



# CHINA SCI-TECH HOLDINGS LIMITED

中國科技集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 985)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

### 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

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

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2006

		As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		27	42
Investment properties	9	20,800	20,800
Interest in an associate	10	99,489	99,489
Available-for-sale investment		975	975
		<u>121,291</u>	<u>121,306</u>
Current assets			
Other receivables, deposits and prepayments		19,437	12,722
Investments held for trading		202,851	212,833
Derivative financial instruments		858	732
Bank balances and cash		74,685	83,646
		<u>297,831</u>	<u>309,933</u>
Current liabilities			
Other payables and accrued charges		1,045	2,067
Amounts due to directors		–	300
Taxation payable		714	714
Derivative financial instruments		8,483	1,892
		<u>10,242</u>	<u>4,973</u>
Net current assets		<u>287,589</u>	<u>304,960</u>
Total assets less current liabilities		<u>408,880</u>	<u>426,266</u>
Non-current liabilities			
Convertible notes	11	105,809	64,093
Net assets		<u>303,071</u>	<u>362,173</u>
Capital and reserves			
Share capital	12	171,748	171,748
Reserves		131,323	190,425
Equity attributable to equity holders of the Company		<u>303,071</u>	<u>362,173</u>

## 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.

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.

Segment information about these businesses is presented below:

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

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

### 4. FINANCE COSTS

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

## 5. LOSS BEFORE TAXATION

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

	At	At
	30 September	31 March
	2006	2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Share of net assets	85,803	85,803
Goodwill	13,686	13,686
Carrying values	99,489	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)	
	<u>          </u>	
Initial recognition		38,777
Interest charged		4,147
Interest paid		(1,208)
		<u>          </u>
At 30 September 2006 (Unaudited)		<u>105,809</u>

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

### 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 balance 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.

## **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

*As at the date hereof, the Board of Directors of the Company comprises Mr. Chiu Kong, Mr. Kwan Kam Hung, Jimmy, and Mr. Hui Richard Rui as executive directors, and Mr. Miu Frank H., Mr. Yu Pan and Ms. Tong So Yuet as independent non-executive directors.*

*\* For identification only*

“Please also refer to the published version of this announcement in The Standard”