



**CHINA SCI-TECH  
HOLDINGS LIMITED**

(Incorporated in Cayman Islands with limited liability)

stock code : 985

CHINA SCI-TECH  
HOLDINGS LIMITED

Interim Report 2006

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

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

#### **Independent Non-executive Directors**

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

### **COMPANY SECRETARY**

Mr. Chow Kim Hang

### **REGISTERED OFFICE**

Ground Floor  
Caledonian House  
Mary Street  
P.O. Box 1043  
George Town  
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  
35th Floor  
One Pacific Place  
88 Queensway  
Hong Kong

### **PRINCIPAL BANKERS**

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited

### **PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE**

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

### **HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE**

Tengis Limited  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
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 2006 with the comparative figures for the corresponding period in 2005 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 September 2006*

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2006</b>	2005
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Revenue	3	<b>4,521</b>	3,038
Other income		<b>195</b>	290
Administrative expenses		<b>(4,912)</b>	(6,370)
Net unrealised loss arising on fair value changes of investments held for trading		<b>(63,626)</b>	(71,975)
Net realised gain on investments held for trading		<b>5,014</b>	1,325
Net gains on derivative financial instruments		<b>850</b>	2,026
Gain arising from fair value changes of derivative financial instruments		<b>3,437</b>	–
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)
Finance costs	4	<b>(4,524)</b>	(3,921)
Share of results of an associate	10	–	8,003
Loss before taxation	5	<b>(59,045)</b>	(69,557)
Taxation	6	<b>(57)</b>	(43)
Loss for the period		<b>(59,102)</b>	(69,600)
Loss per share – basic	7	<b>HK(3.44)cents</b>	HK(4.05)cents

**CONDENSED CONSOLIDATED BALANCE SHEET***At 30 September 2006*

		<b>As at 30 September 2006 (Unaudited) HK\$'000</b>	As at 31 March 2006 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		<b>27</b>	42
Investment properties	<i>9</i>	<b>20,800</b>	20,800
Interest in an associate	<i>10</i>	<b>99,489</b>	99,489
Available-for-sale investment		<b>975</b>	975
		<b>121,291</b>	121,306
Current assets			
Other receivables, deposits and prepayments		<b>19,437</b>	12,722
Investments held for trading		<b>202,851</b>	212,833
Derivative financial instruments		<b>858</b>	732
Bank balances and cash		<b>74,685</b>	83,646
		<b>297,831</b>	309,933
Current liabilities			
Other payables and accrued charges		<b>1,045</b>	2,067
Amounts due to directors		–	300
Taxation payable		<b>714</b>	714
Derivative financial instruments		<b>8,483</b>	1,892
		<b>10,242</b>	4,973
Net current assets		<b>287,589</b>	304,960
Total assets less current liabilities		<b>408,880</b>	426,266

		<b>As at 30 September 2006 (Unaudited) HK\$'000</b>	As at 31 March 2006 (Audited) HK\$'000
Non-current liabilities			
Convertible notes	11	<b>105,809</b>	64,093
<b>Net assets</b>		<b>303,071</b>	362,173
Capital and reserves			
Share capital	12	<b>171,748</b>	171,748
Reserves		<b>131,323</b>	190,425
<b>Equity attributable to equity holders of the Company</b>		<b>303,071</b>	362,173

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2006*

	Attributable to equity holders of the Company						Total
	Share capital	Share premium	Capital reserve	Other capital reserve	Exchange reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	171,748	168,166	7,700	396,347	870	(382,658)	362,173
Loss for the period	-	-	-	-	-	(59,102)	(59,102)
<b>At 30 September 2006</b>	<b>171,748</b>	<b>168,166</b>	<b>7,700</b>	<b>396,347</b>	<b>870</b>	<b>(441,760)</b>	<b>303,071</b>
At 1 April 2005							
As originally stated	171,748	168,166	7,700	396,347	-	(408,039)	335,922
Effect of change in accounting policies	-	-	-	-	-	(118)	(118)
As restated	171,748	168,166	7,700	396,347	-	(408,157)	335,804
Loss for the period	-	-	-	-	-	(69,600)	(69,600)
At 30 September 2005	171,748	168,166	7,700	396,347	-	(477,757)	266,204

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(57,765)</b>	(75,012)
Net cash from (used in) financing activities		
Net proceeds from issuing of convertible notes	<b>48,804</b>	–
Redemption of convertible notes	–	(33,750)
	<b>48,804</b>	(33,750)
Net decrease in cash and cash equivalents	<b>(8,961)</b>	(108,762)
Cash and cash equivalents at the beginning of the period	<b>83,646</b>	214,429
Cash and cash equivalents at the end of the period, represented by bank balances and cash	<b>74,685</b>	105,667

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 30 September 2006*

### **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.

The condensed financial statements include the financial statements of the Company and its subsidiaries except for interest in an associate (see note 10).

As explained in note 10 to the condensed financial statements, the condensed financial statements did not include the result of an associate for the period from 1 April 2006 to 30 September 2006. Accordingly, the Group did not prepare the condensed financial statements in accordance with the HKAS 28 "Investments in Associates".

### **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 2006, except as described below.

- (a) In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of the new HKFRSs has no material effect on how the results for current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.



**2. PRINCIPAL ACCOUNTING POLICIES** (Continued)

(a) (Continued)

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK (IFRIC) – INT 7	Applying the restatement approach HKAS 29 financial reporting in hyperinflationary economics <sup>3</sup>
HK (IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK (IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>
HK (IFRIC) – INT 10	Interim financial reporting and impairment <sup>5</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

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

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

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

(b) During the six months period ended 30 September 2006, the interest in an associated company has been accounted for in the condensed financial statements at carrying amount at 1 April 2006. This is not in accordance with HKAS 28 "Investments in Associates" issued by HKICPA.

**3. SEGMENT INFORMATION**

**Business segment**

From 1 April 2005, the Group has selected business segment as its primary reporting segment. In the opinion of the directors of the Company, the new reporting segment provides a more appropriate presentation of the segment information. The Group is currently organised into two operating divisions (i) investments in financial instruments (named as corporate and strategic investment holding in previous year) which include investment and trading of securities and commodity contracts and (ii) property investment.

**3. SEGMENT INFORMATION** (Continued)

Segment information about these businesses is presented below:

	<b>Six months ended 30 September 2006</b>		
	<b>Investments</b>	<b>Property</b>	<b>Total</b>
	<b>in financial</b>	<b>investment</b>	<b>(Unaudited)</b>
	<b>instruments</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	<b>3,926</b>	<b>595</b>	<b>4,521</b>
Segment result	<b>(54,941)</b>	<b>420</b>	<b>(54,521)</b>
Finance costs			<b>(4,524)</b>
Share of result of an associate			—
Loss before taxation			<b>(59,045)</b>
Taxation			<b>(57)</b>
Loss for the period			<b>(59,102)</b>

	<b>Six months ended 30 September 2005</b>		
	<b>Investments</b>	<b>Property</b>	<b>Total</b>
	<b>in financial</b>	<b>investment</b>	<b>(Unaudited)</b>
	<b>instruments</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	2,529	509	3,038
Segment result	(73,954)	315	(73,639)
Finance costs			(3,921)
Share of result of an associate			8,003
Loss before taxation			(69,557)
Taxation			(43)
Loss for the period			(69,600)

**4. FINANCE COSTS**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on borrowings wholly repayable within five years:		
Other loans	<b>(377)</b>	–
Convertible notes	<b>(4,147)</b>	(3,921)
	<b>(4,524)</b>	(3,921)

**5. LOSS BEFORE TAXATION**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Loss before taxation has been arrived at after charging:		
Depreciation	<b>15</b>	57
Share of tax of an associate	–	2,718
and after crediting:		
Interest income	<b>926</b>	1,431
Dividend income from investments in securities	<b>3,000</b>	1,123
Commission income	<b>195</b>	200

**6. 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 Group did not have any assessable profits arising in Hong Kong for both periods.

**7. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss for the period of approximately HK\$59,102,000 (six months ended 30 September 2005: loss of HK\$69,600,000) and on the weighted average number of shares of 1,717,484,600 (six months ended 30 September 2005: 1,717,484,600) shares in issue during the period.

No diluted loss per share figures have been presented for either 2006 or 2005 because the exercise of the convertible notes would result in a decrease in the loss per share in 2006 and 2005.

**8. INTERIM DIVIDEND**

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

**9. 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.

**10. INTEREST IN AN ASSOCIATE**

	<b>At 30 September 2006 (Unaudited) HK\$'000</b>	At 31 March 2006 (Audited) HK\$'000
Share of net assets	<b>85,803</b>	85,803
Goodwill	<b>13,686</b>	13,686
Carrying values	<b>99,489</b>	99,489

The condensed financial statements of the Group for the period from 1 April 2006 to 30 September 2006 did not share the result of its associate (Shijiazhuang Shuanghuan Automobile Company Limited) (the "Associate") for the same period as the Group could not obtain the financial statements of the Associate for the relevant period. As a result, the Group did not prepare the condensed financial statements in accordance with the HKAS 28 "Investments in Associates". In order to obtain the financial information of the Associate, the Group will continue to communicate with the Associate and to take appropriate actions, including but not limited to any legal actions if required. The appropriate accounting treatment will be made accordingly once the financial results have been known. Thus, the carry amount of "Interest in an Associate" remained unchanged since 1 April 2006. The Company may make appropriate disclosure if it finds necessary and appropriate to do so.

**11. CONVERTIBLE NOTES**

	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2006 (Audited)		64,093
Addition during the period		
Face value	49,800	
Issuing expenses	(996)	
Derivative component	(10,027)	
		<hr/>
Initial recognition		38,777
Interest charged		4,147
Interest paid		(1,208)
		<hr/>
At 30 September 2006 (Unaudited)		105,809
		<hr/>

The Company issued convertible notes of HK\$49,800,000 (the "New Convertible Notes") during the period. The New Convertible Notes are unsecured, carry interest at 5% per annum and matured on the third anniversary of the issue date. The initial conversion prices for the first year is HK\$0.145 per share (subject to adjustment). The conversion price of the New Convertible Notes is subject to change from each anniversary of the issue date. The Company may redeem the New Convertible Notes at any time to maturity at the outstanding principal amount plus accrued interest.

Upon application of HKAS 39, the convertible notes were split between the liability and derivative components. The liability component is carried at amortised cost using the effective interest method at subsequent balance sheet date. The derivative component is carried at fair value, with changes in fair value recognised in profit or loss. The average effective interest rate of the liability component is approximately 12.39%. The fair value of the liability component of the convertible notes at 30 September 2006 which is determined based on the present value of the estimated future cash outflow discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date was HK\$105,809,000.

**12. SHARE CAPITAL**

	<b>Number of ordinary shares</b>	<b>Issued and fully paid share capital</b>
		<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.1 each		
As at 1 April 2006 and 30 September 2006	5,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
As at 1 April 2006 and 30 September 2006	1,717,484,600	171,748

**13. POST BALANCE SHEET EVENT**

1. In October 2006, the Company redeemed HK\$55,200,000 of the HK\$60,000,000 convertible notes (the "HK\$60 million CN") which were issued on 31 March 2005 for three years with an interest rate of 3% per annum. The outstanding balance of the HK\$60 million CN is HK\$4,800,000.
2. In October 2006, the Company obtained a HK\$60,000,000 loan from an independent third party. The loan is secured by the equity shares of a subsidiary of the Company and bears an annual interest rate at 5%. The loan is due in January 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a revenue of approximately HK\$4.52 million for the six months period ended 30 September 2006 (the "Period"). Compared with the corresponding period of last year, there was an increase by an amount of approximately HK\$1.48 million. The increase is mainly attributable to the increase of dividend income from investments in listed securities and interest income from financial institutions. Compared with previous corresponding period, the revenue from the investments in financial instruments segment and the property investments segment have increased approximately 55% and 17% respectively. Rental income will continue to provide a steady cashflow to the Group in the future. Although the sentiment of market was getting positive in general, the market was still volatile in the current period. For the Period, net unrealized loss arising from fair value changes of investments held for trading and net realized gain on investments held for trading were approximately HK\$63.63 million and HK\$5.01 million respectively. However, when comparing with the corresponding period of last year, it had approximately 12% and 278% respectively improvement. The Group also recorded a gain arising from fair value changes of derivative financial instruments in the amount of HK\$3.44 million for the Period. Finance costs slightly increased from approximately HK\$3.92 million for preceding period to approximately HK\$4.52 million for the Period. The reason of such increase in finance costs is mainly due to the increase in interest expenses for the outstanding convertible notes and interest expenses for financing investment activities. Overall, the net loss for the period was approximately HK\$59.10 million as compared to the net loss of approximately HK\$69.60 million in the corresponding period of preceding year.

As at 30 September 2006, the Group had bank balances and cash approximately of HK\$74.68 million. Fair value of investments held for trading was in an amount of approximately HK\$202.85 million. As at 30 September 2006, the Group had three outstanding convertible notes which include HK\$49.80 million convertible notes issued during the Period (For details, please refer to the paragraph below). All such convertible notes are in Hong Kong dollars and at fixed interest rates. The convertible notes were split into liability and derivative components. As at 30 September 2006, the liability component amounted to HK\$105.81 million. Other than the outstanding convertible notes, the Group had no outstanding loan or borrowing from banks or financial institutions as at 30 September 2006. The gearing ratio as at 30 September 2006 was approximately 34.91% based on the net book value of the convertible notes and the shareholders' fund.

With stable occupancy rate of the Group's investment properties, it will be expected to bring steady rental income to the Group and thus will continue to contribute cashflow to the Group. The market has shown steady growth but instability in the international economy as a result of changing global political environment and atmosphere, and other uncertain factors such as fluctuation of oil price, movement of global interest rate, macro economic control policy in The People's Republic of China as well as movement of the exchange rate of RMB can affect the market sentiment and its direction. The Group tends to remain cautious on the performance of its investment in financial instruments operation. The Group will continue to explore potential business and investment opportunities in order to improve its earning capacity and diversify the market risk that the Group will confront in long run.

The Group had 5 staff as at 30 September 2006. The staff costs (excluding directors' emoluments) was around HK\$0.72 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 20 April 2006, the Company entered into a placing agreement with Tai Fook Securities Company Limited ("Tai Fook"), pursuant to which, Tai Fook agreed to place, on a best effort basis, the convertible notes in an aggregate principle amount of HK\$49.80 million with interest at a rate of 5% per annum. The convertible notes will carry a right to convert into new share of HK\$0.10 each in the capital of the Company at the conversion price of, subject to adjustment, HK\$0.145 per share from the date of issue of the convertible notes to the date immediately before the first anniversary of the date of issue of the convertible notes, HK\$0.160 per share from the first anniversary of the date of issue of the convertible notes to the date immediately before the second anniversary of the date of issue of the convertible notes, HK\$0.176 per share from the second anniversary of the date of issue of the convertible notes to the date immediately before the third anniversary of the date of issue of convertible notes which is the maturity date of the convertible notes. Details of the placing of the convertible notes were disclosed in the Company's announcement dated 21 April 2006. The convertible notes were issued in September 2006.

In October 2006, the Company obtained a HK\$60,000,000 loan from an independent third party. The loan is secured by the equity shares of a subsidiary of the Company and bears an annual interest rate at 5%. The loan is due in January 2007.



The condensed financial statements of the Group for the period from 1 April 2006 to 30 September 2006 did not share the result of its associate (Shijiazhuang Shuanghuan Automobile Company Limited) (the "Associate") for the same period as the Group could not obtain the financial statements of the Associate for the relevant period. As a result, the Group did not prepare the condensed financial statements in accordance with the HKAS 28 "Investments in Associates". In order to obtain the financial information of the Associate, the Group will continue to communicate with the Associate and to take appropriate actions, including but not limited to any legal actions if required. The appropriate accounting treatment will be made accordingly once the financial results have been known. The Company may make appropriate disclosure if it finds necessary and appropriate to do so.

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

As at 30 September 2006, 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 2006, 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:

<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Approximate percentage of the Company's issued share capital</b>
Kaison Limited ( <i>note 1</i> )	294,741,400	17.16%
Radford Capital Investment Limited ( <i>note 2</i> )	112,506,200	6.55%
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 July 2006, the 112,506,200 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 2006, 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 2006 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**

Although non-executive directors are subject to retirement by rotation at the annual general meeting of the Company as specified by the Company's articles of association, non-executive directors are not appointed for a specific term. The Company is still in the process of setting the term of appointment for each non-executive director as more time is needed before all details are determined.

### **(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 Company amended the articles of association of the Company to comply with this Code provision at the annual general meeting of the Company on 28 September 2006.

### **(c) Code provision B.1.1**

Remuneration committee has not been set up yet. The Company is still in the process of establishing a Remuneration Committee as more time is needed before all details including composition and terms of reference are determined.

### **(d) Code provision E.1.2**

The Code requires the chairman of the board to attend the annual general meeting of the Company, Mr. Chiu Kong did not attend the 2006 annual general meeting as he was not in Hong Kong on that day.

## **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 2006.

## **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 2006 interim report has been reviewed by 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, 28 December 2006