under provision A.5.4 of the CGP Code, there should be written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in the securities of the Company. The Company is considering setting up guidelines for employees as required under this provision.

## **Code of Corporate Governance Practice** (Continued)

4. Under provision B.1.1 of the CGP Code, a remuneration committee should be formed with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors. On 22 March 2006, the Board approved the establishment of a remuneration committee and adoption of its specific written terms of reference which deal clearly with its authority and duties. The remuneration committee comprises all three independent non-executive directors, with one of them being its chairman.

By Order of the Board  
**Chui Tak Keung, Duncan**  
*Executive Director*

Hong Kong, 22 March 2006