IMPORTANT

This offer is being made only outside the United States to non-U.S. persons. No U.S. person will be allowed to participate in such offer, and any purported tender of securities from a U.S. person or a U.S. address will not be accepted. Tendering shareholders will be required to certify that they are not U.S. persons or within the United States. This offer will also not be extended to persons whose addresses shown on the register of members of Group Dragon Investments Limited is in Malaysia.

If you are in doubt as to any aspect of this offer, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **GROUP DRAGON INVESTMENTS LIMITED**, you should at once hand this document and the accompanying form of acceptance and transfer to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

HANNY
VISIONS AHEAD

HANNY HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 275)

WELL ORIENT LIMITED
(Incorporated in Hong Kong with limited liability)

GROUP DRAGON INVESTMENTS LIMITED
(Incorporated in British Virgin Islands with limited liability)

COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO THE VOLUNTARY UNCONDITIONAL SECURITIES EXCHANGE OFFER BY SOMERLEY LIMITED ON BEHALF OF WELL ORIENT LIMITED (A WHOLLY-OWNED SUBSIDIARY OF HANNY HOLDINGS LIMITED) TO ACQUIRE ALL THE ISSUED SHARES IN GROUP DRAGON INVESTMENTS LIMITED OTHER THAN THOSE SHARES ALREADY OWNED BY WELL ORIENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT

Financial adviser to Hanny Holdings Limited and Well Orient Limited

SOMERLEY LIMITED

Financial adviser to Group Dragon Investments Limited

道亨證券有限公司
DaoHeng Securities Ltd.
A Member of the Guoco Group

Independent financial adviser to the GDI Qualifying Shareholders

Hercules
Hercules Capital Limited

A letter of advice from Hercules Capital Limited, containing its independent advice to the GDI Qualifying Shareholders in respect of the GDI Offer, is set out on pages 19 to 54 of this document.

The procedure for acceptance and settlement of the GDI Offer are set out on pages 55 to 60 of this document and in the accompanying form of acceptance and transfer. Acceptance of the GDI Offer should be received by the Receiving Agent, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Friday, 16th June, 2006 (or such later time and/or date as the Offeror may announce in accordance with the requirements of the Takeovers Code).

26th May, 2006

CONTENTS

Accompanying document (except for recipients of this document whose addresses as shown in the register of members of GDI is situated in the United States or Malaysia):

— Form of acceptance and transfer

EXPECTED TIMETABLE

	2006
Commencement of the GDI Offer	Friday, 26th May
Latest time and date for acceptance of the GDI Offer *(Note 1)*	4:00 p.m. on Friday, 16th June
Closing Date *(Note 2)*	Friday, 16th June
Announcement of the results of the GDI Offer to be posted on the website of the Stock Exchange	7:00 p.m. on Friday, 16th June
Announcement of the results of the GDI Offer to be published in the newspapers	Monday, 19th June
Latest date for posting of remittances for the amounts due under the GDI Offer in respect of valid acceptances received thereunder *(Note 3)*	Monday, 26th June

Notes:

1. Acceptances of the GDI Offer shall be irrevocable and not be capable of being withdrawn subject to compliance by the Offeror with Rule 19 of the Takeovers Code.

2. The GDI Offer, which is unconditional, will close on Friday, 16th June, 2006 unless the Offeror revises or extends the GDI Offer in accordance with the Takeovers Code. The Offeror reserves the right to extend the GDI Offer until such date as it may determine. The Offeror will issue an announcement on the website of the Stock Exchange by 7:00 p.m. on the Closing Date as to whether the GDI Offer has expired, or in relation to any extension or revision of the GDI Offer to state either the next Closing Date or that the GDI Offer will remain open until further notice. Such announcement will be republished in the newspapers on the next Business Day thereafter. If the Offeror decides to extend or revise the GDI Offer and in the event that the aforesaid announcement in relation to the extension of the GDI Offer does not state the next Closing Date, at least 14 days' notice in writing will be given before the GDI Offer is closed to those GDI Qualifying Shareholders who have not accepted the GDI Offer.

3. Remittances in respect of the GDI Shares tendered under the GDI Offer will be posted to the relevant GDI Qualifying Shareholders by ordinary post at their own risk within 10 days of the date of receipt by the Receiving Agent of all the relevant documents which render the relevant acceptances under the GDI Offer complete and valid.

All time references contained in this document and the Form of Acceptance refer to Hong Kong time.

DEFINITIONS

In this document, unless the context requires otherwise, the following expressions have the following meanings:

"Apex"	Apex Quality Group Limited
"associates"	has the meaning as defined in the Listing Rules
"Business Day"	a day on which the Stock Exchange is open for the transaction of business
"BVI"	the British Virgin Islands
"BVI Companies Act"	BVI Business Companies Act 2004
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"CEL"	China Enterprises Limited, a company incorporated in Bermuda with limited liability, the shares of which are traded on the OTC (over-the-counter) Bulletin Board in the United States and is owned as to 55.22% effective equity interest and 88.8% effective interest of voting right by China Strategic
"China Strategic"	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"China Strategic Group"	China Strategic and its subsidiaries
"China Strategic Group Reorganisation"	the internal group reorganisation of China Strategic completed on 19th May, 2006 which resulted in (i) China Strategic continuing as a public listed company concentrating on the Remaining Business itself or through its subsidiaries (other than the GDI Group); (ii) GDI concentrating through its subsidiaries on the Distributed Business; and (iii) the China Strategic Shareholders receiving by way of distribution in specie of the GDI Shares on the basis of one GDI Share for one China Strategic Share
"China Strategic Offer"	the mandatory cash offer to acquire all the China Strategic Shares not already owned or agreed to be acquired by the China Strategic Offeror and parties acting in concert with it at a price of HK$0.386 per China Strategic Share in cash pursuant to the composite offer document dated 26th May, 2006 issued by China Strategic and Nation Field Limited
"China Strategic Offeror"	Nation Field Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Gao Yang
"China Strategic Share(s)"	ordinary share(s) of HK$0.10 each in the existing share capital of China Strategic
"China Strategic Shareholders(s)"	holder(s) of the China Strategic Shares
"Closing Date"	16th June, 2006 or if the GDI Offer is extended, the closing date of the GDI Offer as extended by the Offeror in accordance with the Takeovers Code

"connected persons"	has the meaning as defined in the Listing Rules
"Conversion"	conversion of the Hanny Bond by its holder into Hanny Shares in accordance with the terms of the instrument constituting the Hanny Bond
"Conversion Shares"	new Hanny Shares to be allotted and issued by Hanny upon Conversion
"Dao Heng Securities"	Dao Heng Securities Limited, the financial adviser to China Strategic and GDI
"Deloitte"	Deloitte Touche Tohmatsu
"Distributed Business"	all businesses other than the Remaining Business which have been carried on by the GDI Group since completion of the China Strategic Group Reorganisation, which include property development, manufacturing and marketing of tires, business of providing package tour, travel and other related services and other investment holding business
"Enlarged Hanny Group"	the Hanny Group as enlarged by the GDI Group
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
"Form of Acceptance"	the accompanying form of acceptance and transfer in respect of the GDI Offer
"GDI"	Group Dragon Investments Limited, a company incorporated in the BVI with limited liability
"GDI Board"	the board of directors of GDI
"GDI Group"	GDI and its subsidiaries upon completion of the China Strategic Group Reorganisation
"GDI Offer"	the voluntary unconditional offer being made by Somerley on behalf of the Offeror to acquire all the GDI Shares not already held by Well Orient and parties acting in concert with it, the terms of which are set out herein and in the Form of Acceptance
"GDI Qualifying Shareholder(s)"	shareholder(s) of GDI excluding (i) Well Orient, its associates and parties acting in concert with it (but including Paul Y and its subsidiaries); (ii) U.S. person(s) as defined in Regulation S of the U.S. Securities Act; and (iii) persons whose addresses shown on the register of members of GDI is in Malaysia
"GDI Share(s)"	ordinary share(s) of US$0.01 each currently in the issued share capital of GDI
"Hangzhou Zhongce"	杭州中策橡膠有限公司(Hangzhou Zhongce Rubber Co., Ltd.), a company established in the PRC and is principally engaged in the manufacturing and marketing of tires in the PRC and overseas

"Hanny"	Hanny Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Hanny Board"	the board of Hanny Directors
"Hanny Bond(s)"	the convertible bond(s) to be issued by Hanny in denominations of HK$15.0 each under Option 2, which is convertible into Conversion Shares at an initial conversion price of HK$9.0 per Hanny Share at any time after its issue and up to the Maturity Date
"Hanny Directors"	directors of Hanny
"Hanny Group"	Hanny and its subsidiaries
"Hanny Sale Shares"	67,500,000 China Strategic Shares held by Well Orient, representing approximately 15.3% of the issued share capital of China Strategic
"Hanny Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of Hanny
"Hanny Shareholder(s)"	holder(s) of the Hanny Share(s)
"Hercules"	Hercules Capital Limited, the independent financial adviser to the GDI Qualifying Shareholders
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent China Strategic Shareholders"	China Strategic Shareholders other than Paul Y, Hanny and their respective associates and parties acting in concert with any of them as well as any parties who have a material interest in the making of the GDI Offer and the Share Sale Agreement
"Independent Hanny Shareholders"	Hanny Shareholders other than ITC, its associates including Paul Y, parties acting in concert with any of them, as well as any parties who have a material interest in the making of the GDI Offer and the Share Sale Agreement
"Initial Announcement"	the announcement dated 15th October, 2004 published by China Strategic in respect of a possible general offer for all the China Strategic Shares
"ITC"	ITC Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Joint Announcement"	the joint announcement dated 19th April, 2005 published by Hanny, Well Orient, China Strategic, GDI and the China Strategic Offeror in respect of, among other things, the GDI Offer
"Last Trading Day"	7th March, 2005, being the last day on which the Hanny Shares were traded on the Stock Exchange prior to the suspension of trading in the Hanny Shares pending the publication of the Joint Announcement

"Latest Practicable Date"	24th May, 2006, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Maturity Date"	the fifth anniversary of the date of issue of the Hanny Bonds
"MRI"	MRI Holdings Limited, a 57.3% owned subsidiary of China Strategic and the shares of which are listed on the Australian Stock Exchange
"Norton"	Norton Appraisals Limited, an independent professional property valuer
"Option 1"	one (1) Hanny Share plus HK$1.8 in cash for every five (5) GDI Shares, being one of two types consideration being offered to the GDI Qualifying Shareholders under the GDI Offer
"Option 2"	one (1) Hanny Bond for every five (5) GDI Shares, being one of two types consideration being offered to the GDI Qualifying Shareholders under the GDI Offer
"Paul Y"	PYI Corporation Limited (formerly known as Paul Y. - ITC Construction Holdings Limited), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"PRC"	The People's Republic of China
"Receiving Agent" or "GDI Registrar" or "Transfer Agent"	Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
"Remaining Business"	the businesses remained in the China Strategic Group upon completion of the China Strategic Group Reorganisation, which include manufacturing and trading of battery products, investment in securities and property and investment in unlisted investments
"RHL"	RHL Appraisal Ltd., an independent professional valuer
"SCL"	See Corporation Limited (formerly known as Ruili Holdings Limited), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"SFC"	Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SGM"	a special general meeting of Hanny held on 7th October, 2005 approving, among other things, the making of the GDI Offer (including the allotment and issue of the new Hanny Shares under Option 1, and the issue of the Hanny Bonds and the allotment and issue of the Conversion Shares under Option 2)

"Share Sale Agreement"	the sale and purchase agreement dated 10th March, 2005 entered into amongst the China Strategic Offeror, Paul Y and Hanny for the acquisition by the China Strategic Offeror of an aggregate of 270,000,000 then existing China Strategic shares from Paul Y and Hanny, which shares represented approximately 30.6% of the issued share capital of China Strategic as at the date of the Share Sale Agreement
"Somerley"	Somerley Limited, the financial adviser to Hanny and the Offeror
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"U.S. Securities Act"	the U.S. Securities Act of 1933, as amended
"Well Orient" or "Offeror"	Well Orient Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Hanny
"Wing On"	Wing On Travel (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"AUD"	Australian dollars, the lawful currency of Australia
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"S$"	Singapore dollars, the lawful currency of Singapore
"US$"	United States dollars, the lawful currency of the United States
"U.S. person"	U.S. person as defined in Regulation S of the U.S. Securities Act
"United States"	The United States of America, its territories and possessions, any state in the United States, and the District of Columbia

The following is the text of the letter from the GDI Board which has been prepared for the purpose of inclusion in this document:

GROUP DRAGON INVESTMENTS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Directors:
Dr. Chan Kwok Keung, Charles
Dr. Yap, Allan
Ms. Chau Mei Wah, Rosanna
Ms. Chan Ling, Eva
Mr. Li Bo
Mr. Chan Kwok Hung
(alternate to Dr. Chan Kwok Keung, Charles)
Mr. Lui Siu Tsuen, Richard
(alternate to Dr. Yap, Allan)

Registered office:
P.O. Box 957,
Offshore Incorporations Centre,
Road Town,
Tortola,
British Virgin Islands

Correspondence address in Hong Kong:
8th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

26th May, 2006

To the GDI Qualifying Shareholders

Dear Sir or Madam,

VOLUNTARY UNCONDITIONAL SECURITIES EXCHANGE OFFER BY SOMERLEY LIMITED ON BEHALF OF WELL ORIENT LIMITED (A WHOLLY-OWNED SUBSIDIARY OF HANNY HOLDINGS LIMITED) TO ACQUIRE ALL THE ISSUED SHARES IN GROUP DRAGON INVESTMENTS LIMITED OTHER THAN THOSE SHARES ALREADY OWNED BY WELL ORIENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT

INTRODUCTION

Hanny, China Strategic, GDI, Well Orient and the China Strategic Offeror jointly announced on 19th April, 2005, among others, that:

— the board of directors of China Strategic had been requested by Paul Y and Hanny, together the then controlling China Strategic Shareholders, to place before the China Strategic Shareholders the China Strategic Group Reorganisation resulting in the China Strategic Shareholders receiving GDI Shares on the basis of one GDI Share for one China Strategic Share based on their respective shareholdings in China Strategic on the record date for such purpose;

— Somerley, on behalf of Well Orient (an indirect wholly-owned subsidiary of Hanny), would make the GDI Offer to the GDI Qualifying Shareholders to acquire all the GDI Shares, other than those already owned by Well Orient, its associates and parties acting in concert with it (but the GDI Offer will be extended to Paul Y), on the basis (as subsequently revised by Hanny, details of which are set out in the joint announcement of Hanny and the Offeror dated 8th May, 2006) of: (i) one Hanny Share plus HK$1.8 in cash for every five GDI Shares; and/or (ii) one Hanny Bond, which is convertible into one Conversion Share at the initial conversion price of HK$9.0 per Conversion Share, subject to usual anti-dilution adjustments as set out in the principal terms of the Hanny Bonds under sub-section headed “Option 2” in the letter from Somerley contained in this document, from time to time before the Maturity Date, with face value of HK$15.0 for every five GDI Shares;

— the board of directors of China Strategic had been informed by Hanny and Paul Y that they had entered into the Share Sale Agreement with the China Strategic Offeror on 10th March, 2005 pursuant to which the China Strategic Offeror agreed to acquire 67,500,000 China Strategic Shares from each of Hanny and Paul Y, which shares represent an aggregate of approximately 30.6% of China Strategic’s issued share capital as at the date of the Share Sale Agreement, for an aggregate consideration of HK$52,110,000, equivalent to HK$0.386 per China Strategic Share; and

— upon completion of the Share Sale Agreement, Kingston Securities Limited would, on behalf of the China Strategic Offeror, make a mandatory unconditional cash offer to acquire all the China Strategic Shares, other than those held by the China Strategic Offeror and parties acting in concert with it, on the basis of HK$0.386 per China Strategic Share.

The Group Reorganisation was duly completed on 19th May, 2006, following which China Strategic remains a public listed company with its subsidiaries (other than the GDI Group) concentrating on the business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investments (being the Remaining Business). All other subsidiaries of China Strategic which are engaged in property development and/or which are investment holding entities, holding business and vessels for sand mining, and all other associated companies of the China Strategic Group carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services and hotel operations (together being the Distributed Business) have been grouped under GDI and continue to be run by the existing management of China Strategic. The GDI Shares were distributed in specie to the China Strategic Shareholders whose names appeared on the register of members of China Strategic on 19th May, 2006 on the basis of one GDI Share for one China Strategic Share then held, but the share certificates of GDI will only be posted to those China Strategic Shareholders who do not accept the GDI Offer after the close of the GDI Offer. Somerley, on behalf of Well Orient (an indirect wholly-owned subsidiary of Hanny) is making the GDI Offer to the GDI Qualifying Shareholders to acquire all the GDI Shares other than those already owned by Well Orient and parties acting in concert with it (but the GDI Offer is being extended to Paul Y), on the basis of (i) one Hanny Share plus HK$1.8 in cash for every five GDI Shares; and/or (ii) one Hanny Bond, which is convertible into one Conversion Share at the initial conversion price of HK$9.0 per Conversion Share, subject to usual anti-dilution adjustments, from time to time before the Maturity Date, with face value of HK$15.0 for every five GDI Shares.

The purpose of this document is to provide you with information in relation to the Hanny Group, the GDI Group and the GDI Offer, and the letter of advice from Hercules containing its advice to the GDI Qualifying Shareholders in respect of the GDI Offer.

INFORMATION ABOUT GDI

GDI’s principal activities are investment holding and its subsidiaries are principally engaged in the following business:

(i) Property development

- Property interests in Jing An District, Shanghai, the PRC
- Property interests in Long Shan Industrial District, Doumen District, Zhuhai City, Guangdong, the PRC

(ii) *Manufacturing and marketing of tires*

- 14.4% effective interest, held through CEL, in Hangzhou Zhongce

(iii) *Business of providing tour, travel and other related services*

- 11.1% effective interest, held through CEL, in Wing On *(Note 1)*

(iv) *Other businesses*

- 55.22% effective equity interest in CEL *(Note 2)*
- 57.26% interest in MRI *(Note 3)*
- 9.8% interest in Apex *(Note 4)*
- 194 redeemable preference shares and 200 ordinary shares of Vertex Technology Fund (II) Ltd. *(Note 5)*
- 100% interest in 廣州耀陽實業有限公司 (Guangzhou Yao Yang Industrial Co., Ltd.) and 88% interest in 東莞市江海貿易有限公司 (Dongguan Shi Jiang Hai Trading Co., Ltd.) *(Note 6)*

Notes:

1. The shares of Wing On are listed on the main board of the Stock Exchange.

   Wing On, an associate of GDI, announced on 1st March, 2006 that Wing On had entered into a placing agreement with a placing agent, pursuant to which the placing agent agreed to place, on a best effort basis, up to 175,000,000 new shares of Wing On to not less than six independent third parties of Wing On. Such placing agreement was completed on 25th April, 2006 and 175,000,000 new shares of Wing On have been issued on completion. According to the announcement of Wing On dated 1st March, 2006, the net proceeds from such placing exercise of approximately HK$119.7 million were intended to be used as general working capital for the Wing On group. Further details of such placing exercise were set out in the announcements of Wing On dated 1st March, 2006 and 25th April, 2006, respectively.

   Wing On and China Strategic jointly announced on 27th March, 2006 that Wing On had entered into certain conditional subscription agreements with 11 subscribers, pursuant to which Wing On agreed to issue 2% convertible exchangeable notes with an aggregate principal amount of HK$1,000 million to the subscribers. CEL, a subsidiary of GDI and (as of the date of the subscription agreements but not as of the Latest Practicable Date) a subsidiary of China Strategic, was one of the subscribers and had conditionally agreed to subscribe for the 2% convertible exchangeable notes with principal amount of HK$300 million. The subscription by CEL is subject to, among other things, the approval by the shareholders of China Strategic. An extraordinary general meeting of China Strategic will be held on 5th June, 2006 to consider and approve the related subscription agreement and the transactions contemplated thereunder. Further details of the 2% convertible exchangeable notes were set out in the announcement dated 27th March, 2006 jointly issued by Wing On and China Strategic and the circulars of Wing On and China Strategic dated 21st April, 2006 and 19th May, 2006 respectively.

2. The shares of CEL are listed on the OTC (over-the-counter) Bulletin Board in the United States and CEL is mainly engaged in investment holding activities.

3. The shares of MRI are listed on the Australian Stock Exchange and MRI is mainly engaged in investment holding activities.

4. Apex is an investment holding company which holds the “Rosedale” branded hotels in Hong Kong, Guangzhou and Beijing and Luoyang Golden Gulf Hotel in the PRC.

5. The principal business of Vertex Technology Fund (II) Ltd. is investment in emerging growth companies in selected industries in the United States, Europe and Asia.

6. The principal business of these companies is the holding of vessel for sand mining.

FINANCIAL INFORMATION ON THE GDI GROUP

The following table summarises the audited financial information of the GDI Group for each of the three years ended 31st December, 2005. Details of the audited combined income statement and the audited combined balance sheet of the GDI Group for each of the three years ended 31st December, 2005 are set out in Appendix III to this document.

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	—	—	5,298
(Loss)/ Profit for the year from continuing operations	(310,877)	91,601	(58,551)
Profit for the year from discontinued operations	104,075	1,511	—
(Loss)/ Profit for the year	(206,802)	93,112	(58,511)

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Net deficits before minority interest	(864,115)	(882,712)	(891,246)
Net tangible deficits before minority interest	(873,440)	(882,712)	(900,369)

PRO FORMA FINANCIAL INFORMATION OF THE GDI GROUP UPON COMPLETION OF THE CHINA STRATEGIC GROUP REORGANISATION

According to the unaudited pro forma balance sheet set out in Appendix IV to this document, the unaudited pro forma net assets before minority interest of the GDI Group upon completion of the China Strategic Group Reorganisation amounted to HK$1,124,126,000, representing approximately HK$2.55 per GDI Share. Details of the unaudited pro forma balance sheet of the GDI Group upon completion of the China Strategic Group Reorganisation are set out under the columns headed "The GDI Group as at 31st December, 2005", "Pro forma adjustments relating to China Strategic Group Reorganisation" and "The GDI Group after pro forma adjustments" in the paragraph headed "(I) The Unaudited Pro Forma Balance Sheet of the Enlarged Hanny Group" in Appendix IV to this document.

THE GDI OFFER

Upon completion of the China Strategic Group Reorganisation, (i) China Strategic had 440,797,543 China Strategic Shares in issue and on that basis, 440,797,543 GDI Shares had been distributed to the China Strategic Shareholders whose names appeared on the register of members of China Strategic on 19th May, 2006; (ii) each of Paul Y and Hanny was indirectly interested in a total of 129,409,897 GDI Shares, which represented approximately 29.4% of the issued share capital of GDI. As such, the aggregate GDI Shares which were indirectly owned by Hanny, Paul Y and their concert parties amounted to 258,819,794 GDI Shares, representing approximately 58.8% of the then issued share capital of GDI upon completion of the China Strategic Group Reorganisation.

Somerley, on behalf of Well Orient (an indirect wholly-owned subsidiary of Hanny), is making a voluntary offer to the GDI Qualifying Shareholders to acquire all the GDI Shares, other than those already owned by Well Orient, its associates and parties acting in concert with it (but the GDI Offer is extended to Paul Y) on the following basis:

Option 1:

For every five GDI Shares* .... one Hanny Share plus HK$1.8 in cash

Option 2:

For every five GDI Shares* .... one Hanny Bond with face value of HK$15.0

* *The GDI Shares were issued based on the number of the China Strategic Shares in issue on 19th May, 2006. The GDI Offer is being made for every five (5) GDI Shares held by the GDI Qualifying Shareholders and a pro rated portion of the consideration (to be calculated on the basis set out in Appendix I to this document) will be paid in respect of acceptances of the GDI Offer for any greater and lesser number of GDI Shares, except that no fraction of a Hanny Share or a Hanny Bond will be issued.*

GDI Qualifying Shareholders and Paul Y can either elect to receive Option 1 or Option 2 consideration, or a combination of both, in respect of their acceptances of the GDI Offer.

As at the Latest Practicable Date, GDI had no outstanding securities, options or warrants which are convertible into or which confer rights to require the issue of GDI Shares.

Details of Option 1 and Option 2 under the GDI Offer are set out in the letter from Somerley in this document.

The GDI Shares subject to the GDI Offer will be acquired with the right to receive all dividends and distributions declared, paid or made on or after the date of the issue of the GDI Shares and free from all third party rights.

Since GDI is a company incorporated in the British Virgin Islands and its register of members is located there, no transfer duty is payable on any transfer of the GDI Shares.

Further terms and conditions of the GDI Offer, including the procedure for acceptance, are contained in the letter from Somerley set out on pages 11 to 18 of this document, Appendix I to this document and the Form of Acceptance.

RECOMMENDATION

Your attention is drawn to the letter from Hercules, the independent financial adviser to the GDI Qualifying Shareholders, which set out its recommendation in relation to the GDI Offer and the principal factors considered by it in arriving at its recommendation.

ADDITIONAL INFORMATION

In considering what action to take in connection with the GDI Offer, GDI Qualifying Shareholders should consider their own tax positions and, if they are in any doubt, they should consult their professional advisers.

GDI Qualifying Shareholders should read through this document and the accompanying Form of Acceptance for details of the GDI Offer.

Yours faithfully,
for and on behalf of the board of
GROUP DRAGON INVESTMENTS LIMITED
Dr. Chan Kwok Keung, Charles
Chairman

The following is the text of the letter from Somerley which has been prepared for the purpose of inclusion in this document:

SOMERLEY LIMITED
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

26th May, 2006

To the GDI Qualifying Shareholders

Dear Sir or Madam,

**VOLUNTARY UNCONDITIONAL SECURITIES EXCHANGE OFFER
BY
SOMERLEY LIMITED
ON BEHALF OF WELL ORIENT LIMITED
(A WHOLLY-OWNED SUBSIDIARY OF
HANNY HOLDINGS LIMITED)
TO ACQUIRE ALL THE ISSUED SHARES IN
GROUP DRAGON INVESTMENTS LIMITED
OTHER THAN THOSE SHARES ALREADY OWNED BY
WELL ORIENT LIMITED
AND PARTIES ACTING IN CONCERT WITH IT**

INTRODUCTION

On 19th April, 2005, it was announced that Somerley would, on behalf of Well Orient, make the GDI Offer subject to the approval of the Independent Hanny Shareholders at the SGM and completion of the China Strategic Group Reorganisation. The making of the GDI Offer was approved by the Independent Hanny Shareholders at the SGM held on 7th October, 2005. Completion of the China Strategic Group Reorganisation took place on 19th May, 2006. Unless otherwise stated, terms used in this letter have the same meanings as those defined in the composite document dated 26th May, 2006 (the "Document") issued by the Offeror and GDI in respect of the GDI Offer. This letter, together with Appendix I to this Document and the accompanying Form of Acceptance, set out the terms of the GDI Offer.

THE GDI OFFER

Somerley Limited, on behalf of Well Orient, hereby offers to acquire all the GDI Shares owned by GDI Qualifying Shareholders on the following basis:—

Option 1:

For every five (5) GDI Shares .... one (1) Hanny Share plus HK$1.8 in cash

Option 2:

For every five (5) GDI Shares .... one (1) Hanny Bond with face value of HK$15.0

GDI Qualifying Shareholders can elect to receive Option 1 or Option 2 consideration, or a combination of both in respect of their acceptances of the GDI Offer.

The GDI Offer is being made for every five (5) GDI Shares held by the GDI Qualifying Shareholders and a pro rated portion of the consideration (to be calculated on the basis set out in Appendix I to this document) will be paid in respect of acceptances of the GDI Offer for any greater and lesser number of GDI Shares, except that no fraction of a Hanny Share or a Hanny Bond will be issued.

Option 1

The offer consideration for the GDI Shares under Option 1 has been determined after taking into account the estimated consolidated net asset value of GDI upon completion of the China Strategic Group Reorganisation and the market performance of the China Strategic Shares and the Hanny Shares prior to suspension in the trading of the Hanny Shares and the China Strategic Shares on the Stock Exchange on 8th March, 2005.

The new Hanny Shares to be delivered as Option 1 consideration, when fully paid or credited as fully paid and issued, will rank pari passu in all respects among themselves and with the Hanny Shares then in issue and be entitled to receive all dividends and other distributions thereafter declared, made or paid. Application has been made to the Stock Exchange for the listing of, and permission to deal in, the new Hanny Shares to be allotted and issued under Option 1.

The closing price per Hanny Share as quoted on the Stock Exchange on 14th October, 2004, being the last trading day on the Stock Exchange for Hanny Shares immediately before the date of the Initial Announcement, was HK$2.675. On the basis of five GDI Shares for one Hanny Share plus HK$1.8 in cash and the aforesaid closing price per Hanny Share, the implied value attaching to one GDI Share subject to the GDI Offer would be HK$0.895, representing a discount of approximately 64.9% to the unaudited pro forma net asset value per GDI Share of approximately HK$2.55 upon completion of the China Strategic Group Reorganisation.

On the Last Trading Day, the closing price per Hanny Share as quoted on the Stock Exchange was HK$3.70. On the basis of five GDI Shares for one Hanny Share plus HK$1.8 in cash and the aforesaid closing price per Hanny Share, the implied value attaching to one GDI Share subject to the GDI Offer would be HK$1.1, representing a discount of approximately 56.9% to the unaudited pro forma net asset value per GDI Share of approximately HK$2.55 upon completion of the China Strategic Group Reorganisation.

As at the Latest Practicable Date, the closing price per Hanny Share as quoted on the Stock Exchange was HK$4.075. On the basis of five GDI Shares for one Hanny Share plus HK$1.8 in cash and the aforesaid closing price per Hanny Share, the implied value attaching to one GDI Share subject to the GDI Offer would be HK$1.175, representing a discount of approximately 53.9% to the unaudited pro forma net asset value per GDI Share of approximately HK$2.55 upon completion of the China Strategic Group Reorganisation.

Option 2

Set out below are the principal terms of the Hanny Bond to be issued under Option 2:

Principal amount	The Hanny Bond will be issued in denominations of HK$15.0 each. The aggregate number and value of Hanny Bonds that will ultimately be issued by Hanny under the GDI Offer will be ascertained upon the close of the GDI Offer.
Maturity Date	The Hanny Bond will mature on the fifth anniversary from the date of issue. Save with the prior approval of the holders of Hanny Bonds holding 75% or more of the principal amount of the Hanny Bonds then outstanding, Hanny may not redeem any part of the Hanny Bond prior to the Maturity Date. Unless previously converted, the Hanny Bond will be redeemed on the Maturity Date at 100% of the principal amount of the Hanny Bond outstanding with all accrued interest which has not been paid previously.
Transferability	The Hanny Bond shall be transferable at all times in the amount of HK$30,000 or integral multiples thereof, or if less as represents the entire holding of that transferor of the Hanny Bonds.
Listing	No application will be made for the listing of, or permission to deal in, the Hanny Bond on the Stock Exchange or any other stock exchange, but listing application has been made for the Conversion Shares to be allotted and issued pursuant to the Conversion.

Voting The holder of the Hanny Bond will not be entitled to attend or vote at any general meetings of Hanny by reason only of it being a holder of the Hanny Bond.

Interest Unless otherwise redeemed, the Hanny Bond will bear interest from the date of the issue to and excluding the Maturity Date or (if earlier in respect of any converted Hanny Bond) the date of conversion notice given in respect of such conversion, at the rate of 2% per annum on the outstanding principal amount of the Hanny Bond. The interest will be payable by Hanny annually in arrears on each anniversary of the date of the issue. The first payment of interest shall be made on the first anniversary of the date of issue.

Conversion period After the date of the issue, the holder of the Hanny Bond has the right to convert the whole or part of the principal amount of the Hanny Bond into Conversion Shares at any time up to and including the date falling 14 days prior to the Maturity Date. Fractions of Hanny Shares will not be issued and no payment in lieu thereof will be made on conversion.

Conversion price The Hanny Bond can be converted into Conversion Shares at the initial conversion price of HK$9.0 per Conversion Share (subject to adjustments in accordance with the terms of the Hanny Bond) during the conversion period as stated above.

The initial conversion price of HK$9.0 per Conversion Share represents:

— a premium of 143.2% over the closing price of HK$3.7 per Hanny Share as quoted on the Stock Exchange on the Last Trading Day;

— a premium of 136.2% over the average closing price of HK$3.810 per Hanny Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

— a premium of 129.4% over the average closing price of HK$3.923 per Hanny Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;

— a premium of 120.9% over the closing price of HK$4.075 per Hanny Share as quoted on the Stock Exchange as at the Latest Practicable Date;

— a premium of 21.5% over the audited consolidated net asset value of HK$7.41 per Hanny Share as at 31st December, 2005; and

— a discount of 10.9% to the pro forma consolidated net asset value of HK$10.10 per Hanny Share (calculated based on the audited consolidated net asset value of the Hanny Group as at 31st December, 2005 adjusted for the effects of the completion of the disposal by the Hanny Group of its business relating to the trading of computer related products and consumer electronic products, and the manufacturing, distribution and marketing of data storage media in April 2006 (as disclosed in the column headed "Pro Forma Remaining Hanny Group as at 31st December, 2005" contained in the unaudited pro forma balance sheets in Appendix IV to this document), and 226,143,697 Hanny Shares in issue as at 31st December, 2005).

The conversion price is subject to adjustments from time to time in accordance with the provisions set out in the Hanny Bond instrument including, among other things, (i) Hanny Shares having become of a different nominal amount by reason of any consolidation or subdivision; (ii) issue of new Hanny Shares by capitalisation of profit or reserves; (iii) capital distribution; (iv) rights issue; (v) grant of option or warrants to subscribe for new Hanny Shares; and (vi) certain other events which may have a dilutive effect on the interest of the holder of Hanny Bond.

Conversion Shares	The Conversion Shares to be issued upon Conversion will, when allotted and issued, rank pari passu in all respects with all Hanny Shares then in issue and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice.
Certificates	Every GDI Qualifying Shareholder accepting the GDI Offer under Option 2 will receive one certificate representing his aggregate holding of the Hanny Bond to which he is entitled.

The offer consolidation for the GDI Shares under Option 2 has been determined after taking into account the estimated consolidated net asset value of the GDI Group upon completion of the China Strategic Group Reorganisation.

An announcement will be made by Hanny regarding the aggregate number and principal amount of Hanny Bonds (and the number of the Conversion Shares that will fall to be issued by Hanny on conversion of such Hanny Bonds at the initial conversion price) under the GDI Offer upon the close of the GDI Offer.

On the basis of five GDI Shares for one Hanny Bond with face value of HK$15.0, the implied value of the Hanny Bond attaching to each GDI Share subject to the GDI Offer would be HK$3.0, representing a premium of approximately 17.6% over the unaudited pro forma net asset value per GDI Share of HK$2.55 upon completion of the China Strategic Group Reorganisation.

Estimated value of Hanny Bond

In accordance with paragraph 30 of Schedule I of the Takeovers Code, RHL has advised the Hanny Directors that if a Hanny Bond were in issue as at 31st March, 2006, the estimated fair value of one Hanny Bond would be HK$14.10. Further details in respect of the estimated fair value of Hanny Bond is set out in Appendix V to this document.

TOTAL CONSIDERATION

On the basis that 440,797,543 GDI Shares were in issue upon completion of the China Strategic Group Reorganisation, the GDI Offer values the entire issued share capital of GDI at approximately HK$517.9 million under Option 1 (based on closing price of the Hanny Shares as at the Latest Practicable Date) and approximately HK$1,322.4 million under Option 2.

Based on 129,409,897 GDI Shares beneficially owned by the Offeror, 311,387,646 GDI Shares (representing approximately 70.6% of the share capital of GDI) will be subject to the GDI Offer and such GDI Shares are valued at approximately HK$365.9 million under Option 1 (based on the closing price of the Hanny Shares on the Latest Practicable Date) and approximately HK$934.2 million under Option 2.

CONDITIONS

The GDI Offer is unconditional. Except in the circumstances set out in Rule 19.2 of the Takeovers Code which is to the effect that if the Offeror is unable to comply with the requirements of making announcements relating to the GDI Offer, the Executive may require that the accepting GDI Qualifying Shareholders be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met. Save for the above, acceptances rendered by the GDI Qualifying Shareholders under the GDI Offer shall be irrevocable and cannot be withdrawn.

FINANCING FOR THE GDI OFFER

Hanny will finance the cash consideration in the aggregate amount of approximately HK$112.1 million under Option 1 by facilities granted by two securities houses, namely Tai Fook Securities Company Limited and Success Securities Limited (formerly known as Young Champion Securities Limited). It is not the intention of the Offeror that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the GDI Group.

Somerley is satisfied that sufficient financial resources are available to the Offeror to meet acceptances in full of the GDI Offer.

COMPULSORY ACQUISITION OR REDEMPTION

The Offeror does not intend to avail itself of any compulsory acquisition or redemption provisions under the applicable laws in the BVI, but reserves the right to do so. Further announcement will be made in the event that the Offeror decides to avail itself to such compulsory acquisition or redemption provisions.

INTENTIONS OF THE GDI QUALIFYING SHAREHOLDERS

Up to the Latest Practicable Date, neither the Offeror nor Hanny had received any indication or irrevocable commitment from either Paul Y or any other GDI Qualifying Shareholders to accept or reject the GDI Offer, or as regards their choice of receiving Option 1 or Option 2 consideration in respect of their acceptances. However, Paul Y announced on 8th May, 2006 that it has resolved to declare a special dividend to the shareholders of Paul Y by way of the distribution of the value derived from its divestment in China Strategic, i.e. the value in GDI Shares, to the shareholders of Paul Y and it intended to accept the GDI Offer in accordance with the choice of its shareholders.

REASONS FOR MAKING THE GDI OFFER

Hanny entered into the Share Sale Agreement with Paul Y and the China Strategic Offeror on 10th March, 2005 pursuant to which the China Strategic Offeror conditionally agreed to acquire 135,000,000 then existing China Strategic shares (equivalent to 67,500,000 China Strategic Shares) from each of Hanny and Paul Y for an aggregate cash consideration of HK$52,110,000 (HK$26,055,000 each for Hanny and Paul Y). One of the conditions precedent to the completion of the Share Sale Agreement is the implementation of the capital reorganisation of China Strategic and the China Strategic Group Reorganisation to the reasonable satisfaction of the China Strategic Offeror. Therefore, Hanny considered it to be beneficial to itself and the Hanny Shareholders for Hanny to put forward the proposal in respect of the China Strategic Group Reorganisation to the board of directors of China Strategic.

Given that the GDI Shares will not be listed on any stock exchange, the Hanny Directors considered it appropriate to provide the Independent China Strategic Shareholders (as holders of GDI Shares) with an opportunity to realise their investments in GDI by making the GDI Offer. In addition, upon completion of the China Strategic Group Reorganisation, two overseas listed companies, namely CEL and MRI, will become non wholly-owned subsidiaries of GDI. Hanny may as a result of the GDI Offer increase its stake in GDI to the extent that GDI becomes a subsidiary of Hanny. If this happens, Hanny will be in control of two overseas listed companies engaged in part of the Distributed Business. By the partial disposal of its interests in China Strategic pursuant to the Share Sale Agreement together with the making of the GDI Offer, the Hanny Directors believe that they will be able to streamline its existing listed group structure in a way that allows Hanny to manage its interests in or the operation of the Distributed Business more efficiently. The Hanny Directors believe that such streamlined group structure could allow Hanny's management to enhance the potential of the Distributed Business.

INTENTIONS OF HANNY REGARDING GDI

GDI was incorporated in the BVI with limited liability. GDI's principal activity is investment holding and its subsidiaries are principally engaged in the Distributed Business. Hanny intends that the GDI Group will not conduct any business other than the Distributed Business or hold any other assets other than those assets related to the Distributed Business acquired through the China Strategic Group Reorganisation. The GDI Board does not intend to dispose of any assets or redeploy any employees of the GDI Group upon completion of the GDI Offer. Hanny does not intend to inject any asset into GDI or to propose that the GDI Board authorises the disposal of any assets or to make changes to the principal business of the GDI Group.

No listing application is intended to be made for the GDI Shares on the Stock Exchange or any other stock exchange.

GDI BOARD

The GDI Board currently comprises all executive directors of China Strategic and their alternates, but none of the independent non-executive directors of China Strategic has been appointed as a director of GDI. Upon the close of the GDI Offer, the composition of the GDI Board may change. If GDI remains a public company upon the close of the GDI Offer, it will appoint three independent non-executive directors and be subject to the provisions of the Takeovers Code. Further announcement will be made in this regard as and when appropriate.

INFORMATION ON THE OFFEROR AND THE HANNY GROUP

The Offeror is an investment holding company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of Hanny. The Hanny Group is principally engaged in the trading of securities, property investment and trading and other strategic investments including investments in associated companies which are listed on the Stock Exchange and long-term convertible notes issued by companies listed on the Stock Exchange. Hanny itself is an investment holding company.

PROSPECTS OF THE ENLARGED HANNY GROUP

After completion of the disposal of the business of trading of computer related products and consumer electronic products, and the manufacturing, distribution and marketing of data storage media on 28th April, 2006, the Hanny Group has been concentrating on the trading of securities, property investment and trading and other strategic investments.

Hanny may as a result of the GDI Offer increase its stake in GDI to the extent that GDI becomes a subsidiary of Hanny. If this happens, Hanny will be in control of two overseas listed companies, namely CEL and MRI, engaged in part of the Distributed Business. The Hanny Directors consider that the streamlined structure of the Hanny Group after the partial disposal of its interests in China Strategic and the consolidation of Hanny's interests in GDI through the GDI Offer could enable the Hanny Group's management to manage and operate the Distributed Business more efficiently and allow them to enhance its potential.

CEL is a 55.2% owned subsidiary of GDI and will continue to hold a 26% equity interest in Hangzhou Zhongce which is principally engaged in the manufacturing and marketing of tires in the PRC and overseas. The business run by Hangzhou Zhongce was profitable in recent years. According to its audited financial statements for each of the three years ended 31st December, 2004, Hangzhou Zhongce recorded net profit of RMB118.0 million (equivalent to approximately HK$111.2 million), RMB85.5 million (equivalent to approximately HK$80.2 million) and approximately RMB107.1 million (equivalent to approximately HK$100.7 million) respectively. Based on the information published by the National Bureau of Statistics of China, the total number of motor vehicles produced in the PRC recorded an increasing trend from 1999 to 2003. In view of the profitable results of Hangzhou Zhongce for the past few years as well as the significant growth in the production of motor vehicles in the PRC in recent years, the Hanny Directors are confident about the business prospects of the manufacturing and marketing of tires to be engaged by the GDI Group in the future.

The principal activity of MRI is investment holding. As a publicly listed investment vehicle, the investment criteria of MRI are strictly determined by a shareholder approved investment mandate which allows investment in listed or unlisted securities or companies. However, the investment objectives do not include the exercise of control over the management of any entity of business in which MRI invests. MRI operates predominantly in Australia and Hong Kong. For the year ended 31st December, 2005, MRI recorded net loss of AUD120,932 (equivalent to approximately HK$0.7 million), compared to AUD790,833 (equivalent to approximately HK$4.6 million) for the year ended 31st December, 2004. MRI subscribed for a 8.4% interest in Zest Health Clubs Ltd. at a consideration of AUD4 million (equivalent to approximately HK$23.4 million) in January 2006. According to the annual report of MRI for the year ended 31st December, 2005, Zest Health Clubs Ltd. is one of the leading health and fitness companies in Australia. It had over 65,000 members and a market leading presence in Perth, Brisbane and Adelaide. MRI shares were suspended from trading on the Australian Stock Exchange on 9th July, 2004 as a result of insufficient operations as well as the fact that more than half of the assets of MRI had been held in cash during a certain period immediately prior to the suspension. Following completion of the acquisition of Zest Health Clubs Ltd., trading in MRI shares resumed on 13th January, 2006. Following completion of the GDI Offer, the Hanny Directors, in conjunction with the management of the GDI Group, will seek to identify suitable investment opportunities for MRI and are optimistic about the prospects of MRI.

PROCEDURE FOR ACCEPTANCE AND SETTLEMENT

Procedure for acceptance

To accept the GDI Offer, you should complete the accompanying Form of Acceptance in accordance with the instructions printed thereon and in Appendix 1 to the Document, which forms part of the terms of the GDI Offer.

Your completed Form of Acceptance should then be forwarded by post, by express mail or other similar courier services, or by hand to the Receiving Agent, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Friday, 16th June, 2006 (or such later time and date as the Offeror may announce in accordance with the requirements of the Takeovers Code).

No acknowledgement of receipt of any Form(s) of Acceptance in respect of your GDI Shares will be given.

Your attention is drawn to Appendix I to this document and the Form of Acceptance for further information about the procedures for acceptance.

Settlement

Provided that a valid Form of Acceptance is delivered in accordance with the terms of this document and the Form of Acceptance, the relevant banker's draft/cheque for the amount, and share certificates for the number of Hanny Shares, due to the accepting GDI Qualifying Shareholder in respect of the GDI Shares tendered by such shareholder for **Option 1 consideration**; **AND/OR** bond certificates for the number of Hanny Bonds due to the accepting GDI Qualifying Shareholder in respect of the GDI Shares tendered by such shareholder for **Option 2 consideration,** will be despatched to such accepting GDI Qualifying Shareholder by ordinary post at his own risk as soon as possible and in any event within 10 days of the date on which all relevant documents are received by the Receiving Agent to render such acceptance complete and valid. If such date is not a Business Day, then the day by which the aforesaid consideration will be despatched will be extended to the next Business Day thereafter.

If you hold your GDI Shares through a licensed securities dealer, custodian bank or other nominee, to accept the GDI Offer, it is essential that you provide instructions to your nominee agent of your intentions with regard to the GDI Offer. To ensure equality of treatment of all GDI Qualifying Shareholders, those registered shareholders who hold GDI Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately.

Overseas GDI Qualifying Shareholders

The making of the GDI Offer in, or to the GDI Qualifying Shareholders in, any jurisdiction outside Hong Kong may be affected by the laws of the relevant jurisdictions. GDI Qualifying Shareholders who are citizens, residents or nationals of jurisdictions outside Hong Kong should inform themselves about, and observe, all applicable legal and regulatory requirements of the relevant jurisdictions.

It is the responsibility of any GDI Qualifying Shareholder not resident in Hong Kong who wishes to accept the GDI Offer to satisfy himself as to the full observance of all the applicable laws and regulations of any relevant jurisdiction in connection therewith, including obtaining any government or other consent which may be required, complying with any other necessary formality and paying any issue, transfer or other taxes due in respect of such jurisdiction.

With the consent of the Executive, (i) the GDI Offer will not be extended to U.S. persons and persons whose addresses shown on the register of members of GDI is in Malaysia and (ii) this document will be despatched for information only and without the accompanying Form of Acceptance to those persons whose names appear on the register of members of GDI and whose addresses shown on the register of members of GDI is in the United States or Malaysia.

The GDI Offer is being made only outside the United States to non-U.S. persons and outside Malaysia. No U.S. person will be allowed to participate in such offer, and any purported tender of securities from a U.S. person or a U.S. address will not be accepted.

Each accepting GDI Qualifying Shareholder shall be required to certify in the Form of Acceptance that (i) he did not receive this document or the Form of Acceptance in the United States nor will he send the completed Form of Acceptance from the United States or use any U.S. jurisdictional means to deliver the completed Form of Acceptance; (ii) he was not in the United States when the Form of Acceptance was delivered or at the time of accepting the GDI Offer; (iii) he is not a U.S. person; or (iv) he is not an agent or fiduciary acting on a non-discretionary basis for a principal in the United States.

FURTHER TERMS OF THE GDI OFFER

Further terms

Further terms of the GDI Offer (including the procedure for acceptance and the acceptance period, revisions and extensions of the GDI Offer) are set out in Appendix I to the Document and the Form of Acceptance.

GDI Shares

GDI Shares will be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid after the date of the issue of the GDI Shares.

Stamp duty

Since GDI is a company incorporated in the BVI and its register of members is located and maintained there, no Hong Kong stamp duty is payable on any transfer of GDI Shares.

Dealings in the Hanny Shares registered in Hanny’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. Dealings in Hanny Bonds are required to be registered in Hanny’s register of holders of the Hanny Bonds which will be located and maintained in Hong Kong and will therefore also be subject to Hong Kong stamp duty.

Taxation and independent advice

GDI Qualifying Shareholders should consult their own professional advisers if they are in doubt as to the taxation implications of accepting or rejecting the GDI Offer. It is emphasised that none of the Offeror, Hanny, Somerley, any of their respective directors or affiliates or any other person involved in the GDI Offer accepts responsibility for any tax or other effects on, or liabilities of, any person as a result of his acceptance or rejection of the GDI Offer.

ADDITIONAL INFORMATION

Your attention is drawn to the expected timetable and the letters from the GDI Board and Hercules set out in this document and the additional information set out in the appendices to this document.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Deputy Chairman

The following is the text of the letter of advice from Hercules which has been prepared for the purpose of inclusion in this document:

Hercules
Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

26th May, 2006

To the GDI Qualifying Shareholders

Dear Sir or Madam,

**VOLUNTARY UNCONDITIONAL SECURITIES EXCHANGE OFFER
BY
SOMERLEY LIMITED
ON BEHALF OF WELL ORIENT LIMITED
(A WHOLLY-OWNED SUBSIDIARY OF
HANNY HOLDINGS LIMITED)
TO ACQUIRE ALL THE ISSUED SHARES IN
GROUP DRAGON INVESTMENTS LIMITED
OTHER THAN THOSE SHARES ALREADY OWNED BY
WELL ORIENT LIMITED
AND PARTIES ACTING IN CONCERT WITH IT**

We refer to our appointment as the independent financial adviser to advise the GDI Qualifying Shareholders with respect to the terms of the GDI Offer, details of which are set out in the composite document dated 26th May, 2006 (the "Document") to the GDI Qualifying Shareholders, of which this letter forms part. The terms defined in the Document have the same meanings in this letter, unless the context requires otherwise.

As the GDI Board currently comprises all executive and alternate directors of China Strategic and no non-executive director has been appointed, an independent board committee could not be formed pursuant to Rule 2.8 of the Takeovers Code. Consequently, we have been appointed to act as the independent financial adviser to give our opinion to the GDI Qualifying Shareholders directly as to whether or not the terms of the GDI Offer are fair and reasonable so far as they are concerned.

In formulating our recommendations, we have reviewed, *inter alia*, the Document and certain related agreements and certain publicly available financial statements and other business and financial information relating to Hanny and GDI. We have also reviewed certain information provided by management of China Strategic relating to the operations, financial condition and prospects of GDI. We have considered the valuation of the Hanny Bonds prepared by RHL as at 31st March, 2006. We have also considered the terms of other cash offers made within a full eighteen month period prior to the Latest Practicable Date for companies listed on the main board of the Stock Exchange, as well as such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant. We have not, however, conducted an in-depth review of GDI or Hanny, their businesses, financial conditions and prospects.

The Hanny Directors and directors of the Offeror have jointly and severally accepted full responsibility for the accuracy of the information contained in the Document (other than that relating to GDI and the China Strategic Group) and the directors of GDI and China Strategic have jointly and severally accepted full responsibility for the accuracy of the information contained in the Document (other than that relating to the Hanny Group and the Offeror). The directors of Hanny, the Offeror, GDI and China Strategic have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Document (other than, in the case of Hanny Directors and the directors of the Offeror, those relating to the GDI Group and the China Strategic Group and, in the case of the GDI directors and the China Strategic directors, those relating to the Hanny Group and the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Document, the omission of which would make any statements in the Document misleading.

We have relied on, and assumed, without independent verification, the accuracy and completeness of the information reviewed by us for the purpose of this opinion. We have not, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses, financial conditions or affairs or the future prospects of the Hanny Group and the GDI Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

We have not considered the tax consequences on the GDI Qualifying Shareholders arising from the GDI Offer since these are particular to their individual circumstances. In particular, the GDI Qualifying Shareholders who are residents outside of Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their tax positions with regard to the GDI Offer and, if in any doubt, should consult their own professional advisers.

In addition, we refer you to the letter from the GDI Board and the letter from Somerley contained in this Document, which give full details of the GDI Offer, and the appendices to this Document which give further information on GDI and Hanny as required by the Takeovers Code. We advise that the GDI Qualifying Shareholders read carefully the Document before deciding what action they should take.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons that we have taken into consideration in assessing the GDI Offer and arriving at our opinion are set out below. In reaching our conclusion, we have considered all the factors and analyses in light of each other and ultimately reached our opinion based on the results of all the analyses taken as a whole.

(1) Background to the GDI Offer

GDI is an unlisted public company incorporated in the British Virgin Islands with limited liability and previously a wholly-owned subsidiary of China Strategic. Following completion of the China Strategic Group Reorganisation on 19th May, 2006, the GDI Shares were distributed in specie to the China Strategic Shareholders whose names appeared on the register of members of China Strategic on 19th May, 2006 on the basis of one GDI Shares for every China Strategic Share held.

On 19th April, 2005, Hanny, jointly with China Strategic, GDI, Well Orient and the China Strategic Offeror, announced that, *inter alia*, subject to completion of the China Strategic Group Reorganisation and approval by the Independent Hanny Shareholders of the GDI Offer, Somerley, on behalf of Well Orient, would make the GDI Offer to the GDI Qualifying Shareholders to acquire all the GDI Shares, other than those already owned by Well Orient, its associates and parties acting in concert with it (but such offer will be extended to Paul Y).

The making of the GDI Offer was approved by the Independent Shareholders at the special general meeting of Hanny held on 7th October, 2005 and completion of the China Strategic Group Reorganisation took place on 19th May, 2006.

Set out below are the terms of the GDI Offer (as subsequently revised by Hanny, details of which are set out in the joint announcement of Hanny and the Offeror dated 8th May, 2006):

Option 1:
For every five GDI Shares .... one Hanny Share plus HK$1.8 in cash

Option 1 values each GDI Share at approximately HK$1.175 based on the closing price of HK$4.075 per Hanny Share on the Latest Practicable Date.

Option 2:
For every five GDI Shares .... one Hanny Bond with face value of HK$15.0

The Hanny Bonds to be issued by Hanny under Option 2 will carry a fixed rate of interest of 2.0% per annum. The Hanny Bonds will be transferable at all times in the amount of HK$30,000 or integral multiples thereof, or if less as represents the entire holding of that transferor of the Hanny Bonds, and can be converted into Conversion Shares at the initial conversion price of HK$9.0 per Conversion Share during the conversion period. Based on the valuation of the Hanny Bonds prepared by RHL as at 31st March, 2006, the value of a Hanny Bond would have been HK$14.10. (Please refer to Appendix V — Estimated Value of the Hanny Bonds for details.)

GDI Qualifying Shareholders and Paul Y can either elect to receive Option 1 or Option 2 consideration, or a combination of both, in respect of their acceptances of the GDI Offer.

The GDI Offer is being made for every five (5) GDI Shares held by the GDI Qualifying Shareholders and a pro rated portion of the consideration (to be calculated on the basis set out in Appendix I to this Document) will be paid in respect of acceptances of the GDI Offer for any greater and lesser number of GDI Shares, except that no fraction of a Hanny Share or a Hanny Bond will be issued.

Further terms of the GDI Offer, including the procedures for acceptances, are set out in the letter from Somerley and Appendix I of the Document.

(2) Financial Performance of the GDI Group

Summarised in Table 1 below is the GDI Group's combined income statements extracted from Appendix III of the Document.

Table 1: Financial Performance of the GDI Group

	For the year ended 31st December,		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	**5,298**	**—**	**—**
Gross profit	**841**	**—**	**—**
Gross profit margin	*15.9%*	—	—
Other income	33,622	52,660	55,879
Distribution costs	(1,365)	—	—
Administrative expenses	(33,802)	(9,852)	(35,639)
Other expenses	(23,030)	(9,020)	(40,782)
Allowances for loans and interest receivable	(31,116)	(32,419)	(50,645)
Change in fair value of conversion option of unlisted convertible note	(39,743)	76,959	—
Finance costs	—	(1,491)	(55)
Gain (loss) on disposal of interests in associates	(2,814)	57,542	—
Loss on deemed disposal of associate	—	—	(36,480)
Share of results of associates	43,103	(37,521)	(189,887)
Allowance on receivables advanced to an associate	—	—	(12,712)
Gain on disposal of interests in subsidiaries	—	—	11
Profit (loss) before taxation	**(54,304)**	**96,858**	**(310,310)**
Taxation	(4,247)	(5,257)	(567)
Profit (loss) for the year from continuing operations	(58,551)	91,601	(310,877)
Profit for the year from discontinued operations	—	1,511	104,075
Profit (loss) for the year	**(58,551)**	**93,112**	**(206,802)**
Profit (loss) attributable to:			
Equity holders of the parent	(54,259)	21,619	(216,323)
Minority interests	(4,292)	71,493	9,521
Profit (loss) for the year	**(58,551)**	**93,112**	**(206,802)**

Year ended 31st December, 2005 vs. year ended 31st December, 2004

For the financial year 2005, turnover amounted to approximately HK$5.3 million, which was generated from the sand mining business acquired in June 2005. As a result of the deconsolidation of subsidiaries engaged in manufacturing and marketing of tire products and the disposal of the pharmaceutical products operation in May 2004, no turnover from the continuing operations was recorded for the financial year 2004. The GDI Group's share of profits of associate companies amounted to approximately HK$43.1 million compared to a share of losses of associate companies of approximately HK$37.5 million for the financial year 2004, though a net loss of approximately HK$54.3 million was reported. The net loss was primarily attributable to (i) a 36.2% decrease in other income, which included interest income and other income; (ii) increased operating expenses; (iii) a decrease in fair value of conversion option of unlisted convertible note of approximately HK$39.7 million; and (iv) loss on disposal of interests in associate companies of approximately HK$2.8 million.

Year ended 31st December, 2004 vs. year ended 31st December, 2003

As a result of the deconsolidation of subsidiaries engaged in (i) manufacturing and trading of food products; (ii) manufacturing and trading of electronic products; (iii) manufacturing and trading of tractors and automobile related products; (iv) toll highway operation; and (v) hotel operation and property investment, and the disposal/dilution of interest in subsidiaries engaging in the manufacturing and trading of tire products, no turnover from the continuing operations was recorded for the financial year 2003. The GDI Group recorded a net profit of approximately HK$93.1 million in the financial year 2004, compared to a net loss of HK$206.8 million in the financial year 2003. The improvement was primarily attributable to (i) decreased operating expenses; (ii) an increase in fair value of conversion option of unlisted convertible note of approximately HK$77.0 million; (iii) a gain on disposal of interests in associate companies of approximately HK$57.5 million; (iv) a 80.2% reduction in share of losses of associated companies; and (v) a 36.0% decrease in allowances for loans and interests receivable.

(3) Pro Forma Consolidated Balance Sheet of the GDI Group

Summarised in Table 2 below is the GDI Group's unaudited pro forma balance sheet as set out in the column headed "The GDI Group after pro forma adjustments" under the section "(I) The unaudited pro forma balance sheet of the Enlarged Hanny Group" of Appendix IV of this Document and in appendix II of China Strategic's circular dated 10th September, 2005.

Table 2: Unaudited Pro Form Balance Sheet of the GDI Group

	As at	
	31st December, 2005	**30th April, 2005**
	HK$'000	*HK$'000*
Non-Current Assets		
Property, plant and equipment	109,811	794
Deposit paid for acquisition of interest in properties	55,716	54,524
Payment for acquisition of subsidiaries	—	40,000
Intangible assets	9,123	—
Interests in associates	558,738	575,995
Investment in securities at fair value through profit or loss	71,347	90,729
	804,735	762,042
Current Assets		
Other assets	229,288	229,287
Inventories	102	—
Amounts due from associates	151,206	61,526
Loan and interest receivables — due within one year	362,139	298,638
Trade and other receivables, deposit and prepayments	40,672	69,730
Tax recoverable	—	88
Bank balances and cash	103,494	415,588
	886,901	1,074,857
Current Liabilities		
Trade payables and other payables and accrued charges	(17,475)	(33,113)
Payables — due within one year	(583)	(196,499)
Amounts due to associates	(286)	(800)
Income and other taxes payable	(12,257)	(8,060)
Obligations under finance leases	—	(9)
Amounts due to related parties	(199,731)	—
	(230,332)	(238,481)
Net Current Assets	656,569	836,376
Non-current Liability		
Deferred tax liabilities	(21,175)	—
	1,440,129	**1,598,418**
Capital and Reserves		
Capital	10,777	10,777
Reserves	1,113,349	1,274,546
Equity attributable to equity holders of the parent	1,124,126	1,285,323
Minority Interests	316,003	313,095
	1,440,129	**1,598,418**
Current ratio (times)	3.9	4.5
Total liabilities/equity	17.5%	47.7%
Long term debt/equity	—	—

Despite the increases in amount due from associates (by 145.8%) and loan and interest receivables (by 21.3%), current assets decreased by 17.5% to HK$886.9 million as at 31st December, 2005. The decrease was primarily attributable to a 75.1% reduction in cash and bank balances to HK$103.5 million.

Notwithstanding the increases in income and other taxes payable (by 52.1%), current liabilities decreased by 3.4% to HK$230.3 million as at 31st December, 2005. The decrease was mainly attributable to a 99.7% decrease in payables due within one year and a 47.2% reduction in trade payables, other payables and accrued charges.

Current ratio decreased to 3.9 times as at 31st December, 2005 compared to 4.5 times as at 30th April, 2005. Net current assets as at 31st December, 2005 decreased by 21.5% to approximately HK$656.6 million.

Non-current assets increased by 5.6% to HK$804.7 million as at 31st December, 2005 due to the significant increase in property, plant and equipment (by HK$109.0 million to HK$109.8 million).

Net assets at 31st December, 2005 decreased by 9.9% to approximately HK$1.4 billion. Total liabilities to equity ratio improved from 47.7% to 17.5% as at 31st December 2005.

(4) Future prospects and outlook of the GDI Group

We set out below an update of the analysis of prospects of the Distributed Business. This section should be read in conjunction with "Table 9: Outlook of the Distributed Business" set out on pages 74 to 78 of the circular of China Strategic dated 10th September, 2005.

Property development

- ***Property interests in Jingan District, Shanghai, the PRC***

  The GDI Group owns the entire interest in a property development project in respect of a building situated at Nos. 219 and 229, Jiangning Road, Jingan District, Shanghai, the PRC and the building being erected thereon comprises two levels of underground carparks and a 24-storey building. We have discussed with management of the GDI Group and note that the legal proceedings commenced in June 2005 is still in progress (Please also refer to Note 18 of the financial information on the GDI Group contained in Appendix III for details). As disclosed in Note 18 of the financial information on the GDI Group contained in Appendix III, the directors of the GDI Group are in discussion with the vendor for settlement of the matters; however, there can be no assurance that such matters can be resolved and settled eventually. We also noted from the aforesaid note that the GDI Group might have to settle the debts of the vendor owed to the three secured creditors and the main contractor in order to proceed with the acquisition of the properties, which in turn would reduce financial resources available for working capital or for further expansion of its businesses, and adversely affect its financial position. Nevertheless, the prospect of this development project is subject to the outcome of the litigation and/or results of the negotiations between the GDI Group and the vendor.

- ***Property interests in Long Shan Industrial District, Doumen District, Zhuhai City, Guangdong, the PRC***

  The GDI Group owns the entire property interest in a development site located at the junction of Zhugang Road and Huangyang Road in the Longshan Industrial District, Doumen District, Zhuhai City, Guangdong Province, the PRC. We have been advised by management of GDI that the construction works for site formation and provisions of servicing/utilities of part of the property are still in progress and the completion date for such construction works is not determinable as at the Latest Practicable Date. According to management of GDI, the GDI Group has appointed a property agent to negotiate with potential investors. It is expected that the property will be sold in 2007 and the sale will thus be subject to the market conditions prevailing at that time.

- ***22.7% interest in China Velocity Group Limited ("China Velocity")***

  We have been advised by management of GDI that GDI disposed of its 22.65% interests in China Velocity in May 2006. An aggregate of 62,821,662 China Velocity shares were sold at a total consideration of HK$30,000,000 or approximately HK$0.4775 per China Velocity share.

Manufacturing and marketing of tires

- ***14.4% effective interest, held through CEL, in Hangzhou Zhongce***

  We note in CEL's 2004 annual report that Hangzhou Zhongce continued to benefit from the growth in PRC's tire market and recorded significant improvement in turnover in the financial year 2004. Turnover increased by 32.9% to RMB5,131 million for the financial year 2004. However, the audited consolidated net profit for the financial year 2004 decreased to RMB105.3 million from RMB106.3 million for the financial year 2003. According to CEL's 2004 annual report, the net results of Hangzhou Zhongce improved to a lesser extent as compared to its turnover because of the significant increase in the price of raw materials.

  Hangzhou Zhongce's financial performance for the financial year 2005 was not publicly available as CEL had not filed its 2005 annual report with EDGAR as at the Latest Practicable Date.

Business of providing tour, travel and other related services

- ***11.1% effective interest, held through CEL, in Wing On***

  In Wing On's 2005 annual report, certain comparative figures for the financial year 2004 have been restated as a result of the adoption of the newly effective Hong Kong Financial Reporting Standards. Subsequent to the restatement, net loss for the financial year 2004 amounted to HK$2.8 million, as compared to a net profit of HK$35.4 million prior to the restatement. For the financial year 2005, Wing On reported a net profit of HK$32.2 million. Such improvement was mainly attributable to (i) improved gross profit margin from 17.2% in the financial year 2004 to 19.1% in the financial year 2005; (ii) a realised gain on derivative financial instruments of HK$5.7 million; (iii) a reversal of impairment loss in respect of properties under construction of HK$900,000; and (iv) a share of results of an associate company in the hospitality industry in Macau, namely Kingsway Hotel Limited, of HK$8.0 million.

  We note in Wing On's 2005 annual report that Wing On has established a joint venture with Guangdong China Travel Service (Holdings) Ltd. with a view to providing ticket booking services for hotel, airline and other transportation and event services, the operation of call centers, and the marketing of such services and other travel related services in China. This joint venture is acting as a land operator for Wing On in the Guangdong Province to capture the surge in inbound travelers and online travel transactions in the PRC as well as the effect of the 2008 Olympic Games in Hong Kong and the proposed Shanghai Disney Theme Park to be completed in 2010.

  In addition, Wing On has strengthened its leisure section and actively negotiated with its vendors to provide discounted airfare, high quality accommodation, transportation and dining services to the free itinerary travel customers. Its inbound business is also expected to benefit from the opening of the Hong Kong Disneyland and the AsiaWorld-Expo in 2005, the Skyrail to Po Lin Monastery (Ngong Ping 360) and the Wetland Park in mid-2006, the "A Symphony of Lights" being listed on GUINNESS World Record in November 2005, the proposed new cruise terminal at the old Kai Tak airport site, and the effect of staging the equestrian events of the 2008 Olympic Games in Hong Kong. In view of the foregoing, the travel and related services of Wing On is expected to grow continually.

Wing On also provides hotel and leisure services through its 67.9% owned subsidiary, Apex Quality Group Limited, an investment holding company principally holding three "Rosedale" branded hotels in Hong Kong and the PRC and Luoyang Golden Gulf Hotel in the PRC. As noted in Wing On's 2005 annual report, the occupancy rate and room rates of the these hotels had largely benefited from the expansion of the Closer Economic Partnership Arrangement and the PRC Individual Visit Scheme to Hong Kong in 2005. The overall room rate and occupancy rate of these hotels were expected to be boosted by the opening of the Hong Kong Disneyland, the expansion of the Individual Visit Scheme to 44 PRC cities and the hosting of the 2008 Olympic Games.

In addition, following the concession by the United Nations Educational, Scientific and Cultural Organisation to add Macau onto the list of World Heritage Sites and the opening of the Fisherman's Wharf, the number of visitors to Macau is expected to grow significantly. Wing On could enlarge its market share through its branch network and Kingsway Hotel.

Other business and assets and liabilities

- ***55.2% interest in CEL***

CEL's 2004 annual report was filed on 14th March, 2006. CEL reported no turnover for the financial year 2004 following its disposal of a 25% equity interest in Hangzhou Zhongce in 2003. The financial results of CEL for the financial year 2004 comprised solely of Hanny's share of the results of its affiliates in the tire and travel businesses.

For the financial year 2004, CEL recorded a consolidated net profit of RMB181.9 million, compared to a net loss of RMB64.5 million for the financial year 2003. The profit for the financial year 2004 was primarily attributable to an increase in fair value of the call option associated with the convertible note of Wing On totaling RMB60.0 million and Hanny's share of profit of Hangzhou Zhongce and Wing On of RMB104.5 million.

The prospect of CEL would largely depend on the performance of its associate companies and the outcome of the litigation of the property development project in respect of the building situated at Nos. 219 and 229, Jiangning Road, Jingan District, Shanghai, the PRC. In addition, according to CEL's 2004 annual report, CEL intended to actively search for potential investments in the PRC with emphasis on achieving a diversified portfolio. The acquisition of new businesses carries substantial risks and uncertainties.

CEL had not filed its 2005 annual report with EDGAR as at the Latest Practicable Date.

However, as noted from the joint announcement of Wing On and the Company dated 27th March, 2006, CEL had conditionally agreed to subscribe for a 5-year convertible exchangeable note issued by Wing On with principal amount of HK$300 million. The convertible exchangeable note carries a coupon rate of 2% and is redeemable at maturity at 110%, giving a yield to maturity ("YTM") of approximately 3.85%. This transaction has not been completed as at the Latest Practicable Date.

- ***57.26% interest in MRI***

  For the financial year 2005, MRI reported net loss of approximately AUD120,900, compared to AUD790,833 (restated) for the financial year 2004. The improvement was primarily attributable to (i) a net exchange gain on foreign currency transactions of AUD143,833; (ii) a profit on disposal of investments of AUD 7,228; and (iii) reduction in fair value losses of non-current assets by AUD464,614.

  We note in MRI's 2005 annual report that MRI subscribed for 5 million shares, representing a 8.4% issued share capital in Zest Health Clubs Ltd ("Zest"), Australia's second largest health and fitness chain, and number one in market share in three of Australia's five largest fitness markets, at a consideration of AUD4 million in January 2006. According to MRI's 2005 annual report, Zest has over 65,000 members and a market leading presence in Perth, Brisbance and Adelaide. Zest was set up in fiscal 2002 and moved to a positive EBITDA for the year ended 30th June, 2005 of AUD434,000 based on sales revenue of AUD40.4 million. Zest was operating 29 clubs with further expansion targeted in the short term.

  Following completion of the acquisition of Zest, trading in MRI shares on the Australian Stock Exchange was resumed on 13th January, 2006.

- ***9.8% interest in Apex Quality Group Limited***

  As the Apex Quality Group Limited is owned as to 67.9% by Wing On, outlook of this investment is included in our analysis on the prospect of Wing On above.

- ***194 redeemable preference shares and 200 ordinary shares of Vertex Technology Fund(II) Ltd.***

  We have been advised by management of GDI that GDI has not received any dividend from this investment since the date of the China Strategic circular dated 10th September, 2005.

Sand mining

- ***88% interest in Dongguan Shi Jiang Hai Trading Co., Ltd.***
- ***100% interest in Guangzhou Yao Yang Industrial Co., Ltd.***

  Sand mining business contributed 100% of the turnover for the financial year 2005. According to management of GDI, Dongguan Shi Jiang Hai Trading Co., Ltd. and Guangzhou Yao Yang Industrial Co., Ltd. are principally sand dredging operators which own two sand vessels for sand dredging. Construction grade aggregates dredged from the riverbed of the PRC are sold for use in the construction industry of the PRC and Hong Kong. As the dredgers, they share profits arising from the sale of the aggregates with sand pits operators. Although the sand mining business has proved to be a profitable business since acquisition in June 2005, its operating results might be affected by the macroeconomic policies announced by Beijing in April 2006 to curb over-investment in the cement sector in the short to medium term. In mid-May 2006, the PRC Government announced that measures involving tax, credit and land supply policies will be used to steady the mainland property market and curb price rises in major cities. These measures might in turn affect the overall construction industry in the PRC.

As noted above, most of the GDI Group's businesses, namely the manufacturing and marketing of tires, business of providing tour, travel and other related services, and part of the property development business are engaged by associate companies of the GDI Group. As the GDI Group does not have full control over the board of its associate companies, any alternation to the business operations of its associate companies will affect the prospects of the GDI Group.

We have discussed with management of GDI and note that no listing application is intended to be made for the GDI Shares on the Stock Exchange and any other stock exchange. As such, holders of GDI Shares might not be able to sell their shares or find it difficult to sell them at a reasonable price. If they are unable to obtain capital gains, their income or return on investment might comprise solely of dividend income.

Based on the column headed "The GDI Group after pro forma adjustments" under the section headed "(I) The unaudited pro forma balance sheet of the Enlarged Hanny Group" of Appendix IV of this Document, the GDI Group's pro forma bank and cash balance amounted to HK$103.5 million assuming the China Strategic Group Reorganisation had taken place on 31st December, 2005. Upon completion of the subscription of the 5-year convertible exchangeable note issued by Wing On with principal amount of HK$300 million, there may or may not be sufficient cash available for future dividends. However, we have been advised by management of GDI that they intend to reserve its cash resources as working capital for further expansion of its businesses, and have no intention of declaring any dividend at least in the near future. As such, it might be difficult for the holders of GDI Shares to realise their returns, if any, on their investment by receiving dividends from GDI or selling their GDI Shares on a recognised stock exchange. We therefore consider that the GDI Offer represents a good opportunity for the GDI Qualifying Shareholders to realise their investments in GDI. If they elect Option 1, they would be able to exchange for cash together with the Hanny Shares with more liquidity. If they elect Option 2, they would be able to exchange for convertible bonds issued by a listed company that can be converted into Conversion Shares during the conversion period.

(5) Indicative valuation benchmarks

(a) Price/book multiple

Based on the column headed "The GDI Group after pro forma adjustments" under the section headed "(I) The unaudited pro forma balance sheet of the Enlarged Hanny Group" of Appendix IV of this Document, the net asset value ("NAV") per GDI Share amounted to approximately HK$2.55. Based on the closing price of HK$4.075 per Hanny Share on the Latest Practicable Date, the implied value of Option 1 for each GDI Share represents a discount of approximately 53.9% to the NAV per GDI Share and a P/B of approximately 0.5 times. The implied value of Option 2 for each GDI Share represents a premium of 10.6% to the NAV per GDI Share and a P/B of 1.1 times.

(b) Price/earnings multiple

We note from the column headed "The GDI Group for the year ended 31st December, 2005 after the Reversal Adjustments" under the section headed "(II) The unaudited pro forma income statement of the Enlarged Hanny Group" of Appendix IV to this Document, the GDI Group had a pro forma net loss of approximately HK$27.4 million for the year ended 31st December, 2005. In addition, as explained in the subsection headed "(1) Indicative Valuation Benchmarks" on pages 85 and 86 of the China Strategic circular dated 10th September, 2005, given (i) most of the revenue-generating subsidiaries of the GDI Group have been disposed of in the financial years 2002 to 2004; and (ii) the GDI Group recorded losses in the financial years 2002 and 2003, the use of price/earnings multiple, which is applicable for valuing the earnings potential of the underlying businesses as a going concern, as reference to assess the GDI Offer price is inappropriate.

(c) *Dividend yield*

In the absence of historical dividend payment record, the use of dividend yield as reference to assess the GDI Offer price is also not applicable.

(6) Comparable Company Analysis

For the financial year ended 31st December, 2005, GDI's turnover was mainly generated from the sand mining business which was acquired in the financial year 2005. In addition, GDI's revenue for each of the three financial years ended 31st December, 2005 comprised different businesses. As such, we do not consider it appropriate to compare the GDI Offer with the offers made for companies that are engaged in the sand mining business. As the GDI Offer comprises alternatives of a mixture of cash and share or convertible bonds, we consider a comparison with the share offers and convertible bond offers made by companies listed on the main board of the Stock Exchange as most appropriate to justify the fairness and reasonableness of the terms of the GDI Offer. However, according to the Stock Exchange website, in the eighteen full month period prior to the Latest Practicable Date, only the cash offer made by CCT Tech International Limited provided a convertible bond alternative and the cash offer made by CMSC Technologies Corporation provided a share alternative. In the absence of sufficient comparable share or convertible bond offers, we have compared the GDI Offer with all cash offers (the "Comparable Offers") made for companies that were listed on the main board of the Stock Exchange (the "Comparable Companies") within an eighteen full month period prior to the Latest Practicable Date in order to justify the fairness and reasonableness of Options 1 and 2.

Table 3: Comparable Offers

Company (stock code)	**Principal activities**	**Market capitalisation** *HK$'mil* *(Note 1)*	**Date of announcement**	**Share offer price** *HK$*	**Net asset value per share** *HK$* *(Note 2)*	**P/B** *(times)*
renren Holdings Limited (59)	Provision of internet, telecommunication services and products, general trading, provision of financial advices and services, securities and properties investments	954.1	02-Nov-04	0.011	0.007	1.5
Capital Strategic Investment Limited (497)	Making of strategic, real estate and financial investments	964.5	15-Nov-04	0.480	1.850	0.3
Enerchina Holdings Limited (622)	Electricity generation and supply in the PRC	2,249.5	06-Dec-04	0.630	0.564	1.1
Chinese People Gas Holdings Company Limited (681)	Investment in the distribution and supply of piped natural gas business in the PRC and the holding and leasing of properties in the PRC	1,356.2	20-Dec-04	0.100	0.050	2.0
CCT Tech International Limited (261)	Sale, manufacture, design and development of telecom products and electronic products on an ODM and OEM basis	1,544.8	31-Jan-05	0.023	0.015	1.5
				0.023 (based on convertible bond alternative)		1.5
Simsen International Corporation Limited (993)	Bullion, futures and securities broking and trading, the provision of margin and loan financing, shipment sales of metals and metal scraps and holding of investment properties	94.2	22-Feb-05	0.088	0.179	0.5
Zida Computer Technologies Limited (859)	Design, development, manufacture and sale of PC motherboards under TOMATOBOARD brandname and PC systems; trading of high quality PC components	183.8	01-Apr-05	0.420	0.103	4.1
Magnum International Holdings Limited (305)	Investment holding, property investment, securities dealing and brokerage, moneylending and margin finance	58.4	08-Apr-05	0.047	n.a.	n.a.

Company (stock code)	Principal activities	Market capitalisation *HK$'mil* *(Note 1)*	Date of announcement	Share offer price *HK$*	Net asset value per share *HK$* *(Note 2)*	P/B *(times)*
Wealthmark International (Holdings) Limited (39)	Manufacture and sale of handbag products and related accessories, the provision of subcontracting services and trading of raw materials used in the manufacture of handbags and related products	174.0	15-Apr-05	0.027	0.447	0.1
Swank International Manufacturing Company Limited (663)	Design, manufacture and marketing of frames, sunglasses and lenses	371.9	18-Apr-05	0.030	n.a.	n.a.
Geely Automobile Holdings Limited (175)	Manufacturing and trading of automobile parts and related automobile components in the PRC	3,296.2	10-May-05	0.090	0.159	0.6
Qingling Motors Company Limited (1122)	Manufacture and sale of light-duty trucks, multi-purposes vehicles, pick-up trucks, heavy duty trucks, other vehicles and automobile parts and accessories	2,755.3	20-May-05	1.920	2.729	0.7
Goldigit Atom-tech Holdings Limited (2362)	Sales and marketing of chemical pesticides	425.0	24-May-05	0.100	0.144	0.7
Greater China Holdings Limited (431)	Production and sales of organic fertilizers, property investment and investment holding	111.5	17-Jun-05	0.500	0.558	0.9
Sunday Communications Limited (866)	Sales of mobile phones and accessories, mobile services, international telecommunications and other services	1,584.7	22-Jun-05	0.650	0.235	2.8
The Hong Kong Building and Loan Agency Limited (145)	Investment holding, provision of mortgage finance and other related services and treasury investments	297.0	06-Jul-05	1.0932	0.975	1.1
China Investment Fund Company Limited (612)	Investment in listed and unlisted securities	72.0	05-Aug-05	0.1625	0.149	1.1
Wanji Pharmaceutical Holdings Limited (835)	Distribution of medical equipment and medicinal and winery products	183.2	12-Aug-05	0.100	0.012	8.2
New Spring Holdings Limited (690)	Manufacturing and trading of packaging products, paper gift items and promotional products and investment holding	993.6	01-Sep-05	0.497	0.420	1.2

Company (stock code)	**Principal activities**	**Market capitalisation** *HK$'mil* *(Note 1)*	**Date of announcement**	**Share offer price** *HK$*	**Net asset value per share** *HK$* *(Note 2)*	**P/B** *(times)*
UDL Holdings Limited (620)	Marine engineering and provision of miscellaneous engineering and management services	141.3	07-Sep-05	0.040	n.a.	n.a.
GeoMaxima Energy Holdings Limited (702)	Provision of crude oil transportation, storage and unloading services, operation of natural gas pipeline network and refilling stations supplying natural gas and liquefied petroleum gas ("LPG") for vehicle use and sale of LPG in cylinder	141.5	08-Sep-05	0.0362	0.116	0.3
Goldigit Atom-tech Holdings Limited (2362)	Sales and marketing of chemical pesticides	425.0	12-Sep-05	0.200	0.144	1.4
China National Resources Development Holdings Limited (661)	Securities trading and investments, property investment, property management and computer related service	237.2	14-Sep-05	0.033	0.021	1.6
China Resources Peoples Telephone Company Limited (331)	Provision of mobile voice and data communications services in Hong Kong	n.a. *(Note 6)*	20-Oct-05	4.550	1.402	3.2
MAXX Bioscience Holdings Limited (512)	Investment holding; manufacturing, trading and distribution of health products, health drinks and pharmaceutical products; research and development of drug products and bioscience related projects	101.0	16-Dec-05	0.075	0.089	0.8
China Motion Telecom International Limited (989)	The provision of international telecommunication services, mobile communications services and distribution and retail chain	99.8	12-Jan-06	0.069	0.209	0.3
China Nan Feng Group Limited (979)	Construction contractor and provision of management services	145.3	26-Jan-06	0.093	0.008	11.3
Chun Wo Holdings Limited (711)	Civil engineering, electrical and mechanical engineering, foundation and building construction work, property development and property investment	610.5	22-Feb-06	0.840	1.034	0.8
Nority International Group Limited (660)	Manufactures and exports athletic and athletic-style leisure footwear and sports shoes	126.1	30-Mar-06	0.4700	0.751	0.6

Company (stock code)	Principal activities	Market capitalisation *HK$'mil* *(Note 1)*	Date of announcement	Share offer price *HK$*	Net asset value per share *HK$* *(Note 2)*	P/B *(times)*
Cross Harbour (Holdings) Limited (32)	Operation of driver training centres, operations of the Western Harbour Tunnel and electronic toll operation, and treasury	1,925.4	10-Apr-06	4.083	7.04	0.6
First Pacific Company Limited (142)	Telecommunications and consumer food products	10,523.2	28-Apr-06	2.200	0.94	2.3
					4.210 *(Note 4)*	0.5
CMSC Technologies Corporation (597)	Own and operate the open semiconductor foundries in China, provide manufacturing services for complementary metal oxide silicon logic, mixed signal, high voltage, non-volatile memory, electrically erasable programmable read-only memory integrated circuits, and double-diffused metal oxide silicon integrated circuits	1,096.9	12-May-06	0.420	0.457 *(Note 5)*	0.9
				0.430 (based on the share alternative)		0.9
Maximum						11.3
Minimum						0.1
Mean *(Note 3)*						**1.7**
GDI		517.9		Option 1 1.175	2.55	0.5
		1,243.0		Option 2 2.820		1.1

Source: Stock Exchange website

Notes:

1. *Market capitalisation of the Comparable Companies are quoted from Bloomberg and that of the Company is calculated as the GDI Offer price times 440,797,543 GDI Shares in issue as at the Latest Practicable Date.*

2. *Calculated as the audited/unaudited net assets divided by the number of shares in issue as at the latest balance sheet date prior to the respective date of announcement and n.a. denotes not applicable as these Comparable Companies recorded audited/unaudited net deficit as at their latest balance sheet date prior to the respective dates of announcement.*

3. *Excluding Qingling Motors Co. Ltd which is a partial offer under which there is an assured entitlement(s) of qualifying shareholders to sell to the offeror 30.45% of their H shares. If a qualifying shareholder accepts the partial offer in respect of H shares in excess of his assured entitlement, not all (or any) such excess H shares will be taken.*

4. *Being the adjusted net asset value per share as disclosed in First Pacific Company Limited's annual report for the year ending 31st December, 2005.*

5. *Net asset value of approximately US$0.059 per share has been converted into HK$ at the exchange rate of US$1=HK$7.8.*

6. *n.a. denotes not applicable as listing of the shares of China Resources Peoples Telephone Company Limited was cancelled on 29th March, 2006.*

As illustrated in Table 3, the implied P/B Ratios of 0.5 times based on Option 1 and 1.1 times based on Option 2 are in line with the range of 0.1 times to 11.3 times based on the Comparable Companies. Based on the above, we are of the view that the GDI Offer price is fair and reasonable so far as the GDI Qualifying Shareholders are concerned.

(7) Considerations in Relation to Hanny

Those GDI Qualifying Shareholders who elect to accept the GDI Offer will become shareholders or creditors of Hanny. Hanny's business operations, financial performance, share price performance and dividend payment record, and the underlying investment risks and credit risks associated with the Hanny Shares and the Hanny Bond (as the case may be) are discussed below.

(a) Business Operations

GDI Qualifying Shareholders are advised to refer to the sections headed "Information on the Offeror and the Hanny Group" and "Prospects of the Enlarged Hanny Group" contained in the letter from Somerley for additional information on Hanny.

Hanny is an investment holding company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange. Following the disposal of the assets of Memorex International Inc., an indirect non wholly owned subsidiary of Hanny that engaged in the design, development, marketing, distribution and sale of hardware, media and accessories used for storage of electronic data (please refer to Hanny's announcement dated 26th January, 2006 and circular dated 10th April, 2006), the Hanny Group is now principally engaged in the trading of securities, property investment and trading and other strategic investments.

In addition, in March 2006, Hanny announced that it had conditionally agreed to acquire a property located at 31st Floor, Bank of America Tower and four car park spaces on the fourth floor of Bank of America Tower. Completion took place on 28th March, 2006. According to the announcement, half of the property will be used by Hanny for relocation of its head office and the remaining half will be held for rental purposes. It is expected that the property will provide Hanny with an ongoing income stream.

(b) Historical Financial Performance

Summarised in Table 4 are the consolidated financial results and the financial positions of the Hanny Group for the nine months ended 31st December, 2005 and for the three years ended 31st March, 2005.

Table 4: Financial Summary of the Hanny Group

	For the nine months ended 31st December,		For the year ended 31st March,		
	2005	2004	2005	2004	2003
	(audited)	*(unaudited)*	*(audited and restated)*	*(audited and restated)*	*(audited and restated)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**4,523,483**	**4,434,124**	**5,676,459**	**5,025,930**	**4,162,804**
Gross profit	**989,430**	**962,059**	**1,300,098**	**1,093,748**	**914,035**
Gross profit margin	*21.9%*	*21.7%*	*22.9%*	*21.8%*	*22.0%*
Other operating income	61,923	74,670	114,145	111,903	96,980
Distribution and selling expenses	(686,424)	(570,131)	(770,262)	(688,528)	(685,793)
Administrative expenses	(170,768)	(222,197)	(294,778)	(283,709)	(278,968)
Other operating expenses	(75,215)	—	(29,712)	(4,598)	(38,608)
Impairment loss on investment securities	—	—	—	—	(323,287)
Realisation of negative goodwill arising on acquisition of an additional interest in an associate	—	—	2,057	—	—
Finance costs	(50,952)	(14,224)	(18,198)	(26,440)	(31,669)
Share of losses of associates	(20,032)	(59,175)	(64,909)	(59,857)	(36,367)
Impairment loss on goodwill arising on acquisition of an associate	(14,391)	—	(177,446)	—	(104,585)
Impairment loss on trademark licenses	(164,667)	—	—	—	—
Amortisation of goodwill arising on acquisition of associates	—	(21,065)	(28,089)	(17,651)	(6,612)
Net (loss)/gain on disposal of subsidiaries and associates	10,778	(16,270)	(15,747)	10,377	25
Allowance for loans to associates	—	—	—	—	(79,595)
Profit (Loss) before taxation	**(120,318)**	**133,667**	**17,159**	**135,245**	**(574,444)**
Taxation	(61,074)	(90,428)	(117,397)	(25,469)	(32,200)
Net profit (loss) for the period	**(181,392)**	**43,239**	**(100,238)**	**109,776**	**(606,644)**
Net margin	—	*1.0%*	—	*2.2%*	—
Attributable to:					
Equity holders of the parent	**(127,102)**	**4,094**	**(161,862)**	**13,300**	**(648,620)**
Minority interests	**(54,290)**	**39,145**	**61,624**	**96,476**	**41,976**
	(181,392)	**43,239**	**(100,238)**	**109,776**	**(606,644)**
Basic earnings (loss) per Share *(HK$)*	**(0.57)**	**0.02**	**(0.82)**	**0.08**	**(4.05)**

	As at 31st December,	As at 31st March,		
	2005	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited and restated)*	*(audited and restated)*	*(audited and restated)*
Total assets	**4,369,012**	**3,656,553**	**3,943,236**	**3,267,731**
Non-current assets	1,861,527	1,284,621	1,643,529	1,604,463
Current assets	2,507,485	2,371,932	2,299,707	1,663,268
Total liabilities	**2,291,130**	**1,400,562**	**1,664,898**	**1,363,566**
Current liabilities	2,283,671	1,240,452	1,653,951	1,185,858
Non-current liabilities	7,459	160,110	10,947	177,708
Net current assets	**223,814**	**1,131,480**	**645,756**	**477,410**
Total assets and liabilities	**2,077,882**	**2,255,991**	**2,278,338**	**1,904,165**
Total equity	**2,077,882**	**2,255,991**	**2,278,338**	**1,904,165**
Equity attributable to equity holders of the parent	1,676,233	1,806,374	1,873,181	1,729,567
Minority interests	401,649	449,617	405,157	174,598
Return on Equity (Note 1)	*n.a.*	*n.a.*	*0.7%*	*n.a.*
Current Ratio (times)	*1.1*	*1.9*	*1.4*	*1.4*
Interest coverage (times) (Note 2)	*n.a.*	*1.9*	*6.1*	*n.a.*
Total liabilities/equity	*136.7%*	*77.5%*	*88.9%*	*78.8%*
Long term debt/equity	*0.4%*	*8.7%*	*0.4%*	*10.1%*

Notes:

1. *n.a. denotes not applicable as Hanny reported losses and could not produce a return on equity ratio.*

2. *n.a. denotes not applicable as Hanny recorded losses before interest and tax and could not produce an interest coverage ratio.*

Nine months ended 31st December, 2005

Revenue increased by 2.0% to HK$4.5 billion as a result of (i) a 8.3% increase in the trading of computer related products to HK$3.2 billion; (ii) a 44.6% increase in the trading of securities to HK$113.9 million; and (iii) the contribution by property development and trading of HK$118.8 million, which in aggregate offset the 22.4% decrease in the trading of consumer electronic products (from HK$1.4 billion in the same period last year to HK$1.1 billion). Gross profit increased by 2.8% to HK$989.4 million. Loss before taxation amounted to HK$120.3 million, compared to a net profit before taxation of HK$133.7 million for the same period last year. Loss before taxation was primarily attributable to (i) other operating expenses of HK$75.2 million, which included net unrealized holding loss on other investments of HK$26.5 million, write-off of long-term loan and interest receivable of HK$10.8 million and impairment loss on property, plant and equipment of HK$1.3 million; (ii) a 258.2% increase in finance costs to HK$51.0 million; (iii) an impairment loss on goodwill arising on acquisition of an associate of HK$14.4 million; and (iv) an impairment loss on trademark license of HK$164.7 million. A net loss of HK$181.4 million was reported, compared with a net profit of HK$43.2 million in the same period last year.

Net current assets as at 31st December, 2005 decreased by 80.2% to HK$223.8 million. The decrease was mainly attributable to a higher level of short-term borrowings (from HK$85.9 million as at 31st March, 2005 to HK$886.7 million as at 31st December, 2005) and trade and other payables (from HK$1.0 billion as at 31st March, 2005 to HK$1.3 billion as at 31st December, 2005), which resulted in the total liabilities to equity ratio increasing to 136.7%. The long term debt to equity ratio decreased to 0.4% as a result of a 95.4% decrease in long term borrowings.

Year ended 31st March, 2005

Revenue increased by 12.9% to HK$5.7 billion. The increase was mainly attributable to (i) a 11.4% increase in sales of computer related products and consumer electronic products to HK$5.5 billion as a result of expansion in new retail outlets and the distribution and launch of several new products; (ii) a 168.6% increases in securities trading to HK$93.9 million; and (iii) a 147.5% increase in sales of other assets to HK$39.6 million. Hanny recorded a net loss of HK$100.2 million for the year, which was primarily attributable to (i) a loss on disposal of investment securities of HK$29.7 million; (ii) an impairment loss on goodwill arising on acquisition of an associate of HK$177.4 million; (iii) a 8% increase in share of losses of associates to HK$64.9 million; (iv) a 59.1% increase in amortisation of goodwill arising on acquisition of associates to HK$28.1 million; and (v) a net loss on disposal of subsidiaries and associates of HK$15.7 million.

Net current assets as at 31st March, 2005 increased by 75.2% to HK$1,131.5 million. The increase was primarily attributable to (i) a lower level of short-term borrowings (from HK$373.4 million in 2004 to HK$133.3 million in 2005), (ii) an increase in bank balances, cash and pledged bank deposit (from HK$164.4 million in 2004 to HK$379.6 million in 2005); (iii) an increase in short-term loan receivables (from HK$208.5 million in 2004 to HK$336.0 million in 2005). Current ratio increased mildly to 1.9 times from 1.4 times. Interest coverage ratio and total debt to equity ratio improved to 1.9 times and 62.1% respectively. However, as a result of the significant increase in non-current borrowings, long term debt to equity ratio increased significantly to 8.7%.

Year ended 31st March, 2004

Revenue and gross profit achieved growth of 20.7% and 19.7% respectively. The significant growth was attributable to persistent efforts to control cost on inventory pricing, strong and extensive business network worldwide and promotional efforts made in the year. In the absence of significant impairment loss on goodwill arising on acquisition of associates, Hanny reported a net profit of HK$109.8 million for the year.

Net current assets as at 31st March, 2004 increased by 35.3% to HK$645.8 million. The increase was primarily attributable to the increase in (i) inventory level (from HK$505.2 million in 2003 to HK$877.4 million in 2004) as Hanny made bulk purchases to bargain for favourable prices in anticipation of an increasing sales trend in the coming years; (ii) trade and other receivables (from HK$486.6 million in 2003 to HK$738.8 million in 2004); and (iii) other assets of HK$145.1 million, which represented the cost incurred in connection with a land development project in the PRC. Total liabilities increased by 22.1% mainly due to the increase in trade and other payables. Accompanied by the surge in earnings before interest, tax, depreciation and amortisation, interest coverage ratio improved to 6.1 times. Long term debt to equity ratio also improved to 0.4%.

Year ended 31st March, 2003

Revenue generated from trading of computer and consumer related products and securities amounted to HK$4.2 billion. An impairment loss on investment securities of HK$323.3 million was recorded which effectively eroded the profits of Hanny. Net loss for the year deteriorated to HK$648.6 million as a result of significant impairment loss on goodwill arising on acquisition of an associate and substantial allowance for loans to associates.

As at 31st March, 2003, net current assets amounted to HK$477.4 million and the current ratio was 1.40 times. Hanny had significant amounts of long term debt which in aggregate totaled HK$174.6 million as at 31st March, 2003 and resulted in a relatively higher long term debt to equity ratio of 10.1%.

We have analysed Hanny's major financial ratios and valuation multiples relative to those of its comparable companies ("Industry Comparables"). In choosing appropriate Industry Comparables for Hanny, we have selected other companies that are listed on the main board of the Stock Exchange and are principally engaged in property investment, development and trading, and trading of securities, which are considered to be broadly comparable to Hanny.

Table 5: Financial Ratios of Hanny versus Selected Industry Comparables

Industry Comparables	Principal activities	Financial year end	Return on equity *(Note 4)*	Current ratio *(times)*	Interest coverage *(times)* *(Note 5)*	Total liabilities/ equity	Long term debt/equity
Buildmore International Limited (108)	Property development and trading, property investment	31-Jan-05	5.8%	25.4	12.5	9.4%	5.3%
Berjaya Holdings (HK) Limited (288)	Property investment, development and investment holding	30-Apr-05	n.a.	1.6	n.a.	103.0%	96.6%
Termbray Industrial International (Holdings) Limited (93)	Property development and investment	31-Mar-05	n.a.	44.0	0.0	2.1%	0.0%
Rivera (Holdings) Limited (281)	Property development and investment and securities trading	31-Dec-05	2.2%	2.7	0.0	0.0%	0.0%
WAH HA Realty Co (278)	Investment holding, property development and management and building contractor	31-Mar-05	4.5%	63.4	0.0	0.7%	0.0%
China National Resources Development Holdings Limited (661)	Securities trading and corporate investments, property investment and management consultancy	30-Apr-05	n.a.	3.3	n.a.	47.5%	25.6%
Frasers Property (China) Ltd. (535)	Property investment, development and management, business park development and management, infrastructure investment and securities	30-Sep-05 *(Note 3)*	7.4%	4.7	6.5	104.1%	57.8%
Dan Form Holdings Co. Ltd. (271)	Property investment & development, estate management and investment holding	31-Dec-05	9.8%	2.4	31.1	19.8%	0.0%
S E A Holdings Ltd. (251)	Property development, property investment, garment manufacturing and trading and investment in financial instruments	31-Dec-05	22.5%	2.6	13.6	70.1%	29.6%
Soundwill Holdings Ltd. (878)	Property development, investment, trading, management in HK and urban infrastructure development	31-Dec-05	25.2%	0.6	13.9	78.4%	45.3%
Capital Strategic Investment Ltd. (497)	Property investment and securities investment	31-Mar-05	7.8%	2.9	15.5	64.8%	41.0%
Maximum			**25.2%**	**63.4**	**31.1**	**104.1%**	**96.6%**
Minimum			**2.2%**	**0.6**	**0.0**	**0.0%**	**0.0%**
Mean			**10.6%**	**14.0**	**10.3**	**45.4%**	**27.4%**
Hanny	Trading of securities, property investment and trading and other strategic investments		33.0%	2.9	52.1	26.6%	0.2%

Notes:

1. *Financial ratios of the Industry Comparables are calculated based on their respective latest published audited financial statements.*

2. *Financial ratios of Hanny are calculated based on the columns headed (i) "Pro forma Remaining Hanny Group for the year ended 31st March, 2005" under the section headed "(II) The unaudited pro forma income statement of the Enlarged Hanny Group"; and (ii) "Pro forma Remaining Hanny Group as at 31st December, 2005" under the section headed "(I) The unaudited pro forma balance sheet of the Enlarged Hanny Group", of Appendix IV of this Document.*

3. *Being the nine months results ended 30th September, 2005 due to a change in accounting year end date.*

4. *n.a. denotes not applicable as these Industry Comparables reported losses for their respective financial years.*

5. *n.a. denotes not applicable as these Industry Comparables reported losses for their respective financial years and could not produce a return on equity ratio.*

6. *n.a. denotes not applicable as these Industry Comparables recorded losses before interest and tax for their respective financial years and could not produce an interest coverage ratio.*

As shown in Table 5, Hanny's current ratio, total liabilities to equity ratio and long term debt to equity ratio all fall within the range of the Industry Comparables and its return on equity ratio and interest coverage ratio are the highest amongst the Industry Comparables. The long term debt to equity ratio of Hanny is also well below the mean of the Industry Comparables. We consider that Hanny has a relatively lower level of long term debt and strong ability of servicing interest when compared to the selected market peers.

Table 6: Valuation Multiples of Hanny versus Selected Industry Comparables

Comparables	**market capitalisation** *(HK$'mil)*	**P/E** *(times)*	**P/B** *(times)*	**Dividend Yield** *(times)*
Buildmore International Limited (108)	**32.7**	10.0	0.6	n.a.
Berjaya Holdings (HK) Limited (288)	**59.1**	n.a.	1.0	n.a.
Termbray Industrial International (Holdings) Limited (93)	**998.8**	n.a.	1.3	n.a.
Rivera (Holdings) Limited (281)	**495.6**	26.4	0.6	n.a.
WAH HA Realty Co (278)	**183.9**	7.3	0.3	2.6
China National Resources Development Holdings Limited (661)	**237.2**	n.a.	4.0	n.a.
Frasers Property (China) Ltd. (535)	**802.9**	5.5	0.7	n.a.
Dan Form Holdings Co. Ltd. (271)	**533.7**	3.0	0.3	n.a.
S E A Holdings Ltd. (251)	**2,314.1**	2.1	0.5	2.4
Soundwill Holdings Ltd. (878)	**571.8**	0.7	0.2	1.5
Capital Strategic Investment Ltd. (497)	**964.9**	8.8	0.7	2.1
Maximum	**2,314.1**	**26.4**	**4.0**	**2.6**
Minimum	**32.7**	**0.7**	**0.2**	**1.5**
Mean	**648.6**	**8.0**	**0.9**	**2.2**
Hanny *(Note 2)*	**966.8**	**2.5**	**0.3**	**1.5**

Notes:

1. *The valuation multiples of the Industry Comparables are quoted from Bloomberg.*

2. *Trading multiples of Hanny are calculated based on (i) the closing price of the Hanny Shares; and (ii) the basic earnings per share stated in the columns headed "Pro forma Remaining Hanny Group for the year ended 31st March, 2005" under the section headed "(II) The unaudited pro forma income statement of the Enlarged Hanny Group"; and (iii) the net assets value per share based on the column headed "Pro forma Remaining Hanny Group as at 31st December, 2005" under the section "(I) The unaudited pro forma balance sheet of the Enlarged Hanny Group" of Appendix IV of this Document and 226,143,691 Hanny Shares in issue as at 31st December, 2005.*

As illustrated in Table 6, all Hanny's trading multiples are in line with the range of the Industry Comparables and its P/E ratio and dividend yield fall in the low end of the market range. Nevertheless, we note that out of eleven Industry Comparables seven of them could not produce a dividend yield as they declared no dividend for their respective financial years.

Each GDI Qualifying Shareholder will, if and to the extent that he accepts the GDI Offer, continue to have an indirect interest in GDI through his shareholding in Hanny. However, GDI Qualifying Shareholders should note that, by accepting the GDI Offer, their effective interest in GDI would be diluted. Table 7 below sets out the pro forma effects on the net profit and the net asset value of the Hanny Group in respect of the level of acceptance of the GDI Offer by the GDI Qualifying Shareholders under the two different scenarios. The pro forma financial effects below are a summary of the complete pro forma financial information as set out in Appendix IV to the Document. For the purpose of illustration the possible combinations of Option 1 and Option 2 are ignored.

Table 7: Pro Forma Effects on the Hanny Group In Respect Of the Level of Acceptance of the GDI Offer

	Before the GDI Offer *(Note 3)*	**After the GDI Offer** *(Note 4)*			
		100% Option 1	**% change**	**100% Option 2**	**% change**
Basic earnings per Share *(HK$) (Note 1)*	1.63	1.51	(7.4)%	1.43	(12.3)%
Diluted earnings per Share *(HK$) (Note 1)*	1.56	1.51	(3.2)%	1.43	(8.3)%
Net tangible asset value per Share *(HK$)* *(Note 2)*	9.92	9.26	(6.7)%	8.88	(10.5)%

Notes:

1. *Based on section headed "(II) The unedited pro forma income statement of the Enlarged Hanny Group" set out in Appendix IV to the Document.*

2. *Based on the section headed "(V) Unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Hanny Group" set out in Appendix IV to the Document.*

3. *Without taking into account the pro forma adjustments relating to (i) the distribution in specie of GDI Shares, (ii) the Reversal Adjustments (as defined in Appendix IV to the Document); and (iii) the disposal of the Hanny Sale Shares to the Offeror.*

4. *After taking into account the pro forma adjustments relating to (i) the distribution in specie of GDI Shares, (ii) the Reversal Adjustments (as defined in Appendix IV to the Document); and (iii) the disposal of the Hanny Sale Shares to the Offeror.*

(c) Risk Profile

In April 2006, the Hanny Group disposed of the assets of Memorex International Inc. that relate to the design, development, marketing, distribution and sale of hardware, media and accessories used for storage of electronic data. Following the disposal of these assets, the Hanny Group is no longer engaged in the trading of computer related products and consumer electronic products which contributed substantially to the Hanny Group's turnover and operating results since the mid 90's. As noted in the letter from the Hanny Board, the Hanny Group is now principally engaged in the trading of securities, property investment and trading and other strategic investments. We note from Hanny's annual reports that (i) the trading of computer related products and consumer electronic products was a more significant business for Hanny compared with the property development and trading business; (ii) the property development and trading business commenced in the financial year 2004 and was mainly conducted in the PRC; (iii) trading of securities comprised mainly Hong Kong stocks.

Although the property development and trading business has reported positive results since its commencement, there is no assurance that this business will remain profitable in the future in light of its relatively short operating history. We are of the view that this business is highly susceptible to the uncertainty of business risks. In addition, the prospects and operating performance of the businesses of trading of securities, property investment and trading and other strategic investments depend substantially on the general financial, economic and market conditions in Hong Kong and the PRC.

We note in Hanny's announcement dated 26th January, 2006 that the strategic investments included investments in associate companies that were listed on the Stock Exchange and long-term convertible notes issued by companies listed on the Stock Exchange. According to the aforesaid announcement, Hanny will actively explore other investment opportunities. Depending on the specific acquisition, there may be risks relating to the acquired business itself, risks relating to the industry in which the business operates, and risks relating to the company itself. Hanny may incur financial obligations or liabilities in connection with any acquisition or strategic investment. Also incur an increase in debt or other liabilities in connection with any acquisition or strategic investment. Also, future strategic investments may or may not be successful and may adversely affect its operating results.

We also note in the same announcement that the consideration for the disposal of the assets of Memorex International Inc. comprises, *inter alia*, an earnout amount which will be determined by reference to the EBITDA of the disposed business for each of the twelve-month periods ending on 31st March, 2007, 31st March, 2008 and 31st March, 2009, and the earnout amount shall have a cumulative minimum of US$5 million (equivalent to approximately HK$38,825,000) and a cumulative maximum of US$45 million (equivalent to approximatelyHK$349,25,000). As such, Hanny will receive further income in the coming three financial years. According to Hanny's circular dated 10th April, 2006, Hanny will record a gain on the disposal of HK$673.1 million.

We have compared the risk profile of GDI with Hanny. Save for Dongguan Shi Jiang Hai Trading Co., Ltd. and Guangzhou Yao Yang Industrial Co., Ltd., which were acquired in 2005 and are principally engaged in sand mining operations, GDI did not have any other operating subsidiary that contributed to its turnover for the financial year 2005. As discussed in the section headed "(4) Future prospects and outlook of the GDI Group" above, most of the GDI Group's businesses are engaged by its associate companies to which the GDI Group does not have full control over their operations. As such, any alternation to their businesses may affect the prospects of the GDI Group. In addition, GDI's share in the earnings of associate companies constitutes a material component in its income statement. GDI also relies on the ability of its associate companies to pay dividends. Any decline in the earnings of GDI's associate companies or its investments' ability to pay dividends would materially and adversely affect GDI's earnings and operating performance. Furthermore, as the track record of GDI's sand mining business is relatively short, such business is subject to the uncertainty of business risks and there is no certainty to its future operating performance.

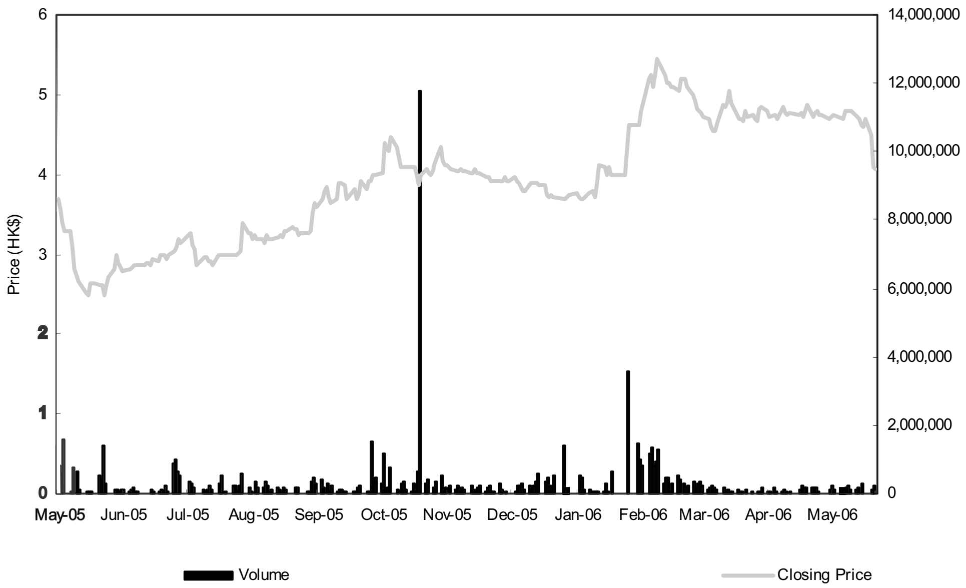
From a financial perspective, GDI reported losses for the operations of the Distributed Business for the financial year 2005 which may continue and there is no assurance that its losses would not increase in the future. In addition, we have been advised by management of GDI that GDI had no banking facilities as at the Latest Practicable Date. As such, it may not be able to obtain needed funding for its business operations, and the failure to obtain needed funding may materially and adversely affect its growth prospects and future profitability; any new borrowings could include terms that restrict its financial flexibility, payment of dividends or its ability to manage its business as it had intended.

Accordingly, the GDI Qualifying Shareholders should carefully consider the risks associated with holding an investment in the Hanny Shares or the Hanny Bonds.

(d) Trading Performance of the Hanny Shares

Set out below is a chart of the historical closing prices of the Hanny Shares for the twelve full calendar month period prior to the Latest Practicable Date (the "Review Period"):

Chart 1: Trading Performance of the Hanny Shares



Source: Stock Exchange website

Note: On market days when the Hanny Shares were not traded, closing price equals to that of the preceding trading day.

During the Review Period, the Hanny Shares traded within a range between HK$2.475 to HK$5.450 and there were fluctuations in the trading volume of the Hanny Shares. We note that on 21st October, 2005, Hanny made an announcement to confirm that the Hanny Directors were not aware of any reasons for the increase in trading volume of the Hanny Shares save that Hanny was informed by Famex Investment Limited ("Famex"), a substantial shareholder of Hanny and an indirect wholly-owned subsidiary of ITC Corporation Limited, that Famex had acquired 11,000,000 shares of Hanny representing 93.65% of the total trading volume of the shares of Hanny from the market at a price of HK$4.00 per share, and the interest of Famex in Hanny increased from 20.61% to 25.48%. On 27th January, 2006, Hanny made an announcement to confirm that the Hanny Directors were not aware of any reasons for the increase in the price and the trading volume of the Hanny Shares and that except for an announcement dated 26th January, 2006 regarding the very substantial disposal of the assets of Memorex International Inc. that relate to the design, development, marketing, distribution and sale of hardware, media and accessories used for storage of electronic data, there were no negotiations or agreements relating to intended acquisitions or realisations which were discloseable under Rule 13.23 of the Listing Rule.

Table 8 below sets out the highest and lowest closing prices and the average daily closing price for each of the months during the Review Period.

Table 8 — Closing prices of the Hanny Shares

	Highest closing price *HK$*	**Lowest closing price** *HK$*	**Average daily closing price** *HK$*
2005			
May	3.700	2.475	2.876
June	3.200	2.775	2.924
July	3.400	2.850	3.025
August	3.525	3.150	3.266
September	4.000	3.600	3.806
October	4.475	3.875	4.145
November	4.175	3.925	4.023
December	3.975	3.700	3.836
2006			
January	4.625	3.700	3.932
February	5.450	4.625	5.100
March	5.050	4.550	4.754
April	4.875	4.700	4.769
May (up to the Latest Practicable Date)	4.800	4.075	4.631

Source: the Stock Exchange website

During the Review Period, the highest closing price of the Hanny Shares as quoted on the Stock Exchange was HK$5.45 on 10th February, 2006 and the lowest closing price of the Hanny Shares as quoted on the Stock Exchange was HK$2.475 on 18th May, 2005.

As shown in Table 8, the Hanny Shares have been generally in a steady uptrend since May 2005 where prices increased from HK$2.475 to HK$5.45 in February 2006. Subsequently, prices leveled off at HK$4.070 to HK$5.05. The average of the daily closing prices of the Hanny Shares as quoted on the Stock Exchange during the Review Period was approximately HK$3.91.

The following table sets out the total trading volume and average daily trading volume of the Hanny Shares and the respective percentage of monthly trading volume compared to the issued share capital and the public float of the Hanny Shares during the Review Period.

Table 9 — Historical trading value and volume of the Hanny Shares

	Total trading volume *(Shares)*	**Average daily trading volume** *(Shares)*	**Total trading volume to total issue Shares** *(Note 1)*	**Total trading volume to public float** *(Note 2)*
2005				
May	9,010,040	450,502	3.8%	5.3%
June	4,427,893	201,268	1.9%	2.6%
July	3,749,253	187,463	1.6%	2.2%
August	3,269,830	142,167	1.4%	1.9%
September	5,136,578	244,599	2.2%	3.0%
October	17,925,023	896,251	7.6%	10.5%
November	2,957,224	1,234,419	1.2%	1.7%
December	5,668,510	283,426	2.4%	3.3%
2006				
January	6,111,725	321,670	2.6%	3.6%
February	12,622,773	631,139	5.3%	7.4%
March	2,901,542	126,154	1.2%	1.7%
April	1,903,981	111,999	0.8%	1.1%
May (up to the Latest Practicable Date)	2,205,398	137,857	0.9%	1.3%

Source: the Stock Exchange website

Notes:

1. *Based on 237,253,402 Shares in issue as at the Latest Practicable Date.*

2. *Based on 171,488,454 Shares held by the public as at the Latest Practicable Date.*

During the Review Period, the percentage of the monthly total trading volume to the total issued share capital of Hanny ranged from approximately 0.8% to 7.6% and that to the public float ranged from approximately 1.1% to 10.5%. Except for October 2005 and February 2006, the trading volume of the Hanny Shares was comparatively thin during the Review Period.

GDI Qualifying Shareholders should note that subject to their size of shareholding and the level of acceptance received in respect of Options 1 and 2, a sufficiently active market may or may not exist in the Hanny Shares to enable the GDI Qualifying Shareholders who intend to tender their GDI Shares to the GDI Offer and dispose of their Hanny Shares or Conversion Shares to do so in the short term and the market price of the Hanny Shares may or may not encounter a downward pressure.

In addition, as at the Latest Practicable Date, Hanny had 9,000,000 outstanding options granted entitling the holders thereof to subscribe for up to 9,000,000 Hanny Shares.

Nevertheless, compared to the GDI Shares, the Hanny Shares would be far more liquid as the GDI Shares are unlisted shares.

(e) *Dividend payment record of Hanny*

Table 10 below sets forth an update of the profit/(loss) attributable to the Hanny shareholders, dividend per Hanny Share and the dividend payout ratio of the Hanny Group:

Table 10: Dividend Payment Record of Hanny

	For the nine months ended 31st December, 2005	**For the year ended 31st March, 2005**	**2004**	**2003**
Profit (Loss) attributable to equity holders of the present *(HK$'000)*	(127,102)	(161,862)	13,300	(648,620)
Basic earnings (loss) per share *(HK$)*	(0.57)	(0.82)	0.08	(4.05)
Dividend per share *(HK$)*	0.06	0.06	0.07	—
Dividend payout ratio *(Note 1)*	n.a.	n.a.	87.5%	n.a.

Source: Hanny's annual and interim reports

Notes:

1. *Dividend per share divided by earnings per share for the period.*

2. *n.a. denotes not applicable as Hanny recorded loss per Share.*

For the period reviewed, Hanny declared dividends, regardless of its profitability, for each of the reporting period except for the financial year 2003. For the financial year 2004 in which Hanny made a net profit, Hanny's dividend pay-out ratio was 87.5%.

Nevertheless, GDI Qualifying Shareholders should be mindful that there can be no assurance that Hanny will maintain similar levels of dividend payment, or any at all, in future years. GDI Qualifying Shareholders seeking consistent income might find the Hanny Bonds a better alternative than the dividend payments the Hanny Shares may offer.

(8) Intention of Hanny

As stated in the section headed "Intentions of Hanny regarding GDI" in the letter from Somerley in this Document, it is the intention of Hanny that the GDI Group will not conduct any business other than the Distributed Business or hold any other assets other than those assets relate to the Distributed Business which would be inherited from the China Strategic Group Reorganisation. The GDI Board intends not to dispose of any assets or redeploy any employees of the GDI Group upon completion of the GDI Offer. It is the intention of Hanny that it will not inject any asset into GDI or propose that the GDI Board authorises the disposal of any assets or make changes to the principal business of the GDI Group.

(9) Analysis of Options 1 and 2

Based on the closing price of HK$4.075 per Hanny Share on the Latest Practicable Date, Option 1 values each GDI Share at HK$1.175.

Based on the valuation of the Hanny Bonds prepared by RHL as at 31st March, 2006, the value of a Hanny Bond would be HK$14.10. As such, Option 2 values each GDI Share at approximately HK$2.82.

To assess the fairness and reasonableness of the valuation of the Hanny Bonds, we have discussed with RHL and reviewed the methodology, bases and key assumptions employed in the valuation. As noted in our discussion with RHL, the value of a Hanny Bond comprises two components, namely the liability component and the equity component. The liability component is estimated by discounting all future cash flows using the relevant spot rates (being the sum of the zero coupon rates stripped from the Hong Kong Sovereign Bonds and a risk premium determined by management of Hanny). As regards the risk premium which reflects the credit risks of the Hanny Bonds, RHL has also made reference to the past borrowing rates of the Hanny Group. The equity component of the Hanny Bond is equivalent to the Fair Value stipulated in HKAS39. When determining the equity component, RHL has taken into consideration the price volatility of the Hanny Shares. We understand that the liability component of the Hanny Bond will vary according to, *inter alia*, the credit ratings of Hanny, prevailing market interest rates and zero coupon bond yields, credit spreads etc. and the equity component of the Hanny Bonds will vary with the movements of the Hanny Share price. The valuation is based on the assumption that the Hanny Bonds were issued on 31st March, 2006 and full acceptance of all 311,387,646 GDI Shares subject to the GDI Offer was made under Option 2 of the GDI Offer and accordingly, 62,277,529 bonds were issued with face value of HK$15 each. Based on our discussions with RHL and review of the valuation report, we consider that the basis and assumptions have been made with due care and objectivity and they are fair, reasonable and adequate as they are made based on reasonable estimates of available market data, and therefore the valuation is fair and reasonable.

However, the implied values of Options 1 and 2 will continually change in accordance with the market price movements of the Hanny Shares. Table 11 below illustrates the implied values of Options 1 and 2 at various price levels of the Hanny Shares, assuming all other factors (the credit ratings of Hanny, prevailing market interest rates and zero coupon bond yields etc.) being constant.

Table 11: Implied Values of Option 1 and Option 2

Hanny Share price *HK$*	**Implied value of Option 1** *HK$* *(Note 1)*	**Implied value of Option 2** *HK$* *(Note 2)*	**Premium (discount) of implied value of Option 2 over (to) implied value of Option 1**
1	2.8	12.2	336.2%
2	3.8	12.3	224.9%
3	4.8	12.6	162.5%
4	5.8	13.0	123.5%
5	6.8	13.4	97.2%
6	7.8	13.9	78.5%
7	8.8	14.5	64.7%
8	9.8	15.1	54.1%
9	10.8	15.8	45.9%
10	11.8	16.4	39.3%
15	16.8	20.2	20.1%
20	21.8	24.2	11.1%
25	26.8	28.4	6.1%
35	36.8	37.1	0.8%
50	51.8	50.4	(2.7)%
75	76.8	72.8	(5.2)%

Notes:

1. *Calculated as the sum of the Hanny Share price plus $1.8.*

2. *This column is provided by RHL and is calculated as the sum of (i) the liability component value of a Hanny Bond; and (ii) the equity component value of a Hanny Bond which is determined by the Black-Scholes Option Pricing Model at various levels of the Hanny Share price.*

As illustrated in Table 11, Option 2 is worth more than Option 1 for the Hanny Share price range of HK$1.0 to HK$35 and their difference decreases with increasing Hanny Share price. This illustrates that when the Hanny Share price rises, the implied values of the two Options converge, and when the Hanny Share price is above HK$35, the difference between the implied values of Options 1 and 2 reverses. However, in view of the current price level of the Hanny Shares, the Hanny Shares might not be able to achieve HK$35 before the close of the GDI Offer on 16th June, 2006.

Based on the closing price of the Hanny Share of HK$4.85 as of 31st March, 2006, Option 2 is worth almost double the implied value of Option 1. We are of the view that, as of the date hereof, from a financial perspective, we would recommend those GDI Qualifying Shareholders who wish to realise their investment in GDI and are seeking consistent income to consider electing Option 2, provided such GDI Qualifying Shareholders:

(i) have no immediate requirements for liquidity;

(ii) are confident of the business of the Hanny Group which includes the GDI Group and would like to have investment exposure to its businesses;

(iii) have a positive view on the Enlarged Hanny Group's future prospects;

(iv) are mindful that the conversion price of the Hanny Bonds has been set at HK$9.0, which represents a premium of 120.9% over the closing price of the Shares as at the Latest Practicable Date, and such high conversion premium indicates a lesser chance for the holders of the Hanny Bonds to convert the Hanny Bonds into Conversion Shares;

(v) are aware that the Hanny Bonds will not be listed on any stock exchange;

(vi) understand and accept the risks pertinent to an investment in the Hanny Bonds, in particular, Option 2 is subject to default risk;

(vii) have no better investment alternative for the cash; and

(viii) understand and accept that upon conversion of the Hanny Bonds, the monetary value that can be realised from the sale of the Conversion Shares in the future may be higher or lower than the current implied value per GDI Share under Option 1 of approximately HK$1.32.

However, for those GDI Qualifying Shareholders who wish to realise their investment in GDI and are seeking immediate liquidity, we would recommend them to consider electing Option 1, provided such GDI Qualifying Shareholders:

(i) are aware that subject to their size of shareholding and the level of acceptance received in respect of Options 1 and 2, a sufficiently active market may or may not exist in the Hanny Shares to enable them to dispose of their Hanny Shares in the short term and the market price of the Hanny Shares may or may not encounter a downward pressure;

(ii) are mindful that there can be no assurance that Hanny will maintain similar levels of dividend payment, or any at all, in future years; and

(iii) understand and accept that the monetary value that can be realised from Option 1 might be significantly lower than Option 2 in light of the current Hanny Share price level.

In addition, we would recommend those GDI Qualifying Shareholders who wish to realise their investment in GDI with partial immediate liquidity but at the same time maximize their return on investment to consider electing a combination of Option 1 and Option 2, provided such GDI Qualifying Shareholders:

(i) are confident of the business of the Hanny Group which includes the GDI Group and would like to have investment exposure to its businesses;

(ii) have a positive view on the Enlarged Hanny Group's future prospects;

(iii) are mindful that the conversion price of the Hanny Bonds has been set at HK$9.0, which represents a premium of 120.9% over the closing price of the Shares as at the Latest Practicable Date, and such high conversion premium indicates a lesser chance for the holders of the Hanny Bonds to convert the Hanny Bond into Conversion Shares;

(iv) are aware that the Hanny Bonds will not be listed on any stock exchange;

(v) understand and accept the risks pertinent to an investment in the Hanny Bonds, in particular, as contrast to Option 1 which is partially in cash, Option 2 is subject to default risk;

(vi) are mindful that there can be no assurance that Hanny will maintain similar levels of dividend payment, or any at all, in future years;

(vii) are aware that subject to their size of shareholding and the level of acceptance received in respect of Options 1 and 2, a sufficiently active market may or may not exist in the Hanny Shares to enable them to dispose of their Hanny Shares or Conversion Shares in the short to medium term and the market price of the Hanny Shares may or may not encounter a downward pressure; and

(viii) understand and accept that the monetary value that can be realised from a combination of Options 1 and 2 might be significantly lower than Option 2 in light of the current Hanny Share price level.

SUMMARY

Our opinion is based on the following principal considerations:

1. From a financial perspective, GDI has reported losses for the operations of the Distributed Business for the financial year 2005, there is no assurance that GDI could become profitable or its losses would not increase in the future.

2. As at the Latest Practicable Date, no listing application was intended to be made for the GDI Shares on the Stock Exchange or any other stock exchange, the cash resources of GDI were intended to be reserved as working capital for further expansion of its businesses and no dividend payment would be declared at least in the near future. Consequently, it might be difficult for the holders of GDI Shares to realise their returns, if any, on their investment by receiving dividends from GDI or selling their GDI Shares on a recognised stock exchange. The GDI Offer therefore represents a good opportunity for the GDI Qualifying Shareholders to realise their investments in GDI. If they elect Option 1, they could realise a portion of their investments in cash immediately and be able to exchange the rest for the Hanny Shares with far more liquidity. If they elect Option 2, they would be able to exchange their investments for interest carrying convertible bonds issued by a listed company that are convertible into Conversion Shares during the conversion period.

3. There are risks relating to GDI's businesses. As an unlisted public company, GDI might not be able to obtain funding for its business operations. In the event that a substantial amount of capital is required for its business operations, failure to obtain needed capital could materially and adversely affect its growth prospects and future profitability; any new borrowings could include terms that restrict its financial flexibility, payment of dividends or its ability to manage its business as it had intended.

4. The P/B ratios of GDI based on Options 1 and 2 of 0.5 times and 1.1 times respectively are in line with the range of 0.1 times to 11.3 times based on the Comparable Companies.

5. Compared to the GDI Shares, the Hanny Shares are far more liquid as the GDI Shares are unlisted shares.

6. Hanny's P/E ratio, P/B ratio and dividend yield are in line with the range of the Industry Comparables.

7. As illustrated in Table 5 — Financial Ratios of Hanny versus Selected Industry Comparables and discussed in the section headed "(7)b. Historical financial performance", Hanny has a relatively lower level of long term debt and strong ability of servicing interest when compared to the selected market peers.

Having considered the foregoing, we are of the view that the GDI Offer represents a good opportunity for the GDI Qualifying Shareholders to realise their investments in GDI which are fairly valued based on the implied values of Options 1 and 2. Also, the GDI Offer in general is fair and reasonable so far as the GDI Qualifying Shareholders are concerned. We therefore recommend the GDI Qualifying Shareholders to accept the GDI Offer.

Given the choice between Options 1 and 2, we recommend that GDI Qualifying Shareholders should elect for Option 2 which values each GDI Share at approximately HK$2.82, as compared to the implied value per GDI Share of HK$1.175 under Option 1, based on the closing price of the Hanny Shares of HK$4.075 as at the Latest Practicable Date, provided such GDI Qualifying Shareholders:

(i) have no immediate requirements for liquidity;

(ii) are confident of the business of the Hanny Group which includes the GDI Group and would like to have investment exposure to its businesses;

(iii) have a positive view on the Enlarged Hanny Group's prospects;

(iv) are mindful that the conversion price of the Hanny Bonds has been set at HK$9.0, which represents a premium of 120.9% over the closing price of the Hanny Shares as at the Latest Practicable Date, and such high conversion premium indicates a lesser chance for the holders of the Hanny Bonds to convert the Hanny Bonds into Conversion Shares;

(v) are aware that the Hanny Bonds will not be listed on any stock exchange;

(vi) understand and accept the risks pertinent to an investment in the Hanny Bonds, in particular, Option 2 is subject to default risk;

(vii) have no better investment alternative for the cash; and

(viii) understand and accept that upon conversion of the Hanny Bonds, the monetary value that can be realised from the sale of the Conversion Shares in the future may be higher or lower than the current implied value per GDI Share under Option 1 of approximately HK$1.175.

However, for those GDI Qualifying Shareholders who wish to realise their investment in GDI and are seeking immediate liquidity, we would recommend them to consider electing Option 1, provided such GDI Qualifying Shareholders:

(i) are aware that subject to their size of shareholding and the level of acceptance received in respect of Options 1 and 2, a sufficiently active market may or may not exist in the Hanny Shares to enable them to dispose of their Hanny Shares in the short term and the market price of the Hanny Shares may or may not encounter a downward pressure;

(ii) are mindful that there can be no assurance that Hanny will maintain similar levels of dividend payment, or any at all, in future years; and

(iii) understand and accept that the monetary value that can be realised from Option 1 might be significantly lower than Option 2 in light of the current Hanny Share price level.

In addition, we would recommend those GDI Qualifying Shareholders who wish to realise their investment in GDI with partial immediate liquidity but at the same time maximize their return on investment to consider electing a combination of Option 1 and Option 2, provided such GDI Qualifying Shareholders:

(i) are confident of the business of the Hanny Group which includes GDI Group and would like to have investment exposure to its businesses;

(ii) have a positive view on the Enlarged Hanny Group's future prospects;

(iii) are mindful that the conversion price of the Hanny Bond has been set at HK$9.0, which represents a premium of 120.9% over the closing price of the Shares as at the Latest Practicable Date, and such high conversion premium indicates a lesser chance for the holders of the Hanny Bonds to convert the Hanny Bond into Conversion Shares;

(iv) are aware that the Hanny Bonds will not be listed on any stock exchange;

(v) understand and accept the risks pertinent to an investment in the Hanny Bonds, in particular, as contrast to Option 1 which is partially in cash, Option 2 is subject to default risk;

(vi) are mindful that there can be no assurance that Hanny will maintain similar levels of dividend payment, or any at all, in future years;

(vii) are aware that subject to their size of shareholding and the level of acceptance received in respect of Options 1 and 2, a sufficiently active market may or may not exist in the Hanny Shares to enable them to dispose of their Hanny Shares or Conversion Shares in the short to medium term and the market price of the Hanny Shares may or may not encounter a downward pressure; and

(viii) understand and accept that the monetary value that can be realised from a combination of Options 1 and 2 might be significantly lower than Option 2 in light of the current Hanny Share price level.

Given that the implied values of Options 1 and 2 will continually change in accordance with the market price movements of the Hanny Shares and there is still a considerable lead time from the date of this letter to the closing date of the GDI Offer, GDI Qualifying Shareholders should be mindful of, inter alia, any changes in the Hong Kong and international stock markets, financial, economic, market and other conditions, and the latest developments in the operating environment, industry and prospect of the GDI Group and the Hanny Group before making a decision on which of Option 1 and Option 2, or a combination of both Options, to elect. GDI Qualifying Shareholders should consider the relative implied values of Option 1 and Option 2 closer to the closing date of the GDI Offer, before making their election, and may refer to Table 11 set out under the section headed "(9) Analysis of Options 1 and 2" in this letter.

GDI Qualifying Shareholders should read carefully the procedures for accepting the GDI Offer as detailed in Appendix I to the Document and are strongly advised that the decision to realise or hold their investment in the GDI Shares is subject to individual circumstances as well as their own investment objectives and tax positions. Furthermore, in considering whether to elect Option 1 or Option 2, or a combination of both, GDI Qualifying Shareholders should also take into account the market risks and transaction costs associated with disposing of the Hanny Shares or Conversion Shares. GDI Qualifying Shareholders should carefully consider their own circumstances.

Yours faithfully,
For and on behalf of
Hercules Capital Limited
Louis Koo
Managing Director

PROCEDURE FOR ACCEPTANCE

(i) The number of the GDI Shares registered in your name as at 19th May, 2006 and in respect of which you are entitled to tender for acceptance under the GDI Offer (assuming that you have not sold or otherwise transferred any of them) is set out in the Form of Acceptance accompanying this document. To accept the GDI Offer, you should complete the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the GDI Offer.

(ii) The completed Form of Acceptance in respect of the GDI Offer should then be forwarded by post, by express mail or other similar courier services, or by hand to the Receiving Agent, Standard Registrars Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as practicable after receipt of the Form of Acceptance and in any event so as to reach the Receiving Agent at the aforesaid address by no later than 4:00 p.m. on 16th June, 2006 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

(iii) If your GDI Shares are held through CCASS through your licensed securities dealer or custodian bank or other nominee, you should instruct your licensed securities dealer or custodian bank or other nominee to authorise HKSCC Nominees Limited to accept the GDI Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer or custodian bank or other nominee for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer or custodian bank or other nominees as required by them.

(iv) If your GDI Shares are held through your Investor Participant Account with CCASS, you should issue your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

(v) Acceptance will be subject to validation before the GDI Offer consideration will be despatched to the persons entitled thereto. The consideration payable in respect of acceptances will be despatched as soon as possible and in any event no later than the tenth calendar day of the day on which all the relevant documents are received by the Receiving Agent to render acceptance of the GDI Offer complete and valid. If such date is not a Business Day, then the day by which the GDI Offer consideration will be despatched will be extended to the next Business Day thereafter.

(vi) A GDI Qualifying Shareholder who accepts the GDI Offer but who does not indicate clearly their choice of Option 1 consideration or Option 2 consideration in its Form of Acceptance will be deemed to have elected to receive Option 1 consideration in respect of all the GDI Shares to which its Form of Acceptance relates. The Form of Acceptance contains provisions regarding the calculation of the number of GDI Shares in respect of which you will receive Option 1 consideration or Option 2 consideration for your acceptance of the GDI Offer.

(a) If the number of GDI Shares you insert in Box D of the Form of Acceptance (for Option 2 consideration) is not 5 or an integral multiple of 5, you will be deemed to have elected:—

(i) to receive Option 2 consideration in respect of the number of GDI Shares inserted in Box D rounded down to 5 or the integral multiple of 5 nearest to the number you insert (and the number in the Box D will be deemed to be reduced accordingly); and

(ii) to receive Option 1 consideration in respect of the remainder of the GDI Shares (and the number in Box C will be deemed to be increased accordingly).

(b) If the aggregate number of GDI Shares you insert in Box C of the Form of Acceptance (for Option 1 consideration) and Box D of the Form of Acceptance (for Option 2 consideration) exceeds the number of GDI Shares registered in your name, the excess will first be deducted from the number inserted in Box D (which will be deemed to be reduced accordingly) and any excess remaining after that deduction will then be deducted from the number in Box C (which will be deemed to be reduced accordingly).

(c) If the number of GDI Shares in Box C (after alteration as a result of the provisions above, if applicable) is not 5 or an integral multiple of 5, then the difference between (i) that number and (ii) 5 or the integral multiple of 5 nearest to that number will be calculated and you will be paid in respect of the difference an amount calculated by applying the formula HK$1.8 x (the difference/ 5).

By way of illustration:—

If you complete the Form of Acceptance as follows:—

Number of GDI Shares tendered under **Option 1** BOX C	FIGURES 9	WORDS NINE
Number of GDI Shares tendered under **Option 2** BOX D	FIGURES 0	WORDS ZERO

then you will (assuming that you have the relevant number of GDI Shares registered in your name) be entitled to receive one (1) Hanny Share and HK$3.24 (being 1 Hanny Share and HK$1.80 for 5 GDI Shares + HK$1.80 x 4/5 for the remaining 4 GDI Shares).

OR

If you complete the Form of Acceptance as follows:—

Number of GDI Shares tendered under **Option 1** BOX C	FIGURES 9	WORDS NINE
Number of GDI Shares tendered under **Option 2** BOX D	FIGURES 8	WORDS EIGHT

then you will (assuming that you have the relevant number of GDI Shares registered in your name) be entitled to receive two (2) Hanny Shares, one (1) Hanny Bond and HK$4.32 (being two (2) Hanny Shares and HK$3.60 for 10 GDI Shares (as you will be deemed to have elected Option 1 consideration in respect of 3 GDI Shares in Box D, so that the total number of GDI Shares to be satisfied by Option 1 consideration is 12 GDI Shares) + HK$1.80 x 2/5 for the remaining 2 GDI Shares + one (1) Hanny Bond (in respect of 5 GDI Shares for which you have elected Option 2 consideration in Box D)).

(vii) Subject to the terms of the Takeovers Code, the Offeror reserves the right in its absolute discretion to treat as valid any acceptance of the GDI Offer which is not entirely in order.

(viii) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s), transfer receipt(s), other document(s) of title and/or any indemnity or indemnities required in respect of your GDI Shares will be given.

ACCEPTANCE PERIOD, REVISIONS AND EXTENSIONS OF THE GDI OFFER

(i) The GDI Offer is being made on 26th May, 2006 and is capable of acceptance from and after this date.

(ii) Unless the GDI Offer has previously been extended or revised, the GDI Offer will close at 4:00 p.m. on the Closing Date. The Offeror reserves the right, subject to the Takeovers Code, to extend or revise the GDI Offer after the despatch of this document.

(iii) If the GDI Offer is extended or revised, the announcement of such extension or revision will either state the next Closing Date or that the GDI Offer will remain open until further notice (in the latter case at least 14 days' notice will be given before the GDI Offer is closed to those GDI Qualifying Shareholders who have not accepted the GDI Offer). If the GDI Offer is extended or revised, it will remain open for acceptance for a period of not less than 14 days and, unless previously extended or revised, shall be closed on the subsequent Closing Date. The latest time for acceptances on such Closing Date will be 4:00 p.m.

(iv) In any case where the GDI Offer is revised, the benefit of any revision of the GDI Offer will be available to all GDI Qualifying Shareholders who have previously accepted the GDI Offer. The execution and delivery to the Receiving Agent of any Form of Acceptance by or on behalf of any GDI Qualifying Shareholder who has accepted the GDI Offer before such revision shall be deemed to constitute acceptance of the revised GDI Offer, unless such GDI Qualifying Shareholder becomes entitled to withdraw his acceptance as set out in paragraphs headed "Right of Withdrawal" below and duly does so.

(v) If the Closing Date is extended, any reference in this document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date as so extended.

ANNOUNCEMENTS

(i) By 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on the Closing Date, the Offeror will inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the GDI Offer. The Offeror will publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the GDI Offer has been revised, extended or expired. Such announcement will be republished in accordance with Rule 12.2 of the Takeovers Code on the Business Day thereafter. The announcement will state the total number of GDI Shares and rights over GDI Shares:

— for which acceptances of the GDI Offer have been received;

— held, controlled or directed by the Offeror or persons acting in concert with it before the GDI Offer period; and

— acquired or agreed to be acquired during the GDI Offer period by the Offeror or any persons acting in concert with it.

The announcement will specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

(ii) The announcement will state the number of GDI Shares representing respectively valid acceptances of the GDI Offer and acceptances which are not in all aspects in order or are subject to verification.

(iii) As required under the Takeovers Code, all announcements in relation to the GDI Offer in respect of which the Executive and (if applicable) the Stock Exchange have confirmed that they have no further comments will be made in accordance with the Listing Rules.

RIGHT OF WITHDRAWAL

(i) Acceptances to the GDI Offer tendered by the GDI Qualifying Shareholders shall be irrevocable and cannot be withdrawn save as provided below.

(ii) If the Offeror is unable to comply with any of the requirements of making announcements relating to the GDI Offer under Rule 19 of the Takeovers Code (a summary of which has been set out in paragraphs (i) and (ii) in the section headed "Announcements" in this appendix), the Executive may require that accepting GDI Qualifying Shareholders be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements are satisfied.

OVERSEAS GDI QUALIFYING SHAREHOLDERS

(i) The making of the GDI Offer in, or to the GDI Qualifying Shareholders in, any jurisdiction outside Hong Kong may be affected by the laws of the relevant jurisdictions. GDI Qualifying Shareholders who are citizens, residents or nationals of jurisdictions outside Hong Kong should inform themselves about, and observe, all applicable legal and regulatory requirements of the relevant jurisdictions. With the consent of the Executive, (i) the GDI Offer will not be extended to U.S. persons and persons whose addresses shown on the register of members of GDI is in Malaysia and (ii) this document will be despatched for information only and without the accompanying Form of Acceptance to those persons whose names appear on the register of members of GDI and whose addresses shown on the register of members of GDI is in the United States or Malaysia. Subject to the Executive's consent being obtained, the Offeror reserves the right to make other arrangements in respect of the GDI Qualifying Shareholders not resident in Hong Kong in relation to the terms of the GDI Offer.

(ii) It is the responsibility of any overseas GDI Qualifying Shareholder who wishes to accept the GDI Offer to satisfy himself as to the full observance of all the applicable laws and regulations of any relevant jurisdiction in connection therewith, including obtaining any government or other consent which may be required, complying with any other necessary formality and paying any issue, transfer or other taxes due in such jurisdiction.

(iii) No GDI Qualifying Shareholder who is a U.S. person will be permitted to accept the GDI Offer.

(iv) Each accepting GDI Qualifying Shareholder is required to represent and warrant to the Offeror and Somerley by entering "NO" in the relevant box in the Form of Acceptance that he:

- **did not receive this document or the Form of Acceptance in the United States nor will he send the completed Form of Acceptance from the United States or use any U.S. jurisdictional means to deliver the completed Form of Acceptance;**
- **was not in the United States when the Form of Acceptance was delivered or at the time of accepting the GDI Offer;**
- **is not a U.S. person; or**
- **is not an agent or fiduciary acting on a non-discretionary basis for a principal in the United States.**

(v) In the event that:

- **a GDI Qualifying Shareholder does not clearly mark the word "NO" in the relevant box in the Form of Acceptance and thereby does not give the representation and warranty set out in paragraph (iv) above;**

— **a GDI Qualifying Shareholder completes the relevant Form of Acceptance with an address in the United States or has a registered address in the United States and, in either case, he does not insert in the relevant Form of Acceptance the name and address of a personal agent outside the United States to whom he wishes the consideration to which he is entitled under the GDI Offer to be sent;**

— **a GDI Qualifying Shareholder inserts in the relevant Form of Acceptance the name and address of a person or agent in the United States to whom he wishes the consideration to which he is entitled under the GDI Offer to be sent; or**

— **the relevant Form of Acceptance received from a GDI Qualifying Shareholder is or are received in an envelope postmarked in, or which otherwise appears to the Offeror or its agents to have been sent from, the United States,**

his acceptance shall not be valid, subject to the right of the Offeror in its sole discretion to investigate the nature and residence of such shareholder further and to allow his acceptance to be valid if it is satisfied that such shareholder does not have any connection with the United States.

(vi) The Offeror further reserves the right to notify any matter (including, without limitation, the making or revision or extension of the GDI Offer) to the GDI Qualifying Shareholders not resident in Hong Kong by announcement in newspapers which may not be circulated in the jurisdictions at which such shareholders are resident. The notice being the subject matter of the announcement will be deemed to have been sufficiently given, notwithstanding any failure by such shareholders to receive or read that announcement.

(vii) Acceptances of the GDI Offer by any overseas GDI Qualifying Shareholder will constitute a warranty by such person that such person is permitted under all applicable laws to receive and accept the GDI Offer, and any extension or revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

GENERAL

(i) Acceptance of the GDI Offer by any person will be deemed to constitute a warranty by such person or persons to the Offeror that the GDI Shares acquired under the GDI Offer are sold by such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and distributions declared, paid or made after the date of the issue of the GDI Shares.

(ii) Acceptance of the GDI Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of GDI Shares in respect of which it is indicated in the Form of Acceptance is the aggregate number of GDI Shares held by such nominee for such beneficial owners who are accepting the GDI Offer and in respect of which the GDI Offer is accepted.

(iii) All communications, notices, forms of acceptance, share or bond certificates, other documents of title (or indemnities in respect thereof) or remittances of any nature to be delivered by or sent to or from the GDI Qualifying Shareholders shall be delivered by or sent to or from the GDI Qualifying Shareholders, or their designated agents, at their own risk, and none of the Offeror, Somerley, GDI or the Receiving Agent accepts any liability for any loss or any other liabilities whatsoever which may arise as a result thereof.

(iv) If the GDI Offer is withdrawn as permitted by the Takeovers Code, the Form of Acceptance will be returned by post as soon as possible and in any event within 10 days of the GDI Offer being withdrawn or (as the case may be) within the period to be specified by the Offeror by announcement if accepting GDI Qualifying Shareholders were to be given the right to withdraw their acceptance (as required by the Executive), in each case at the risk of the person entitled thereto, to the person or agent whose name and address is set forth in the Form of Acceptance. If no such name is set forth, to the first-named holder at his registered address.

(v) References to the GDI Offer in this document and in the Form of Acceptance shall include any extension and/or revision thereof.

(vi) The provisions set out in the Form of Acceptance form part of the terms of the GDI Offer.

(vii) The accidental omission to despatch this document and/or the Form of Acceptance to any person to whom the GDI Offer is made will not invalidate the GDI Offer in any way.

(viii) The GDI Offer and all acceptances of it, the Form of Acceptance, all contracts made in relation to the GDI Offer, and all actions taken or made or deemed to be taken or made pursuant to the terms of the GDI Offer, will be governed by and construed in all aspects in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of a GDI Qualifying Shareholder will constitute the submission by such shareholder in relation to all matters arising out of or in connection with the GDI Offer and the Form of Acceptance to the non-exclusive jurisdiction of the courts of Hong Kong.

(ix) Due execution of the Form of Acceptance will constitute an authority to the Offeror and/or Somerley, any director thereof or their respective agents to complete and execute, on behalf of the GDI Qualifying Shareholders who accept the GDI Offer, the Form of Acceptance and any other document and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such person or persons as the Offeror shall direct, the GDI Shares which are the subject of such acceptance.

(x) In relation to any acceptance of the GDI Offer in respect of your GDI Shares which are held through CCASS, the Offeror reserves the right to make such alterations, additions or modifications as may be necessary or desirable to give effect to any purported acceptance and transfer of the GDI Offer, whether in order to comply with the facilities or requirements of CCASS or otherwise, provided that such alterations, additions or modifications are consistent with the requirements of the Takeovers Code or are otherwise made with the Executive's consent.

(xi) The settlement of the consideration to which accepting GDI Qualifying Shareholders will be entitled under the GDI Offer will be implemented in full in accordance with the terms of the GDI Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such shareholders.

(xii) In making their decision, GDI Qualifying Shareholders must rely on their own examination of the Offeror and GDI and the terms of the GDI Offer, including the merits and risks involved. The contents of this document, including any general advice or recommendations contained herein, and the Form of Acceptance are not to be construed as legal or business advice. GDI Qualifying Shareholders could consult with their own lawyer or financial adviser for legal or financial advice. Additionally, this document does not include any information in respect of United States taxation. GDI Qualifying Shareholders who may be subject to tax in the United States are urged to consult their tax adviser regarding the U.S. federal, state, local and other tax consequences of owning and disposing of GDI Shares.

(xiii) The GDI Offer is being made by the issue and despatch of this document and the related Form of Acceptance on 26th May, 2006.

(xiv) The GDI Offer is made in accordance with the Takeovers Code.

1. FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Hanny Group extracted from the circular issued by Hanny dated 10th April, 2006 is set out below:

Results

	Nine months ended 31st December, 2005	Nine months ended 31st December, 2004	Year ended 31st March, 2005	Year ended 31st March, 2004	Year ended 31st March, 2003
	HK$'000 *(audited)* *(Note 1)*	*HK$'000* *(unaudited)* *(Note 1)*	*HK$'000* *(audited and restated)* *(Note 2)*	*HK$'000* *(audited and restated)* *(Note 2)*	*HK$'000* *(audited and restated)* *(Note 2)*
Revenue	4,523,483	4,434,124	5,676,459	5,025,930	4,162,804
(Loss) profit before income tax	(120,318)	133,667	17,159	135,245	(574,444)
Income tax expense	(61,074)	(90,428)	(117,397)	(25,469)	(32,200)
(Loss) profit for the year/period	(181,392)	43,239	(100,238)	109,776	(606,644)
Attributable to:					
Equity holders of the parent	(127,102)	4,094	(161,862)	13,300	(648,620)
Minority interests	(54,290)	39,145	61,624	96,476	41,976
	(181,392)	43,239	(100,238)	109,776	(606,644)
Dividends	22,463	11,193	11,193	11,221	—
(Loss) earnings per Hanny Share — basic	HK$(0.57)	HK$0.02	HK$(0.82)	HK$0.08	HK$(4.05)
Dividend per Hanny Share — Final, paid	HK$0.06	HK$0.06	HK$0.06	HK$0.02	—
— Interim, paid	—	—	—	HK$0.05	—

Assets and liabilities

	As at 31st December, 2005	As at 31st March, 2005	As at 31st March, 2004	As at 31st March, 2003
	HK$'000 *(audited)*	*HK$'000* *(audited and restated)*	*HK$'000* *(audited)*	*HK$'000* *(audited)*
Non-current assets	1,861,527	1,284,621	1,643,529	1,604,463
Current assets	2,507,485	2,371,932	2,299,707	1,663,268
	4,369,012	3,656,553	3,943,236	3,267,731
Current liabilities	2,283,671	1,240,452	1,653,951	1,185,858
Non-current liabilities	7,459	160,110	10,947	177,708
	2,291,130	1,400,562	1,664,898	1,363,566

Notes:

1. Figures for the nine months ended 31st December, 2004 and 2005 were prepared under the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. Details of the application of the new HKFRSs are set out in note 2 to the accountants' report on the Hanny Group contained in the sub-section headed "Audited financial statements" in this appendix.

2. Figures for the three years ended 31st March, 2003, 2004 and 2005 were prepared under the new HKFRSs. Restatements have been made for figures published previously. Details of the effects of the new HKFRSs are set out in note 3 to the accountants' report on the Hanny Group contained in the sub-section headed "Audited financial statements" in this appendix.

3. No extraordinary or exceptional items were recorded in each of the three financial years ended 31st March, 2003, 2004 and 2005 and the nine-month periods ended 31st December, 2004 and 2005. No qualification was contained in the annual reports/accountants' report of the Hanny Group in the aforesaid financial years/periods.

2. AUDITED FINANCIAL STATEMENTS

Set out below is the accountants' report of the Hanny Group containing the audited consolidated financial statements of the Hanny Group together with accompanying notes as extracted from the circular of Hanny dated 10th April, 2006:

"**Deloitte.**
德勤

德勤 • 關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

10 April 2006

The Directors
Hanny Holdings Limited
8th Floor, Paul Y. Centre
No. 51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Hanny Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 March 2003, 2004 and 2005 and the nine months ended 31 December 2005 (the "Relevant Periods") for inclusion in the circular issued by the Company dated 10 April 2006 (the "Circular") in connection with the very substantial disposal transaction, whereby the Group (i) through its non-wholly owned subsidiary, Memorex International Inc. (the "Vendor"), will dispose of the Vendor's entire interest in Hanny Magnetics Europe Limited, Memorex Canada Ltd., Memorex Products Europe Limited, Memorex Products S.A.S., Memorex Products GmbH, Memorex Products (Taiwan) Inc. and Memorex Products, Inc. (the "Disposed Companies") and (ii) will dispose of Vendor's trademark license and other assets relating to the trading of computer related product business under the trade name "Memorex", which include the business of design, development, marketing, distribution and sale of hardware, media and accessories used for the storage of electronic data conducted by the Vendor and the Disposed Companies (the "Business", together with the Disposed Companies hereinafter collectively referred to as the "Disposed Assets"), pursuant to an agreement dated 19 January 2006 (the "Agreement") entered into between the Vendor, and Imation Corp. (the "Purchaser"), a company organized under the laws of the State of Delaware, the United States of America ("USA") and the shares of which are listed on the New York Stock Exchange (the "Disposal").

The Company was incorporated in Bermuda on 3 September 1991. The Company is an investment holding company.

As at the date of this report, the Company has the following subsidiaries, which all are private companies with limited liability:

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of share capital/ registered capital held by the Company Directly	Indirectly	Equity interest held by the Group	Principal activities
Hanny Magnetics (B.V.I.) Limited *(note 1)*	British Virgin Islands ("B.V.I.") 22 May 1990	HK$40,000,000 ordinary shares HK$8,000,000 preference shares	100%	—	100%	Investment holding
Acropolis Investment Group Limited *(note 1)*	B.V.I. 11 July 2000	US$50,000	—	100%	100%	Investment holding
Best Position Limited *(note 1)*	B.V.I. 2 February 2006	US$1	—	100%	100%	Investment holding
Better Gain Investments Limited *(note 1)*	B.V.I. 2 June 1999	US$1	—	100%	100%	Investment holding
Billion Gold Limited *(note 2)*	Hong Kong 14 June 1999	HK$2	—	100%	100%	Investment holding
Bocane Enterprises Limited *(note 1)*	B.V.I. 7 January 2005	US$2	—	100%	100%	Investment holding
Central Top Group Limited	B.V.I 30 November 2005	US$1	—	100%	100%	Investment holding
Chancellor Global Limited *(note 1)*	B.V.I. 7 January 2005	US$1	—	100%	100%	Investment holding
Cobble Hill Holdings Limited *(note 1)*	B.V.I. 29 April 1997	US$1	—	100%	100%	Investment holding
Collegate Limited *(note 1)*	B.V.I. 4 January 2005	US$1	—	100%	100%	Investment holding
Cosmos Regent Ltd. *(note 1)*	B.V.I. 28 August 2000	US$1	—	100%	100%	Investment holding
Create Ahead Technology Limited (note 1)	B.V.I. 2 July 2002	US$10,000	—	95%	95%	Inactive
Createsuccess Limited ("Createsuccess") *(note 1)*	B.V.I. 3 December 2004	US$1	—	100%	100%	Investment holding
Cross Profit Capital Limited *(note 1)*	B.V.I. 22 July 2004	US$1	—	100%	100%	Investment holding
CU Resources Limited *(note 10)*	Hong Kong 23 May 1991	HK$12,500,000	—	100%	100%	Inactive

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of share capital/ registered capital held by the Company Directly	Indirectly	Equity interest held by the Group	Principal activities
Cyber Generation Limited *(note 1)*	B.V.I. 5 July 2000	US$1	—	100%	100%	Investment holding
Digital Communications Limited *(note 1)*	B.V.I. 9 September 1999	US$10	—	60%	60%	Investment holding
Dynamic Way Technology Limited *(note 1)*	B.V.I. 8 February 2000	US$1	—	100%	100%	Investment holding
Dysan Magnetics Limited *(note 4)*	United Kingdom 8 January 1990	GBP100	—	68.68%	45.2%	Inactive
Dysan Products Europe Limited ("DPEL") *(note 4)*	United Kingdom 19 April 1994	GBP102 US$8,500,000	—	68.68%	45.2%	Trading and distribution of computer media products and audio and video products
Dysan.com Products Inc. *(note 9)*	Canada 7 April 2005	1 share with no par value	—	68.68%	45.2%	Inactive
E-Award Limited *(note 1)*	B.V.I. 18 May 2000	US$4	—	100%	100%	Investment holding
eMemorex Inc. *(note 1)*	USA 24 September 1999	US$1	—	60%	60%	Trading of computer media products
eMemorex.com Inc. *(note 1)*	Canada 23 November 1999	100 shares with no par value	—	60%	60%	Trading of computer media products
Genius Ideas Limited *(note 1)*	B.V.I. 18 February 1999	US$1	—	100%	100%	Investment holding
Gold Regent Limited *(note 1)*	B.V.I. 20 January 2000	US$1	—	100%	100%	Investment holding
Hackthorne Limited *(note 1)*	B.V.I. 31 October 1995	US$1	—	100%	100%	Investment holding
Hanny (Taishan) Property Investments Limited *(note 1)*	B.V.I. 4 January 2005	US$1	—	100%	100%	Inactive
Hanny Development Limited *(note 2)*	Hong Kong 26 November 2003	HK$2	—	100%	100%	Inactive
Hanny International, Inc. *(note 1)*	Cayman Islands 23 August 1991	US$1,000	—	100%	100%	Inactive

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of share capital/ registered capital held by the Company Directly	Indirectly	Equity interest held by the Group	Principal activities
Hanny Magnetics (Overseas) Limited *(note 1)*	B.V.I. 22 November 1991	US$1	—	100%	100%	Inactive
Hanny Magnetics (Zhuhai) Limited ("HMZ") *(note 7)*	People's Republic of China (the "PRC") 14 March 1988	US$45,740,000	—	100%	100%	Manufacturing of magnetic media products
Hanny Magnetics Europe Limited *(note 4)*	United Kingdom 12 November 1993	GBP2	—	68.68%	45.2%	Inactive
Hanny Magnetics Limited *(note 2)*	Hong Kong 27 April 1971	HK$1,100,000,200 Ordinary Share HK$6,000,000 5% non-voting deferred shares	—	100%	100%	Investment holding and trading and marketing of computer media products and related peripherals and accessories
Hanny Management Limited *(note 2)*	Hong Kong 3 September 1991	HK$2	—	100%	100%	Provision of secretarial and nominee services to the Group
Hanny Strategic Investment Limited *(note 2)*	Hong Kong 13 June 1996	HK$10,000,000	—	100%	100%	Investment holding
Hanny Zhuhai Limited *(note 2)*	Hong Kong 30 November 1995	HK$2	—	100%	100%	Inactive
Hemmant Holdings Limited *(note 1)*	B.V.I. 29 April 1997	US$1	—	100%	100%	Investment holding
Honest Goodwill Limited *(note 1)*	B.V.I. 6 April 2005	US$1	—	100%	100%	Inactive
Island Town Limited *(note 11)*	Hong Kong 9 February 1993	HK$100	—	100%	100%	Property investment
Jentop Limited *(note 2)*	Hong Kong 31 March 1999	HK$2	—	100%	100%	Investment holding
Kedleston Management Limited *(note 1)*	B.V.I. 2 July 2002	US$1	—	100%	100%	Inactive
Loyal Concept Limited *(note 1)*	B.V.I. 13 August 2001	US$1	—	100%	100%	Investment holding
Maximum Potential Limited *(note 1)*	B.V.I. 23 January 1997	US$1	—	100%	100%	Investment holding

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of share capital/ registered capital held by the Company Directly	Indirectly	Equity interest held by the Group	Principal activities
Memorex Canada Ltd. ("MCL") *(note 3)*	Canada 9 January 1990	CAD2	—	68.68%	45.2%	Distribution of computer media products and audio and video products
Memorex Holdings Limited *(note 2)*	Bermuda 3 November 2003	US$100,000	—	65%	65%	Investment holding
The Vendor *(note 2)*	B.V.I. 20 February 1997	US$1,000,000	—	68.68%	45.2%	Investment holding and holding of trademark licenses
Memorex Products Europe Limited ("MPEL") *(note 4)*	United Kingdom 6 October 1999	GBP2	—	68.68%	45.2%	Trading and distribution of computer media products and audio and video products
Memorex Products GmbH *(note 4)*	Germany 7 July 1998	DM100,000	—	68.68%	45.2%	Trading and distribution of computer media products and audio and video products
Memorex Products S.A.S. *(note 4)*	France 10 April 2000	Euro 50,000	—	68.68%	45.2%	Trading and distribution of computer media products and audio and video products
Memorex Products, Inc. ("MPI") *(note 5)*	USA 18 November 1993	US$79,001,000	—	68.68%	45.2%	Trading and distribution of computer media products and audio and video products
Memtek (Commercial Offshore De Macau) Limitada *(note 1)*	Macau 18 August 2004	MOP1	—	100%	100%	Inactive
Memtek Asia Limited *(note 2)*	Hong Kong 5 March 2003	HK$2	—	100%	100%	Investment holding
Metrorich Worldwide Ltd. *(note 11)*	B.V.I. 8 September 2004	US$1	—	100%	100%	Investment holding
Micro-Tech Ltd. *(note 1)*	B.V.I. 23 July 1999	US$1	—	100%	100%	Investment holding

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of share capital/ registered capital held by the Company Directly	Indirectly	Equity interest held by the Group	Principal activities
Multimedia Info-Duplication (Far East) Limited *(note 2)*	B.V.I. 9 January 1997	US$1	—	100%	100%	Inactive
Multimedia Technology (Far East) Limited *(note 1)*	B.V.I. 9 January 1997	US$1	—	100%	100%	Inactive
Multimedia Technology Overseas Limited *(note 1)*	B.V.I. 20 December 1996	US$2	—	100%	100%	Inactive
Next Prospect Inc. *(note 1)*	B.V.I. 30 March 2004	US$1	—	100%	100%	Investment holding
Pacernic Limited *(note 1)*	B.V.I. 7 January 2005	US$1	—	100%	100%	Investment holding
Pariet Tradings Limited *(note 1)*	B.V.I. 7 April 2004	US$1	—	100%	100%	Inactive
Powervote Technology Limited *(note 1)*	B.V.I. 18 July 2000	US$1	—	100%	100%	Investment holding
Pure Delight Assets Limited *(note 1)*	B.V.I. 12 March 1997	US$1	—	100%	100%	Investment holding
Rapid Growth Profits Limited *(note 11)*	B.V.I. 3 January 2001	US$1	—	100%	100%	Investment holding
Regal Wealth Ltd. *(note 1)*	B.V.I. 23 November 1999	US$1	—	100%	100%	Investment holding
Rich Life Holdings Pte Ltd. ("Rich Life") *(note 8)*	Singapore 19 March 2002	S$2	—	100%	100%	Investment holding
Sino Partner Holdings Limited ("Sino Partner") *(note 1)*	B.V.I. 3 September 2004	US$200	—	83%	83%	Investment holding
Strong Talent Technology Limited *(note 1)*	B.V.I. 2 July 2002	US$1	—	100%	100%	Inactive
Success Wealth Ltd. *(note 1)*	B.V.I. 12 January 2000	US$1	—	100%	100%	Investment holding
Tower Hill Profits Limited *(note 1)*	B.V.I. 8 July 1999	US$1	—	100%	100%	Investment holding
Trifame Limited *(note 1)*	B.V.I. 5 January 2005	US$1	—	100%	100%	Investment holding

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of share capital/ registered capital held by the Company Directly	Indirectly	Equity interest held by the Group	Principal activities
Ultimate Strategy Limited *(note 1)*	B.V.I. 28 August 2003	US$1	—	100%	100%	Investment holding
Wealthy Label International Limited *(note 1)*	B.V.I. 4 January 2005	US$1	—	100%	100%	Investment holding
Well Orient Limited *(note 2)*	Hong Kong 21 August 2000	HK$2	—	100%	100%	Investment holding
Zhuhai Hanny Property Investment Limited ("Zhuhai Hanny") *(note 1)*	B.V.I. 5 December 2002	US$1	—	100%	100%	Inactive
Memorex Products (Taiwan) Inc. *(note 6)*	Taiwan 16 September 2000	NT$4,000,000	—	68.68%	45.2%	Trading and distribution of computer media products and audio and video products
Memtek Products (Taiwan) Inc. *(note 6)*	Taiwan 11 September 2000	NT$4,000,000	—	100%	100%	Trading and distribution of computer media products and audio and video products

Note 1: No audited financial statements have been prepared for these companies, which were incorporated in a country where there were no statutory audit requirements.

Note 2: We have acted as auditors of these companies for each of the Relevant Periods or since their respective date of incorporation or acquisition, where this is a shorter period. Audited financial statements have been prepared in accordance with accounting policies generally accepted in Hong Kong for these companies for each of the three years ended 31 March 2005, or from their respective date of incorporation, where this is a shorter period.

Note 3: The statutory financial statements of MCL for the year ended 31 March 2003 were prepared in accordance with the relevant accounting principles and financial regulations applicable in Canada and were audited by Deloitte & Touche Canada, which is a member firm of Deloitte Touche Tohmatsu.

Note 4: The statutory financial statements of these companies for each of the Relevant Periods were audited by Deloitte & Touche, LLP United Kingdom, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements of MPEL and DPEL for each of the three years ended 31 March 2003, 2004 and 2005 were prepared in accordance with the relevant accounting principles and financial regulations applicable in United Kingdom.

Note 5: The statutory financial statements of MPI for each of the Relevant Periods were audited by Deloitte & Touche United States, LLP, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements of MPI for each of the three years ended 31 March 2003, 2004 and 2005 were prepared in accordance with the relevant accounting principles and financial regulations applicable in the United States.

Note 6: The statutory financial statements of Memorex Products (Taiwan) Inc. and Memtek Products (Taiwan) Inc. for each of the Relevant Periods were audited by Deloitte & Touche Taiwan, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements of Memorex Products (Taiwan) Inc. and Memtek Products (Taiwan) Inc. for each of the three years ended 31 March 2005 were prepared in accordance with the relevant accounting principles and financial regulations applicable in Taiwan.

Note 7: The statutory financial statements of HMZ for each of the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC and were audited by 珠海安德利聯合會計師事務所.

Note 8: The statutory financial statements of Rich Life for each of the Relevant Periods were audited by Deloitte & Touche Singapore, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable in Republic of Singapore.

Note 9: No audited financial statements have been prepared for this company as it is inactive since the date of incorporation.

Note 10: The statutory financial statements of CU Resources Limited for each of the Relevant Periods were audited by Union Alpha C.P.A. Limited. The statutory financial statements were prepared in accordance with the relevant accounting principles generally accepted in Hong Kong.

Note 11: These companies were acquired by the Group after 31 December 2005.

We have acted as auditors of the Company for each of the Relevant Periods. Audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong for each of the three years ended 31 March 2003, 2004 and 2005. For the purpose of this report, we have carried out independent audit procedures in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the consolidated financial statements of the Group for the nine months ended 31 December 2005, which was prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited consolidated financial statements (the "Underlying Financial Statements") of the Group for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The consolidated income statements and consolidated cash flow of the Group for each of the Relevant Periods and consolidated balance sheets as at 31 March 2003, 2004, 2005 and 31 December 2005 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 March 2003, 2004 and 2005 and 31 December 2005 and of the consolidated results and cash flows of the Group for each of the three years ended 31 March 2005 and the nine months ended 31 December 2005.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the nine months ended 31 December 2004, together with the notes thereto (the "31 December 2004 Financial Information"), which were prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 31 December 2004 Financial Information in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the 31 December 2004 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 31 December 2004 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the 31 December 2004 Financial Information.

I. FINANCIAL INFORMATION

Consolidated Income Statement

		Year ended 31 March			Nine months ended 31 December	
		2003	2004	2005	2004	2005
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(As restated)	(As restated)	(As restated)	(Unaudited)	
Revenue	*8*	4,162,804	5,025,930	5,676,459	4,434,124	4,523,483
Cost of sales		(3,248,769)	(3,932,182)	(4,376,361)	(3,472,065)	(3,534,053)
Gross profit		914,035	1,093,748	1,300,098	962,059	989,430
Other operating income	*10*	96,980	111,903	114,145	74,670	61,923
Distribution and selling expenses		(685,793)	(688,528)	(770,262)	(570,131)	(686,424)
Administrative expenses		(278,968)	(283,709)	(294,778)	(222,197)	(170,768)
Other operating expenses	*11*	(38,608)	(4,598)	(29,712)	—	(75,215)
Impairment loss on investment securities		(323,287)	—	—	—	—
Realization of negative goodwill arising on acquisition of additional interest in an associate		—	—	2,057	—	—
Finance costs	*12*	(31,669)	(26,440)	(18,198)	(14,224)	(50,952)
Share of losses of associates		(36,367)	(59,857)	(64,909)	(59,175)	(20,032)
Impairment loss on goodwill arising on acquisition of an associate	*13*	(104,585)	—	(177,446)	—	(14,391)
Impairment loss on trademark licenses		—	—	—	—	(164,667)
Amortization of goodwill arising on acquisition of associates		(6,612)	(17,651)	(28,089)	(21,065)	—
Net gain (loss) on disposal of subsidiaries and associates	*14*	25	10,377	(15,747)	(16,270)	10,778
Allowance for loans to associates		(79,595)	—	—	—	—
(Loss) profit before income tax		(574,444)	135,245	17,159	133,667	(120,318)
Income tax expense	*15*	(32,200)	(25,469)	(117,397)	(90,428)	(61,074)
(Loss) profit for the year/period	*16*	(606,644)	109,776	(100,238)	43,239	(181,392)
Attributable to:						
Equity holders of the parent		(648,620)	13,300	(161,862)	4,094	(127,102)
Minority interests		41,976	96,476	61,624	39,145	(54,290)
		(606,644)	109,776	(100,238)	43,239	(181,392)
Dividends	*18*	—	11,221	11,193	11,193	22,463
(Loss) earnings per share — basic	*19*	HK$(4.05)	HK$0.08	HK$(0.82)	HK$0.02	HK$(0.57)

Consolidated Balance Sheets

		As at 31 March			As at 31 December
		2003	**2004**	**2005**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(As restated)	(As restated)	(As restated)	
NON-CURRENT ASSETS					
Property, plant and equipment	*20*	84,112	79,503	70,557	72,996
Intangible assets	*21*	337,873	428,019	401,383	236,734
Interests in associates	*22*	271,362	906,409	635,729	637,783
Investments in securities	*23*	887,630	189,220	123,534	—
Available-for-sale investments	*24*	—	—	—	678,399
Long-term loan receivables	*25*	10,188	4,898	—	—
Deposits for acquisition of long-term investments	*26*	–	–	35,000	190,175
Deferred tax assets	*37*	13,298	35,480	18,418	45,440
		1,604,463	1,643,529	1,284,621	1,861,527
CURRENT ASSETS					
Other asset	*27*	—	145,085	108,000	—
Inventories	*28*	505,165	877,409	587,078	875,836
Trade and other receivables	*29*	486,609	738,820	766,277	1,067,761
Investments held for trading	*30*	—	—	—	128,894
Investments in securities	*23*	209,270	132,634	144,435	—
Short-term loan receivables	*25*	95,523	41,173	111,851	171,979
Short-term loan receivables from related companies	*49*	67,997	167,365	224,233	186,019
Margin loan receivables	*31*	51,095	32,373	30,586	24,682
Amounts due from associates	*22A*	—	—	—	5,260
Tax recoverable		3,810	488	19,855	5,047
Pledged bank deposit	*32*	19,226	—	20,014	20,591
Bank balances and cash		224,573	164,360	359,603	21,416
		1,663,268	2,299,707	2,371,932	2,507,485
CURRENT LIABILITIES					
Trade and other payables	*33*	890,572	1,272,283	1,011,814	1,299,327
Margin loan payables	*31*	1,609	840	253	152
Bills payable	*31*	2,481	4,939	3,644	—
Dividend payable		—	—	—	9,046
Amount due to an associate	*22B*	—	—	—	2,026
Tax payable		23,194	2,496	91,420	59,765
Borrowings – due within one year	*34*	244,473	349,059	85,881	886,692
Obligations under finance leases – due within one year	*35*	1,113	1,068	462	—
Bank overdrafts		22,416	23,266	46,978	26,663
		1,185,858	1,653,951	1,240,452	2,283,671
NET CURRENT ASSETS		477,410	645,756	1,131,480	223,814
TOTAL ASSETS LESS CURRENT LIABILITIES		2,081,873	2,289,285	2,416,101	2,085,341

		As at 31 March			31 December
		2003	**2004**	**2005**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(As restated)	(As restated)	(As restated)	
NON-CURRENT LIABILITIES					
Borrowings – due after one year	*34*	172,995	7,921	157,470	7,258
Obligations under finance leases – due after one year	*35*	1,557	462	—	—
Amount due to a minority shareholder	*36*	2,406	2,428	2,526	—
Deferred tax liabilities	*37*	750	136	114	201
		177,708	10,947	160,110	7,459
TOTAL ASSETS AND LIABILITIES		1,904,165	2,278,338	2,255,991	2,077,882
CAPITAL AND RESERVES					
Share capital	*38*	1,603	1,866	2,236	2,261
Reserves	*40*	1,727,964	1,871,315	1,804,138	1,673,972
Equity attributable to equity holders of the parent		1,729,567	1,873,181	1,806,374	1,676,233
Minority interests		174,598	405,157	449,617	401,649
TOTAL EQUITY		1,904,165	2,278,338	2,255,991	2,077,882

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the parent											
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(note 40)*	Contributed surplus *HK$'000* *(note 40)*	Currency translation reserve *HK$'000*	Capital redemption reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Other reserves *HK$'000* *(note 40)*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 April 2002												
— as originally stated	160,301	1,974,542	(138,749)	(69,936)	(18,387)	592	—	—	338,805	2,247,168	214,611	2,461,779
— effect of change in accounting policy *(note 2)*	—	—	—	—	—	—	—	—	6,616	6,616	6,218	12,834
— as restated	160,301	1,974,542	(138,749)	(69,936)	(18,387)	592	—	—	345,421	2,253,784	220,829	2,474,613
Currency realignment	—	—	—	—	19,793	—	—	—	—	19,793	(9,481)	10,312
Net income recognized directly in equity	—	—	—	—	19,793	—	—	—	—	19,793	(9,481)	10,312
Impairment loss on goodwill recognized in the consolidated income statement	—	—	104,585	—	—	—	—	—	—	104,585	—	104,585
(Loss) profit for the year	—	—	—	—	—	—	—	—	(648,620)	(648,620)	41,976	(606,644)
Total recognized income and expenses for the year	—	—	104,585	—	19,793	—	—	—	(648,620)	(524,242)	32,495	(491,747)
Arising on acquisition of further interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	(78,726)	(78,726)
Issue of shares	2	23	—	—	—	—	—	—	—	25	—	25
Reduction of nominal value of shares	(158,700)	—	—	158,700	—	—	—	—	—	—	—	—
Transfer	—	(1,974,565)	—	1,514,565	—	—	—	—	460,000	—	—	—
At 31 March 2003 and 1 April 2003	1,603	—	(34,164)	1,603,329	1,406	592	—	—	156,801	1,729,567	174,598	1,904,165
Currency realignment	—	—	—	—	15,236	—	—	—	—	15,236	(14,775)	461
Share of reserves of associates	—	—	—	—	—	—	—	14,448	—	14,448	—	14,448
Net income recognized directly in equity	—	—	—	—	15,236	—	—	14,448	—	29,684	(14,775)	14,909
Realized on partial disposal of interest in a subsidiary	—	—	12,027	—	—	—	—	—	—	12,027	148,858	160,885
Realized on disposal of a subsidiary	—	—	556	—	(216)	—	—	—	—	340	—	340
Profit for the year	—	—	—	—	—	—	—	—	13,300	13,300	96,476	109,776
Total recognized income and expenses for the year	—	—	12,583	—	15,020	—	—	14,448	13,300	55,351	230,559	285,910
Issue of shares	263	99,934	—	—	—	—	—	—	—	100,197	—	100,197
Share issue expenses	—	(713)	—	—	—	—	—	—	—	(713)	—	(713)
Dividends paid	—	—	—	—	—	—	—	—	(11,221)	(11,221)	—	(11,221)
At 31 March 2004 and 1 April 2004	1,866	99,221	(21,581)	1,603,329	16,426	592	—	14,448	158,880	1,873,181	405,157	2,278,338
Currency realignment	—	—	—	—	1,633	—	—	—	—	1,633	(3,006)	(1,373)
Share of reserves of associates	—	—	—	—	—	—	—	(14,249)	—	(14,249)	—	(14,249)

	Attributable to equity holders of the parent											
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000* *(note 40)*	**Contributed surplus** *HK$'000* *(note 40)*	**Currency translation reserve** *HK$'000*	**Capital redemption reserve** *HK$'000*	**Investment revaluation reserve** *HK$'000*	**Other reserves** *HK$'000* *(note 40)*	**Retained profits** *HK$'000*	**Total** *HK$'000*	**Minority interests** *HK$'000*	**Total equity** *HK$'000*
Net income (expense) recognized directly in equity	—	—	—	—	1,633	—	—	(14,249)	—	(12,616)	(3,006)	(15,622)
Realized on disposal of subsidiaries	—	—	(556)	—	7,842	—	—	(7,810)	—	(524)	—	(524)
Release upon disposal/ deemed disposal of interest in associates	—	—	—	—	—	—	—	(187)	—	(187)	—	(187)
Realised on liquidation of an associate	—	—	—	—	27	—	—	—	—	27	—	27
(Loss) profit for the period	—	—	—	—	—	—	—	—	4,094	4,094	39,145	43,239
Total recognised income and expense for the period	—	—	(556)	—	9,502	—	—	(22,246)	4,094	(9,206)	36,139	26,933
Issue of shares	370	118,976	—	—	—	—	—	—	—	119,346	—	119,346
Share issue expenses	—	(640)	—	—	—	—	—	—	—	(640)	—	(640)
Dividend paid	—	—	—	—	—	—	—	—	(11,193)	(11,193)	—	(11,193)
At 31 December 2004	2,236	217,557	(22,137)	1,603,329	25,928	592	—	(7,798)	151,781	1,971,488	441,296	2,412,784
Currency realignment	—	—	—	—	842	—	—	—	—	842	(1,267)	(425)
(Loss) profit for the period	—	—	—	—	—	—	—	—	(165,956)	(165,956)	22,479	(143,477)
Total recognised income and expense for the period	—	—	—	—	842	—	—	—	(165,956)	(165,114)	21,212	(143,902)
Arising on acquisition of further interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	(12,891)	(12,891)
Transfer	—	—	—	(155,127)	—	—	—	—	155,127	—	—	—
At 31 March 2005, as restated	2,236	217,557	(22,137)	1,448,202	26,770	592	—	(7,798)	140,952	1,806,374	449,617	2,255,991
Effect of adoption of new accounting policies *(note 3)*	—	—	22,137	—	—	—	—	11,947	(6,494)	27,590	—	27,590
At 1 April 2005 – as restated	2,236	217,557	—	1,448,202	26,770	592	—	4,149	134,458	1,833,964	449,617	2,283,581
Currency realignment	—	—	—	—	(7,559)	—	—	—	—	(7,559)	5,482	(2,077)
Share of reserves of associate	—	—	—	—	—	—	(219)	5,781	—	5,562	—	5,562
Fair value change in available-for-sale investments	—	—	—	—	—	—	(15,221)	—	—	(15,221)	—	(15,221)
Net income (expense) recognized directly in equity	—	—	—	—	(7,559)	—	(15,440)	5,781	—	(17,218)	5,482	(11,736)
Arising on acquisition of further interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	560	560
Realized on disposal of subsidiaries	—	—	—	—	583	—	—	—	—	583	280	863
(Loss) for the period	—	—	—	—	—	—	—	—	(127,102)	(127,102)	(54,290)	(181,392)
Total recognized income and expense for the period	—	—	—	—	(6,976)	—	(15,440)	5,781	(127,102)	(143,737)	(47,968)	(191,705)
Issue of shares upon scrip dividend	25	8,444	—	—	—	—	—	—	—	8,469	—	8,469
Dividend paid	—	—	—	—	—	—	—	—	(22,463)	(22,463)	—	(22,463)
At 31 December 2005	2,261	226,001	—	1,448,202	19,794	592	(15,440)	9,930	(15,107)	1,676,233	401,649	2,077,882

Consolidated Cash Flow Statements

	Year ended 31 March			Nine months ended 31 December	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
OPERATING ACTIVITIES					
(Loss) profit before income tax	(574,444)	135,245	17,159	133,667	(120,318)
Adjustments for:					
Interest income	(38,646)	(22,728)	(22,651)	(15,456)	(32,722)
Finance costs	31,669	26,440	18,198	14,224	50,952
Share of results of associates	36,367	59,857	64,909	59,175	20,032
Impairment loss on goodwill arising on acquisition of an associate	104,585	—	177,446	—	14,391
Impairment loss on trademark licenses	—	—	—	—	164,667
Amortization of goodwill arising from acquisition of associates	6,612	17,651	28,089	21,065	—
Net (gain) loss on disposal of subsidiaries and associates	(25)	(10,377)	15,747	16,270	(10,778)
Allowance for loans to associates	79,595	–	–	–	—
Net unrealized holding loss (gain) on other investments	26,482	(16,829)	(17,223)	(11,471)	—
Decrease in fair value of investments held for trading	—	—	—	—	75,215
Allowance (reversal of allowance) for margin loan receivables	2,429	5,300	(2,387)	—	620
Realization of negative goodwill arising on acquisition of an associate	—	—	(8)	—	—
Amortization of intangible assets	14,338	44,137	51,066	38,300	605
Allowance for slow moving and obsolete inventories	12,277	24,679	25,588	3,084	19,449
Allowance for bad and doubtful debts	36,534	3,208	22,269	14,662	1,532
Depreciation and amortization of property, plant and equipment	21,271	19,632	19,785	13,807	9,422
Allowance for loan receivables	22,056	16,653	8,338	5,469	—
Loss (gain) on disposal of property, plant and equipment	3,373	696	1,098	(258)	108
Impairment loss on property, plant and equipment	1,305	—	—	—	—
Impairment loss on investment securities	323,287	—	—	—	—
Written off of long-term loan and interest receivables	10,821	—	—	—	—
Net (gain) loss on disposal of investment securities/ available-for-sale investments	—	(9,577)	29,712	—	—
Impairment loss on goodwill arising on acquisition of a subsidiary	—	4,598	—	—	—
Realization of negative goodwill arising on acquisition of additional interest in an associate	–	–	(2,057)	–	–

		Year ended 31 March			Nine months ended 31 December	
		2003	**2004**	**2005**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Operating cash flows before movements in working capital		119,886	298,585	435,078	292,538	193,175
(Increase) decrease in other asset		—	(11,085)	37,085	—	108,000
(Increase) decrease in inventories		(51,963)	(367,669)	262,639	311,663	(310,966)
Decrease (increase) in trade and other receivables		285,632	(552,508)	(36,899)	(311,114)	(455,306)
Decrease (increase) in other investments		73,089	38,877	13,623	29,724	(40,314)
Decrease (increase) in margin loan receivables		72,153	13,422	4,174	(2,575)	5,284
Increase (decrease) in trade and other payables		103,195	468,621	(260,297)	(282,588)	291,399
Decrease in margin loan payables		(20,502)	(769)	(587)	(372)	(101)
Increase (decrease) in bills payable		402	2,458	(1,295)	(4,403)	(3,644)
Cash generated from (used in) operations		581,892	(110,068)	453,521	32,873	(212,473)
Interest and finance charges paid		(36,451)	(14,155)	(8,369)	(7,168)	(41,234)
Overseas tax paid		(19,978)	(41,262)	(43,607)	(27,095)	(115,049)
Hong Kong Profits Tax (paid) refunded		(772)	104	386	386	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES		524,691	(165,381)	401,931	(1,004)	(368,756)
INVESTING ACTIVITIES						
Repayment of short-term loan receivables		945,376	234,669	29,588	28,228	103,200
(Increase) decrease in pledged bank deposit		72,574	19,226	(20,014)	(20,014)	(577)
Interest received		33,353	21,093	18,123	15,274	29,623
Amounts repaid (advanced) by associates		19,006	19,797	14,256	(6,561)	(1,974)
Disposal of subsidiaries	*42*	1,998	(5)	7,353	7,118	2,821
Loans repaid by associates		1,949	6,496	—	—	—
Proceeds from disposal of property, plant and equipment		1,844	3,127	1,274	962	177
Increase in short-term loan receivables		(1,073,932)	(270,822)	(105,755)	(105,052)	(33,464)
Acquisition of interests in associates		(217,195)	(19,348)	(44,148)	(38,995)	(24,123)
Purchase of property, plant and equipment		(16,457)	(17,726)	(14,229)	(7,531)	(13,335)

		Year ended 31 March			Nine months ended 31 December	
		2003	**2004**	**2005**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Acquisition of investment securities/available-for-sale investments		(6,041)	—	(123,348)	—	(33,176)
Proceeds from disposal of investment securities		—	9,957	150,255	—	—
Repayment of short-term loan receivables from related companies		132,378	53,954	32,890	29,358	99,800
Proceeds from partial disposal of shareholding in a subsidiary		—	274,085	—	—	—
Dividend received from an associate		—	4,257	4,668	4,608	1,481
Increase in short-term loan receivables from related companies		(200,375)	(194,495)	(89,758)	(34,837)	(48,808)
Acquisition of subsidiaries	*41*	—	(130,508)	—	—	(3,351)
Acquisition of patent		—	(8,065)	—	—	—
Proceeds from disposal of an associate		—	—	10	—	1,750
Deposits for acquisition of long-term investments		—	—	(35,000)	—	(155,175)
Acquisition of an additional interest in a subsidiary		—	—	(37,320)	—	—
Acquisition of unlisted debt securities		—	—	(12,000)	(12,000)	(532,539)
Proceed from disposal of unlisted debt security		—	—	—	—	12,000
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(305,522)	5,692	(223,155)	(139,442)	(595,670)
FINANCING ACTIVITIES						
Bank loans raised		858,840	575,079	886,161	777,133	803,451
Other loans raised		326,185	94,396	10,000	10,000	746,520
Proceeds from issue of shares		25	99,484	118,500	118,500	—
Repayments of bank loans		(899,972)	(606,873)	(1,010,697)	(872,942)	(522,103)
Repayments of other loans		(443,185)	(56,239)	—	—	(376,632)
Repayments of obligations under finance leases		(3,417)	(1,137)	(1,070)	(796)	(462)
Repayments to a minority shareholder		(39)	—	(10)	(10)	—
Dividends paid		—	(11,221)	(10,987)	(10,987)	(4,949)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(161,563)	93,489	(8,103)	20,898	645,825

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,606	(66,200)	170,673	(119,548)	(318,601)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	141,269	202,157	141,094	141,094	312,625
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3,282	5,137	858	645	729
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	202,157	141,094	312,625	22,191	(5,247)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	224,573	164,360	359,603	40,627	21,416
Bank overdrafts	(22,416)	(23,266)	(46,978)	(18,436)	(26,663)
	202,157	141,094	312,625	22,191	(5,247)

Notes to the financial information

1. GENERAL

The Company was incorporated in Bermuda on 3 September 1991 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the address of the principal place of business of the Company is 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

During the Relevant Periods, the Group is principally engaged in trading of computer related products, consumer electronic products and securities and property development and trading.

The financial information are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. CHANGES IN ACCOUNTING POLICIES/APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In 2004, the Group has adopted, for the first time, the Statement of Standard Accounting Practice ("SSAP") No. 12 Income Taxes ("SSAP 12 (Revised)") issued by the HKICPA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the revised accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly.

As a result of this change in policy, the balance of retained profits and minority interests at 1 April 2002 has been increased by HK$6,616,000 and HK$6,218,000, respectively representing the cumulative effect of the change in policy on the results for the periods prior to 1 April 2002. The change has resulted in an increase in loss for the year ended 31 March 2003 of HK$148,000 and an increase in the profit for the year ended 31 March 2004 of HK$8,877,000.

2. CHANGES IN ACCOUNTING POLICIES/APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

For the year ended 31 March 2005, the Group applied, for the first time, Hong Kong Financial Reporting Standards ("HKFRS") 3 "Business Combination", which is effective for business combinations for which the agreement is on or after 1 January 2005 to the accounting for business combinations for which the agreement date is on or after 1 January 2005. For business combinations which the agreement date was before 1 January 2005, goodwill arising is accounted for in accordance with the SSAP 30 "Business Combinations" ("SSAP 30") issued by the HKICPA. Under SSAP 30, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition and is stated at cost less accumulated amortization and accumulated impairment losses. Under SSAP 30, negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition and is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. HKFRS 3 requires goodwill arising from acquisitions to be determined as the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities on the date of acquisition. After initial recognition, HKFRS 3 requires goodwill to be carried at cost less accumulated impairment losses. HKFRS 3 prohibits the amortization of goodwill. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess (referred to as "discount on acquisition") is recognized immediately in the income statement. The application of HKFRS 3 has resulted in the recognition of goodwill of HK$24,430,000 (Note 21(b)) which is not subject to amortization but, impairment reviews are required and HK$2,057,000 of discount on acquisition arising on acquisition of an additional interest in an associate was credited to income statement for the year ended 31 March 2005.

From 1 April 2005 onwards, the Group has applied, for the first time, a number of new HKFRSs, Hong Kong Accounting Standards "(HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed under HKAS 1 "Presentation of Financial Statements". The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented (see Note 3 for the financial impact).

2. **CHANGES IN ACCOUNTING POLICIES/APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS** *(Cont'd)*

Business Combinations

From 1 April 2005 onwards, the Group has applied the transitional provision of HKFRS 3 and the principal effects are summarized below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and goodwill arising on acquisitions after 1 April 2001 was capitalized and amortized over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3 (the "Transitional Provision"). Goodwill previously recognized in reserves has been transferred to the Group's retained profits on 1 April 2005. With respect to goodwill arising on acquisitions after 1 April 2001 which previously capitalized on the balance sheet and included in intangible assets or included in interests in associates, the Group has discontinued amortizing such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses after initial recognition (if any). As a result of this change in accounting policy, no amortization of goodwill has been charged for the nine months ended 31 December 2005. In accordance with the Transitional Provision, the Group has transferred goodwill previously held in capital reserve and other reserves of approximately HK$22,566,000 and HK$13,060,000 respectively to retained profits as at 1 April 2005 (see Note 3 for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 April 2001 of approximately HK$429,000 was held in capital reserve and negative goodwill arising on acquisitions after 1 April 2001 of approximately HK$225,000 was presented as a deduction from interest in associates and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the Transitional Provisions, the Group has derecognized all discount on acquisition as at 1 April 2005 of which negative goodwill of approximately HK$429,000 previously recorded in capital reserve, and approximately HK$225,000 previously presented as a deduction from interests in associates (see Note 3 for the financial impact).

Intangible assets are identified as having indefinite useful lives upon the application of HKAS 38 "Intangible Assets"

In previous periods, intangible assets were amortized over their estimated useful lives of ten to twenty years. For the period beginning on 1 April 2005, the Group applies, at the first time, HKAS 38 which requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less accumulated impairment losses (if any). Intangible assets with indefinite lives are not subject to amortization but are tested for impairment annually or more frequently when there are indications of impairment. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of its intangible assets on 1 April 2005 and concluded that certain trademark licenses with a total carrying amount of HK$226,687,000 recognized under the predecessor accounting standard have indefinite useful lives. The Group has applied the revised useful lives prospectively and discontinued amortizing intangible assets with indefinite useful lives from 1 April 2005. No amortization has been charged in relation to intangible assets with indefinite useful lives for the nine months ended 31 December 2005. As a result of this change in accounting estimate, amortization charge for the nine months ended 31 December 2005 has decreased by approximately HK$38,300,000. Comparative figures have not been restated.

2. CHANGES IN ACCOUNTING POLICIES/APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment measured using the revaluation model. In 2005, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively and has had no material effect on the Group's retained profits as at 1 April 2005 since no reliable allocation between the land and buildings elements can be made. The leasehold interests in land continue to be accounted for as property, plant and equipment.

Financial Instruments

In 2005, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The adoption of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. The principal effects on the Group as a result of implementation of HKAS 39 are summarized below:

Classification and measurement of financial assets and financial liabilities

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

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less any identified impairment losses while "other investments" are measured at fair value, with unrealized gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortized cost less any identified impairment losses. From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit and loss", "available-for-sale investments", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit and loss" and "available-for-sale investments" are carried at fair value, with changes in fair values recognized in profit and loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortized cost using the effective interest method (see Note 3 for the financial impact).

2. CHANGES IN ACCOUNTING POLICIES/APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Financial Instruments *(Cont'd)*

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Other financial liabilities are carried at amortized cost using the effective interest method. The adoption of HKAS 39 has had no material effect to the financial assets and financial liabilities other than debt and equity securities of the Group.

Investment in convertible notes

From 1 April 2005 onwards, the Group has applied HKAS 39 to the convertible notes it acquired during the period ended 31 December 2005. In accordance with HKAS 39, the conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the convertible note and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option, is estimated using a relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. Changes in fair value of the conversion option of the unlisted convertible note are recognized directly in profit or loss (see Note 3 for the financial impact).

Share-based payment

From 1 April 2005 onwards, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company and its subsidiaries determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to shares granted on or after 1 April 2005. In relation to shares granted before 1 April 2005, the Group has not applied HKFRS 2 to shares granted on or before 7 November 2002 and shares granted after 7 November 2002 and had vested before 1 April 2005 in accordance with the relevant transitional provisions. The Group had no share granted after 7 November 2002 and had not yet vested on 1 April 2005, and accordingly, no retrospective restatement is required.

2. CHANGES IN ACCOUNTING POLICIES/APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Hotel properties

HK Interpretation 2 ("HK-Int 2") "The Appropriate Accounting Policies for Hotel Properties" clarifies the accounting policy for owner-operated hotel properties. In previous periods, the self-operated hotel properties of the Group's associate were carried at cost less impairment amounts and were not subject to depreciation. HK-Int 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16, "Property, Plant and Equipment" and therefore be accounted for either using the cost model or the revaluation model. The Group's associate has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-Int 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated. An adjustment of HK$937,000 has been made to decrease the share of net assets of associates and to decrease the profit and loss for the year ended 31 March 2005 respectively (see Note 3 for financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in Note 2 on the results for the Relevant Periods and for the nine months ended 31 December 2004 are as follows:

(i) On results

For the year ended 31 March 2003

	HKAS 1	**SSAP 12**	**Total effects**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 2)*	
Increase in share of losses of associates	(3,841)	—	(3,841)
Decrease (increase) in income tax expense	3,841	(148)	3,693
Increase in loss for the year	—	(148)	(148)

For the year ended 31 March 2004

	HKAS 1	**SSAP 12**	**Total effects**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 2)*	
Increase in share of losses of associates	(2,377)	—	(2,377)
Decrease in income tax expense	2,377	8,877	11,254
Increase in profit for the year	—	8,877	8,877

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

For the year ended 31 March 2005

	HKAS 1 *HK$'000* *(Note 2)*	**HK-INT 2** *HK$'000* *(Note 2)*	**Total effects** *HK$'000*
Increase in share of losses of associates	(4,247)	(937)	(5,184)
Decrease in income tax expense	4,247	—	4,247
Decrease in loss for the year	—	(937)	(937)

For the nine months ended 31 December 2005

	HKAS 1 *HK$'000* *(Note 2)*	**HKAS 38** *HK$'000* *(Note 2)*	**HKAS 39** *HK$'000* *(Note 2)*	**HKFRS 3** *HK$'000* *(Note 2)*	**Total effects** *HK$'000*
Decrease in realization of negative goodwill arising on acquisition of an additional interest in an associate	—	—	—	(17)	(17)
Decrease in amortization of goodwill	—	—	—	18,891	18,891
Decrease in amortization of trademark licenses	—	38,300	—	17,716	56,016
Decrease in amortization of goodwill arising on acquisition of associates	—	—	—	5,522	5,522
Increase in share of losses of associates	(1,435)	—	—	—	(1,435)
Decrease in income tax expense	1,435	—	—	—	1,435
Change in fair value of conversion option of unlisted convertible notes	—	—	(51,813)	—	(51,813)
Increase (decrease) in profit for the period	—	38,300	(51,813)	42,112	28,599

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

For the nine months ended 31 December 2004

	HKAS 1 *HK$'000* *(Note 2)* (Unaudited)
Increase in share of losses of associates	(3,507)
Decrease in income tax expense	3,507
	—

(ii) On income statement line items

For the year ended 31 March 2003

	HKAS 1 *HK$'000* *(Note 2)*
Increase in share of losses of associates	(3,841)
Decrease in income tax expense	3,841
	—

For the year ended 31 March 2004

	HKAS 1 *HK$'000* *(Note 2)*
Increase in share of losses of associates	(2,377)
Decrease in income tax expenses	2,377
	—

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

For the year ended 31 March 2005

	HKAS 1 *HK$'000* *(Note 2)*	**HK-INT 2** *HK$'000* *(Note 2)*	**Total effects** *HK$'000*
Increase in share of losses of associates	(4,247)	(937)	(5,184)
Decrease in income tax expense	4,247	—	4,247
Increase in loss for the year	—	(937)	(937)

For the nine months ended 31 December 2005

	HKAS 1 *HK$'000* *(Note 2)*	**HKAS 38** *HK$'000* *(Note 2)*	**HKAS 39** *HK$'000* *(Note 2)*	**HKFRS 3** *HK$'000* *(Note 2)*	**Total effects** *HK$'000*
Decrease in administrative expenses	—	38,300	—	36,607	74,907
Decrease in realization of negative goodwill arising on acquisition of an additional interest in an associate	—	—	—	(17)	(17)
Decrease in amortization of goodwill arising on acquisition of associates	—	—	—	5,522	5,522
Increase in share of losses of associates	(1,435)	—	—	—	(1,435)
Decrease in income tax expense	1,435	—	—	—	1,435
Change in fair value of conversion option of unlisted convertible notes	—	—	(51,813)	—	(51,813)
	—	38,300	(51,813)	42,112	28,599

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

For the nine months ended 31 December 2004

	HKAS 1 *HK$'000* *(Note 2)* (Unaudited)
Increase in share of losses of associates	(3,507)
Decrease in income tax expense	3,507
	—

The cumulative effects of the new HKFRSs as at respective balance sheet dates are summarized below:

As at 31 March 2003

	As originally stated *HK$'000*	**HKAS 1** *HK$'000*	**As restated** *HK$'000*
Total assets and liabilities	1,904,165	—	1,904,165
Share capital	1,603	—	1,603
Capital reserve	(34,164)	—	(34,164)
Other reserves	1,605,327	—	1,605,327
Retained profits	156,801	—	156,801
Minority interests	—	174,598	174,598
Total effects on equity	1,729,567	174,598	1,904,165
Minority interests	174,598	(174,598)	—

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

As at 31 March 2004

	As originally stated *HK$'000*	**HKAS 1** *HK$'000*	**As restated** *HK$'000*
Total assets and liabilities	2,278,338	—	2,278,338
Share capital	1,866	—	1,866
Capital reserve	(21,581)	—	(21,581)
Other reserves	1,734,016	—	1,734,016
Retained profits	158,880	—	158,880
Minority interests	—	405,157	405,157
Total effects on equity	1,873,181	405,157	2,278,338
Minority interests	405,157	(405,157)	—

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

As at 31 March 2005

	As at 31 March 2005 (originally stated)	Retrospective adjustments HKAS 1	Retrospective adjustments HK-INT 2	As at 31 March 2005 (restated)	Adjustments on 1 April 2005 *(Note)*	As at 1 April 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	70,557	—	—	70,557	—	70,557
Interests in associates	636,666	—	(937)	635,729	27,590	663,319
Investments in securities (non-current)	123,534	—	—	123,534	(123,534)	—
Available-for-sale investments	—	—	—	—	123,534	123,534
Investments in securities (current)	144,435	—	—	144,435	(144,435)	—
Investments held for trading	—	—	—	—	144,435	144,435
Other net assets	1,281,736	—	—	1,281,736	—	1,281,736
Total effects on assets and liabilities	2,256,928	—	(937)	2,255,991	27,590	2,283,581
Share capital	2,236	—	—	2,236	—	2,236
Capital reserve	(22,137)	—	—	(22,137)	22,137	—
Other reserves	1,685,323	—	—	1,685,323	11,947	1,697,270
Retained profits	141,889	—	(937)	140,952	(6,494)	134,458
Minority interests	—	449,617	—	449,617	—	449,617
Total effects on equity	1,807,311	449,617	(937)	2,255,991	27,590	2,283,581
Minority interests	449,617	(449,617)	—	—	—	—

Note: The adjustment of approximately HK$27,365,000 included in interests in associates represents the adoption of new HKFRSs by an associate of the Group. The other adjustments represent the adoption of HKAS 39 and HKFRS 3 by the Group. For details, please refer to Note 2.

3. **SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES** *(Cont'd)*

The financial effects of the application of the new HKFRSs to the Group's equity as at 1 April 2002 are summarized below:

	As originally stated	**SSAP 12**	**HKAS 1**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 2)	*(Note 2)*	
Share capital	160,301	—	—	160,301
Capital reserve	(138,749)	—	—	(138,749)
Other reserves	1,886,811	—	—	1,886,811
Retained profits	338,805	6,616	—	345,421
Minority interests	—	6,218	214,611	220,829
Total effects on equity	2,247,168	12,834	214,611	2,474,613

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

4. CHANGE OF ACCOUNTING ESTIMATES

Change of depreciation rate

Prior to 1 April 2004, certain furniture, fixtures and equipment were depreciated at 10% per annum. With effect from 1 April 2004, they are depreciated at 33% per annum which reflects the Group's previous experience of the useful lives of those assets. The change in depreciation rate has increased the depreciation charge for the year ended 31 March 2005 by HK$3,003,000. There was no other change of depreciation rate for the year ended 31 March 2003 and 2004 and for the nine months ended 31 December 2005.

5. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. The financial information has been prepared in accordance with the principal accounting policies set out below which conform with HKASs and HKFRSs.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 April 2001 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit ("CGU") to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on acquisitions after 1 April 2005, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is indication that the CGU to which the goodwill relates may be impaired.

5. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill arising on acquisition after 1 January 2005 is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

For the purpose of impairment testing, goodwill is allocated to each of the Group's CGU expected to benefit from the synergies of the combination. CGU to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognized immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in Note 2 above, all negative goodwill as at 1 April 2005 has been derecognized with a corresponding adjustment to the Group's retained earnings.

Trademark licenses

Prior to 31 March 2005, intangible assets were amortized over their estimated useful lives of ten to twenty years. For the period beginning on 1 April 2005, intangible assets with indefinite useful lives and trademark licenses not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Trademark licenses with finite-life are stated at cost less amortization and any identified impairment loss. Amortization is calculated to write off the cost of the trademark licenses over their estimated useful lives, using the straight line method.

Patent

The patent is measured initially at cost and amortized on a straight line basis over its estimated useful life.

5. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Revenue recognition

Sales of goods are recognized when goods are delivered and title has passed.

Sales of investments in securities are recognized on a trade-date basis when contracts are executed.

Sales of other asset are recognized upon the execution of a binding sale agreement.

Internet service income and royalty income are recognized when services are provided.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognized on a straight line basis over the period of the respective leases.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Impairment (other than goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet ready for use)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Impairment losses are recognized as expenses immediately.

5. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately. An impairment loss recognized for goodwill arising from business combinations for which the agreement date is on or after 1 January 2005 is not reversed in subsequent period.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and amortization and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995. Accordingly, no further revaluation of land and buildings will be carried out.

Depreciation and amortization are provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, on a straight-line basis, at the following rates per annum:

Freehold land	Nil
Leasehold land and buildings	Over the period of the leases or 2.5% — 5%
Plant and machinery	10% — 20%
Moulds	25% — 33%
Furniture, fixtures and equipment	10% — 33%
Motor vehicles	20% — 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

5. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Other asset

Other asset which represent interest on development right of land held for sale are stated at the lower of cost and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the Relevant Periods in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

5. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Share-based payment

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will continue to be held in share option reserve.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

5. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Loans and receivables

Loans and receivables (including trade and other receivables, short-term loan receivables, short-term loan receivables from related companies and margin loan receivables and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss. Any impairment losses on available-for-sale financial assets are recognized in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

5. **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

Other financial liabilities

Other financial liabilities including trade and other payables, margin loan payables, dividend payable, amount due to an associate, amount due to a minority shareholder, borrowings, bills payables, obligations under finance leases and bank overdrafts are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

Derivatives of the Group that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognized directly in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Periods. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

5. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

Payments to defined contribution retirement benefit plans are charged as expenses as they fall due.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 5, management has made the following judgment that have significant effect on the amounts recognized in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation and Amortization

The Group's net book value of property, plant and equipment as at 31 December 2005 was HK$72,996,000. The Group depreciates the plant and machinery on a straight-line basis over the estimated useful life of three to forty years, and after taking into account of their estimated residual value, using the straight-line method, at the rate 2.5% to 33% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's plant and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Allowances for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for resale. The management estimates the net realizable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill and trademark licenses

Determining whether goodwill and trademark licenses are impaired requires an estimation of the value in use of the CGU to which goodwill and trademark licenses has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amounts of goodwill and trademark licenses are HK$168,531,000 and HK$62,020,000 respectively. Details of the recoverable amount calculation are disclosed in note 21.

Income taxes

As at 31 December 2005, a deferred tax asset of HK$1,041,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal or further recognition takes place.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, borrowings, trade and other receivables, short-term loan receivables, margin loans receivables and bank deposits or payables, trade and other payables and obligations under finance leases and bank deposits or payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables, short-term loan receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate and variable-rate bank borrowings (see Note 34 for details of these borrowings). In relation to these fixed-rate borrowings, the Group aims at keeping borrowings at variable rates.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

8. REVENUE

Revenue represents the net amounts received and receivable for goods sold, securities traded by the Group, and sales of other asset to outside customers during the Relevant Periods and for the nine months ended 31 December 2004 and is analysed as follows:

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Sales of goods	4,084,798	4,974,981	5,542,975	4,355,280	4,290,687
Securities trading	78,006	34,949	93,884	78,844	113,996
Sale of other asset *(Note 27)*	—	16,000	39,600	—	118,800
	4,162,804	5,025,930	5,676,459	4,434,124	4,523,483

9. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

Business segments

The Group is organized into four business segments, namely trading of computer related products, consumer electronic products and securities and property development and trading.

Following a business reassessment in 2005, the Group considers the property development and trading business as the Group's forth core business and accordingly the relevant revenue is disclosed as revenue of the Group for the year ended 31 March 2005 and for the nine months ended 31 December 2005. Such activities were included in other revenue for the year ended 31 March 2004. Comparative figures have been restated to conform with the 2005 presentation.

9. **SEGMENT INFORMATION** *(Cont'd)*

Segment information about these businesses is presented as below:

	Trading of computer related products HK$'000	Trading of consumer electronic products HK$'000	Trading of securities HK$'000	Property development and trading HK$'000	Consolidated HK$'000 (As restated)
For the year ended 31 March 2003					
REVENUE					
External sales	2,975,181	1,109,617	78,006	—	4,162,804
SEGMENT RESULT	97,875	20,177	(110,408)	—	7,644
Interest income					38,646
Unallocated corporate expenses					(38,644)
Impairment loss on investment securities					(323,287)
Finance costs					(31,669)
Share of losses of associates					(36,367)
Impairment loss on goodwill arising on acquisition of an associate					(104,585)
Net gain on disposal of subsidiaries					25
Amortization of goodwill arising on acquisition of an associate					(6,612)
Allowance for loans to associates					(79,595)
Loss before income tax					(574,444)
Income tax expense					(32,200)
Loss for the year					(606,644)

9. SEGMENT INFORMATION *(Cont'd)*

	Trading of computer related products *HK$'000*	**Trading of consumer electronic products** *HK$'000*	**Trading of securities** *HK$'000*	**Property development and trading** *HK$'000*	**Consolidated** *HK$'000* (As restated)
Assets and liabilities at 31 March 2003					
ASSETS					
Segment assets	1,395,363	983	193,920	—	1,590,266
Interests in associates					271,362
Investment securities					902,980
Unallocated corporate assets					503,123
Consolidated total assets					3,267,731
LIABILITIES					
Segment liabilities	880,683	—	3,161	—	883,844
Borrowings					417,468
Unallocated corporate liabilities					62,254
Consolidated total liabilities					1,363,566

	Trading of computer related products *HK$'000*	**Corporate** *HK$'000*	**Consolidated** *HK$'000* (As restated)
Other information			
For the year ended 31 March 2003			
Addition of goodwill arising on acquisition of additional interest in a subsidiary	199,590	—	199,590
Capital expenditure	15,810	3,637	19,447
Depreciation and amortization	33,657	1,952	35,609
Impairment loss on investment securities	—	323,287	323,287
Impairment loss on property, plant and equipment	—	1,305	1,305
Other non-cash expenses	76,669	5,706	82,375

9. SEGMENT INFORMATION *(Cont'd)*

	Trading of computer related products HK$'000	Trading of consumer electronic products HK$'000	Trading of securities HK$'000	Property development and trading HK$'000	Consolidated HK$'000 (As restated)
For the year ended 31 March 2004					
REVENUE					
External sales	3,737,278	1,237,703	34,949	16,000	5,025,930
SEGMENT RESULT	206,695	21,881	20,804	5,656	255,036
Interest income					22,728
Unallocated corporate expenses					(48,948)
Finance costs					(26,440)
Share of losses of associates					(59,857)
Amortization of goodwill arising on acquisition of associates					(17,651)
Net gain on disposal of subsidiaries and associates					10,377
Profit before income tax					135,245
Income tax expense					(25,469)
Profit for the year					109,776

	Trading of computer related products HK$'000	Trading of consumer electronic products HK$'000	Trading of securities HK$'000	Property development and trading HK$'000	Consolidated HK$'000 (As restated)
Assets and liabilities at 31 March 2004					
ASSETS					
Segment assets	2,109,537	1,561	132,964	145,085	2,389,147
Interests in associates					906,409
Unallocated corporate assets					647,680
Consolidated total assets					3,943,236
LIABILITIES					
Segment liabilities	1,105,559	—	4,467	1,512	1,111,538
Borrowings					356,980
Unallocated corporate liabilities					196,380
Consolidated total liabilities					1,664,898

9. SEGMENT INFORMATION *(Cont'd)*

	Trading of computer related products *HK$'000*	**Corporate** *HK$'000*	**Consolidated** *HK$'000* (As restated)
Other information			
For the year ended 31 March 2004			
Addition of goodwill arising on acquisition of an associate	—	208,760	208,760
Addition of intangible assets other than goodwill arising on acquisition of a subsidiary	198,065	—	198,065
Capital expenditure	16,946	780	17,726
Depreciation and amortization	61,640	2,129	63,769
Impairment loss on goodwill arising on acquisition of a subsidiary	–	4,598	4,598
Other non-cash expenses	42,651	24,820	67,471

	Trading of computer related products *HK$'000*	**Trading of consumer electronic products** *HK$'000*	**Trading of securities** *HK$'000*	**Property development and trading** *HK$'000*	**Consolidated** *HK$'000* (As restated)
For the year ended 31 March 2005					
REVENUE					
External sales	3,977,713	1,565,262	93,884	39,600	5,676,459
SEGMENT RESULT	256,558	24,847	77,263	2,105	360,773
Interest income					22,651
Unallocated corporate expenses					(63,933)
Realization of negative goodwill arising on acquisition of additional interest in an associate					2,057
Finance costs					(18,198)
Share of losses of associates					(64,909)
Impairment loss on goodwill arising on acquisition of an associate					(177,446)
Amortization of goodwill arising on acquisition of associates					(28,089)
Net loss on disposal of subsidiaries and associates					(15,747)
Profit before income tax					17,159
Income tax expense					(117,397)
Loss for the year					(100,238)

9. SEGMENT INFORMATION *(Cont'd)*

	Trading of computer related products *HK$'000*	Trading of consumer electronic products *HK$'000*	Trading of securities *HK$'000*	Property development and trading *HK$'000*	Consolidated *HK$'000* (As restated)
Assets and liabilities at 31 March 2005					
ASSETS					
Segment assets	1,784,675	3,792	144,621	108,000	2,041,088
Interests in associates					635,729
Unallocated corporate assets					979,736
Consolidated total assets					3,656,553
LIABILITIES					
Segment liabilities	872,534	—	103	1,512	874,149
Borrowings					243,351
Unallocated corporate liabilities					283,062
Consolidated total liabilities					1,400,562

	Trading of computer related products *HK$'000*	Corporate *HK$'000*	Consolidated *HK$'000*
Other information For the year ended 31 March 2005			
Goodwill arising on acquisition of an additional interest in a subsidiary after 1 January 2005	24,430	—	24,430
Capital expenditure	13,758	471	14,229
Depreciation and amortization	69,290	1,561	70,851
Impairment loss on goodwill arising on acquisition of an associate	—	177,446	177,446
Other non-cash expenses	42,876	31,280	74,156

9. SEGMENT INFORMATION *(Cont'd)*

	Trading of computer related products	Trading of consumer electronic products	Trading of securities	Property development and trading	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the nine months ended 31 December 2005					
REVENUE					
External sales	3,210,121	1,080,566	113,996	118,800	4,523,483
SEGMENT RESULT	105,185	20,189	(53,566)	12,307	84,115
Interest income					32,722
Unallocated corporate income, net					2,109
Finance costs					(50,952)
Share of results of associates					(20,032)
Impairment loss on goodwill arising on acquisition of an associate					(14,391)
Net gain on disposal of subsidiaries and associates					10,778
Impairment loss on trademark licenses					(164,667)
Loss before income tax					(120,318)
Income tax expense					(61,074)
Loss for the period					(181,392)

9. SEGMENT INFORMATION *(Cont'd)*

	Trading of computer related products *HK$'000*	**Trading of consumer electronic products** *HK$'000*	**Trading of securities** *HK$'000*	**Property development and trading** *HK$'000*	**Consolidated** *HK$'000*
Assets and liabilities at 31 December 2005					
ASSETS					
Segment assets	2,179,160	1,079	128,894	—	2,309,133
Interests in associates					637,783
Unallocated corporate assets					1,422,096
Consolidated total assets					4,369,012
LIABILITIES					
Segment liabilities	1,237,316	—	1,255	—	1,238,571
Borrowings					893,950
Unallocated corporate liabilities					158,609
Consolidated total liabilities					2,291,130

	Trading of computer related products *HK$'000*	**Trading of securities** *HK$'000*	**Corporate** *HK$'000*	**Consolidated** *HK$'000*
Other information For the nine months ended 31 December 2005				
Capital expenditure	13,335	—	—	13,335
Depreciation and amortization	9,887	—	140	10,027
Impairment loss on trademark licenses	164,667	—	—	164,667
Impairment loss on goodwill arising on acquisition of interest in an associate	—	—	14,391	14,391

9. SEGMENT INFORMATION *(Cont'd)*

	Trading of computer related products *HK$'000*	Trading of consumer electronic products *HK$'000*	Trading of securities *HK$'000*	Property development and trading *HK$'000*	Consolidated *HK$'000*
For the nine months ended 31 December 2004 (unaudited)					
REVENUE					
External sales	2,962,703	1,392,577	78,844	—	4,434,124
SEGMENT RESULT	164,604	20,807	57,025	—	242,436
Interest income					15,456
Unallocated corporate expenses					(13,491)
Finance costs					(14,224)
Share of loss of associates					(59,175)
Amortization of goodwill arising on acquisition of associates					(21,065)
Net loss on disposal of subsidiaries and associates					(16,270)
Profit before income tax					133,667
Income tax expense					(90,428)
Profit for the period					43,239

9. **SEGMENT INFORMATION** *(Cont'd)*

	Trading of computer related products	Corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Other information			
For the nine months ended 31 December 2004 (unaudited)			
Capital expenditure	7,519	12	7,531
Depreciation and amortization	49,960	2,145	52,105

Geographical segments

The Group's trading of computer related products is mainly located in North America and Europe. The trading of consumer electronic products is mainly located in North America, the trading of securities is mainly located in Hong Kong and the property development and trading is mainly in the PRC.

The following table provides an analysis of the Group's sales revenue by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market				
	Year ended 31 March			Nine months ended 31 December	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
North America	3,483,037	4,222,099	4,834,806	3,807,021	3,868,906
Europe	484,362	564,896	581,085	443,959	312,407
Others	195,405	238,935	260,568	183,144	342,170
	4,162,804	5,025,930	5,676,459	4,434,124	4,523,483

9. SEGMENT INFORMATION *(Cont'd)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analyzed by the geographical area in which the assets are located:

	Carrying amount of segment assets				Additions to property, plant and equipment			
	As at 31 March			As at 31 December	Year ended 31 March			Nine months ended 31 December
	2003	2004	2005	2005	2003	2004	2005	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	1,265,517	1,249,153	1,349,581	1,758,593	4,359	1,742	501	183
North America	905,828	1,180,872	1,118,220	1,655,073	10,843	10,944	11,311	11,534
Europe	184,075	392,483	257,408	210,114	4,080	4,717	2,111	1,314
Taiwan	291,384	253,034	49,178	60,071	124	234	294	278
Others	269,756	404,195	462,365	402,987	41	89	12	25
	2,916,560	3,479,737	3,236,752	4,086,838	19,447	17,726	14,229	13,334

Intangible assets of HK$337,873,000, HK$428,019,000, HK$401,383,000 and HK$236,734,000 and deferred tax assets of HK$13,298,000, HK$35,480,000, HK$18,418,000 and HK$45,440,000 as at 31 March 2003, 2004 and 2005 and at 31 December 2005 respectively are excluded from the analysis of the carrying amount of segment assets as there are not practicable to allocate the amounts to geographical segments.

10. OTHER OPERATING INCOME

Other operating income included the following items:

	Year ended 31 March			Nine months ended 31 December	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on bank deposits	720	2,938	1,427	2,913	1,771
Interest on loan receivables	37,287	18,283	21,130	12,473	30,866
Interest on loans from associates	639	1,507	94	70	85
Net exchange gain	18,974	31,467	324	—	—
Internet service income	5,262	3,363	3,096	2,484	366
Royalty income	3,063	2,722	2,787	2,127	1,147
Net unrealized holding gain on other investments	—	16,829	17,223	11,471	—
Net gain on disposal of investment securities	—	9,577	—	—	—
Rental income	—	11,568	27,672	20,685	19,821
Net gain on trading of derivatives financial instruments	—	—	15,100	15,100	—
Waiver of debt by a third party	—	—	14,415	—	—
Management fee income	5,778	8,138	3,573	2,311	2,409

11. OTHER OPERATING EXPENSES

	Year ended 31 March			Nine months ended 31 December	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net unrealized holding loss on other investments	26,482	—	—	—	—
Decrease in fair value of investments held for trading	—	—	—	—	75,215
Written off of long-term loan and interest receivable	10,821	—	—	—	—
Impairment loss on property, plant and equipment	1,305	—	—	—	—
Impairment loss on goodwill arising on acquisition of a subsidiary	—	4,598	—	—	—
Loss on disposal of investment securities	—	—	29,712	—	—
	38,608	4,598	29,712	—	75,215

12. FINANCE COSTS

	Year ended 31 March			Nine months ended 31 December	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on borrowings wholly repayable within five years:					
– Bank loans and overdrafts	10,458	12,070	5,722	5,011	12,051
– Other loans	20,360	13,229	11,875	8,739	38,562
– Finance leases	244	587	99	81	24
Interest on bank borrowings not wholly repayable within five years	607	554	502	393	315
	31,669	26,440	18,198	14,224	50,952

13. IMPAIRMENT LOSS ON GOODWILL ARISING ON ACQUISITION OF AN ASSOCIATE

a. For the year ended 31 March 2003, the directors of the Company reviewed the carrying value of goodwill arising on the acquisition of an associate, Ding Ing Technology Co., Ltd. ("Ding Ing"), which is established in Taiwan and was mainly engaged in the marketing of electronic products and other peripherals, which had been debited to capital reserve in previous years, with reference to the financial performance and the business operations of Ding Ing. In view of the prevailing market condition, operating results and the discounted cash flow projections of Ding Ing, an impairment loss of HK$104,585,000 had been identified and recognized in the consolidated income statement.

b. For the year ended 31 March 2005, the directors of the Company reviewed the carrying value of goodwill arising on acquisition of another associate, China Strategic Holdings Limited ("CSHL"), which is incorporated in Hong Kong and its shares are listed on the Stock Exchange, in previous year, with reference to the financial performance and the business operations of CSHL. After considering the current market condition and operating results of CSHL, an impairment loss of HK$177,446,000 has been identified and recognized in the consolidated income statement.

c. For the nine months ended 31 December 2005, the directors of the Company reviewed the carrying value of goodwill arising on acquisition of another associate, PSC Corporation Ltd. ("PSCL"), which is incorporated in the Republic of Singapore and its shares are listed on Singapore Exchange Limited and was mainly engaged in supply of provisions and household consumer products, in previous year. The carrying amount of the goodwill has been allocated to the CGU for the segments of consumer business and healthcare business of PSCL.

   The recoverable amounts of the CGU have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. The value in use calculation of the two segments used cash flow forecasts derived from the most recent financial budgets for next three years using a discount rate of approximately 10%. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts.

   After considering the current market condition and cash flow forecasts using a discount rate of approximately 10%, an impairment loss of HK$14,391,000 has been identified and recognized in the consolidated income statement.

14. NET GAIN (LOSS) ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Gain (loss) on disposal of subsidiaries	25	(1,282)	3,504	2,991	6,694
Gain on partial disposal of interest in a subsidiary	—	28,594	—	—	—
Net loss on deemed disposal of interests in associates	—	(16,935)	(19,251)	(19,251)	—
(Loss) gain on disposal of interests in associates	—	—	—	(10)	4,084
	25	10,377	(15,747)	(16,270)	10,778

15. INCOME TAX EXPENSE

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current tax:					
Hong Kong Profits Tax					
Current tax	141	—	79	—	—
Overprovision in prior years	—	(112)	—	—	—
Overseas	31,773	46,378	100,157	129,339	87,984
	31,914	46,266	100,236	129,339	87,984
Deferred tax *(note 37)*					
Current year	286	(20,679)	17,161	(38,911)	(26,910)
Attributable to a change in tax rate	—	(118)	—	—	—
	286	(20,797)	17,161	(38,911)	(26,910)
	32,200	25,469	117,397	90,428	61,074

15. INCOME TAX EXPENSE *(Cont'd)*

The income tax expense for the Relevant Periods can be reconciled to the (loss) profit before income tax as in the consolidated income statements as follows:

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
(Loss) profit before income tax	(574,444)	135,245	17,159	133,667	(120,318)
Tax at applicable tax rate of 41% (31.3.2003: 39.8%; 31.3.2004: 41%; 31.3.2005: 41%; 31.12.2004: 41%)	(228,629)	55,450	7,035	54,803	(49,330)
Tax effect of share of results of associates	14,465	24,539	26,612	24,262	8,213
Tax effect of income not taxable for tax purposes	(35,289)	(4,949)	(11,596)	(9,429)	(3,499)
Tax effect of expenses not deductible for tax purposes	154,753	66,915	93,530	(7,354)	85,800
Tax effect of tax losses not recognized	23,379	1,501	16,434	13,089	17,133
Utilization of tax losses not previously recognized	(63,843)	(43,228)	(7,308)	(3,602)	(3,665)
Utilization of deferred tax assets not previously recognized	22,307	(24,996)	(319)	1,520	(811)
Reversal of a deferred tax assets previously recognized	—	—	27,273	27,273	—
Recognition of unused tax loss which is not recognized in previous years	—	(24,483)	—	—	—
Overprovision in prior years	141	(112)	—	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	147,744	(26,273)	(31,551)	(11,997)	5,476
Increase in opening deferred tax liability resulting from an increase in tax rate	—	(118)	—	—	—
Others	(2,828)	1,223	(2,713)	1,863	1,757
Income tax expense for the year	32,200	25,469	117,397	90,428	61,074

Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for the years ended 31 March 2004 and 2005 and for the nine months ended 31 December 2004 and 2005 and at 16% of the estimated assessable profit for the year ended 31 March 2003. No provision for Hong Kong Profits Tax was made in the financial statements for the year ended 31 March 2004, and for the nine months ended 31 December 2004 and 2005 as the assessable profit of subsidiaries operated in Hong Kong was wholly absorbed by tax losses brought forward.

15. INCOME TAX EXPENSE *(Cont'd)*

For the nine months ended 31 December 2005, a major subsidiary operating in the USA provides for the USA Corporation tax at 41% (3.31.2003: 39.8%; 3.31.2004: 41%; 3.31.2005: 41%; 12.31.2004: 41%) on the assessable profit in the USA. As the major profit of the Group is contributed by this subsidiary, the tax reconciliation is prepared using 41% (31.3.2003: 39.8%; 31.3.2004: 41%; 31.3.2005: 41%; 31.12.2004: 41%).

Income tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

16. (LOSS) PROFIT FOR THE YEAR/PERIOD

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):					
Staff costs (including directors' emoluments):					
Salaries and other benefits	151,729	170,261	170,850	125,098	121,871
Retirement benefits scheme contributions	3,854	3,160	3,178	2,391	2,320
	155,583	173,421	174,028	127,489	124,191
Depreciation and amortization:					
Amortization of intangible assets (included in administrative expenses)	14,338	44,137	51,066	38,300	605
Depreciation and amortization of property, plant and equipment	21,271	19,632	19,785	13,807	9,422
	35,609	63,769	70,851	52,107	10,027
Allowance for bad and doubtful debts	36,534	3,208	22,269	14,662	1,532
Allowance for loan receivables	22,056	16,653	8,338	5,469	—
Allowance (reversal of allowance) for margin loan receivables	2,429	5,300	(2,387)	—	620
Allowance for slow moving and obsolete inventories	12,277	24,679	25,588	3,084	19,449
Auditors' remuneration	7,003	9,204	8,490	4,778	5,620
Net realized loss (gain) on other investments/Loss on disposal of investments held for trading	83,926	(3,975)	(44,940)	(45,554)	(21,008)
Loss (gain) on disposal of property, plant and equipment	3,373	696	1,098	(258)	108

17. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

The emoluments paid or payable to each of the 12 (31 March 2003: 13; 31 March 2004: 13; 31 March 2005: 12 and 31 December 2004: 12) directors were as follows:

	Year ended 31 March			Nine months ended 31 December	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Chan Kwok Keung, Charles					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	—
Yap, Allan					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	2,400	2,400	2,400	1,800	1,800
Retirement benefits scheme contributions	120	12	12	9	9
	2,520	2,412	2,412	1,809	1,809
Lui Siu Tsuen, Richard					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	1,150	1,426	1,378	1,050	1,104
Retirement benefits scheme contributions	92	92	92	69	70
	1,242	1,518	1,470	1,119	1,174

17. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Cont'd)*

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Chan Kwok Hung					
Fees	—	—	—	—	—
Other emoluments:	—	—	—	—	—
Salaries and other benefits	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	—
Fok Kin-ning, Canning					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	—
Ip Tak Chuen, Edmond					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	—

17. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Cont'd)*

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cheung Hon Kit					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	—
Kwok Ka Lap, Alva					
Fees	N/A	—	24	12	36
Other emoluments:					
Salaries and other benefits	N/A	—	—	—	—
Retirement benefits scheme contributions	N/A	—	—	—	—
	N/A	—	24	12	36
Wong King Lam, Joseph					
Fees	N/A	N/A	25	12	38
Other emoluments:					
Salaries and other benefits	N/A	N/A	—	—	—
Retirement benefits scheme contributions	N/A	N/A	—	—	—
	N/A	N/A	25	12	38
Yuen Tin Fan, Francis					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	—

17. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Cont'd)*

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Sin Chi Fai					
Fees	N/A	N/A	N/A	N/A	—
Other emoluments:					
Salaries and other benefits	N/A	N/A	N/A	N/A	—
Retirement benefits scheme contributions	N/A	N/A	N/A	N/A	—
	N/A	N/A	N/A	N/A	—
Cheung Kwok Wah, Ken					
Fees					
Other emoluments:					
Salaries and other benefits	3,625	1,126	N/A	N/A	N/A
Retirement benefits scheme contributions	166	26	N/A	N/A	N/A
	3,791	1,152	N/A	N/A	N/A
Compensation for loss of office paid to a former director by the Company's subsidiary	—	625	N/A	N/A	N/A
	3,791	1,777	N/A	N/A	N/A
Tsang Link Carl, Brian					
Fees	—	—	—	—	N/A
Other emoluments:					
Salaries and other benefits	—	—	—	—	N/A
Retirement benefits scheme contributions	—	—	—	—	N/A
	—	—	—	—	N/A

17. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Cont'd)*

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Ma Wai Man, Catherine					
Fees	—	—	N/A	N/A	N/A
Other emoluments:					
Salaries and other benefits	—	—	N/A	N/A	N/A
Retirement benefits scheme contributions	—	—	N/A	N/A	N/A
	—	—	N/A	N/A	N/A
Shih, Edith					
Fees	—	—	—	—	—
Other emoluments:					
Salaries and other benefits	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—
	—	—	—	—	—
Ma Si Hang, Frederick					
Fees	—	N/A	N/A	N/A	N/A
Other emoluments:					
Salaries and other benefits	—	N/A	N/A	N/A	N/A
Retirement benefits scheme contributions	—	N/A	N/A	N/A	N/A
	—	N/A	N/A	N/A	N/A

17. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Cont'd)*

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Directors' fees	—	—	49	—	74
Other emoluments:					
Salaries and other benefits	7,175	4,952	3,778	2,850	2,904
Retirement benefits scheme contributions	378	130	104	78	79
	7,553	5,082	3,931	2,928	3,057
Compensation for loss of office paid to a former director by the Company's subsidiary	—	625	—	—	—
	7,553	5,707	3,931	2,928	3,057

During the Relevant Periods and for the nine months ended 31 December 2004, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group.

None of the directors waived any emoluments during the Relevant Periods.

17. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Cont'd)*

(b) Employees' remuneration

The emoluments of the five highest paid individuals of the Group included two directors of the Company for the year ended 31 March 2003, one director for each of the two years ended 31 March 2004 and 2005, one director for nine months ended 31 December 2004 and one director for nine months ended 31 December 2005, whose emoluments are included in (a) above. The aggregate emoluments of the remaining individuals are as follows:

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and other benefits	8,802	9,788	9,916	7,519	7,966
Performance related incentive payments	1,064	3,307	3,898	3,800	5,698
Retirement benefit scheme	50	381	252	169	185
Incentive payment on joining	—	—	—	—	—
	9,916	13,476	14,066	11,488	13,849

	Number of employees				
	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
				(Unaudited)	
HK$1,500,001 to HK$2,000,000	—	—	—	2	1
HK$2,000,001 to HK$2,500,000	1	2	2	1	2
HK$2,500,001 to HK$3,000,000	—	—	1	—	—
HK$3,000,001 to HK$3,500,000	—	1	—	—	—
HK$3,500,001 to HK$4,000,000	2	—	—	—	—
HK$5,500,001 to HK$6,000,000	—	1	—	1	—
HK$7,000,001 to HK$7,500,000	—	—	1	—	—
HK$7,500,001 to HK$8,000,000	—	—	—	—	1
	3	4	4	4	4

17. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Cont'd)*

(b) Employees' remuneration *(Cont'd)*

During the Relevant Periods and nine months ended 31 December 2004, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

18. DIVIDENDS

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Final, paid – HK6 cents per share for 2005, with a scrip option (2004: HK6 cents per share, 2003: HK2 cents per share, 2002: Nil)	—	3,206	11,193	11,193	13,418
Interim, paid – HK5 cents per share for 2004	—	8,015	—	—	—
Interim, proposed – HK4 cents per share with a scrip option	—	—	—	—	9,045
	—	11,221	11,193	11,193	22,463

19. (LOSS) EARNINGS PER SHARE

For the three years ended 31 March 2003, 2004 and 2005 and the nine months ended 31 December 2004 and 2005, the calculation of the basic (loss) earnings per share is based on the loss for the year/period attributable to equity holders of the parent of HK$648,620,000, profit of HK$13,300,000, loss of HK$161,862,000, profit of HK$4,094,000 (unaudited) and loss of HK$127,102,000, respectively, and on the weighted average number of shares in issue during the three years ended 31 March 2003, 2004 and 2005 and the nine months ended 31 December 2004 and 2005 of 160,303,174 shares, 164,239,677 shares, 198,244,118 shares, 189,936,529 shares and 224,286,960 shares, respectively.

The computation of diluted loss per share for the years ended 31 March 2003 and 2005 and the nine months ended 31 December 2005 had not assumed the exercise of the Company's share options because the exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the year ended 31 March 2004 and for the nine months ended 31 December 2004 does not assume the exercise of the Company's outstanding share options as the exercise price of these options is higher than the average market price per share for the year.

In respect of adjustments to the comparative figure of basic loss per share arising from the adoption of SSAP 12 (Revised) for the year ended 31 March 2003, there is no significant impact on the basic loss per share for the year ended 31 March 2003. No restatement for basic loss per share has been made accordingly.

The following table summaries the impact on basic earnings per share as a result of:

(Loss) earnings per share – basic	**Year ended 31 March,**			**Nine months ended 31 December,**	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$	HK$	HK$	HK$	HK$
Reported figures before adjustments	(4.05)	0.08	(0.81)	0.02	(0.44)
Adjustments arising from changes in accounting policies *(Note 3)*	—	—	(0.01)	—	(0.13)
Restated	(4.05)	0.08	(0.82)	0.02	(0.57)

20. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *HK$'000*	Plant and machinery *HK$'000*	Moulds *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE GROUP						
COST OR VALUATION						
At 1 April 2002	48,901	43,569	5,160	70,149	8,111	175,890
Currency realignment	(55)	—	243	2,035	10	2,233
Additions	—	—	—	18,699	748	19,447
Disposals	—	—	(2,432)	(6,671)	(977)	(10,080)
At 31 March 2003	48,846	43,569	2,971	84,212	7,892	187,490
Currency realignment	331	—	—	3,473	9	3,813
Additions	—	—	—	16,518	1,208	17,726
Disposals	(3,155)	—	—	(6,061)	(3,047)	(12,263)
At 31 March 2004	46,022	43,569	2,971	98,142	6,062	196,766
Currency realignment	1,103	—	—	(4,882)	37	(3,742)
Additions	—	—	—	13,528	701	14,229
Disposals and write off	—	—	—	(16,791)	(2,415)	(19,206)
Disposal of a subsidiary	—	—	—	(3,811)	—	(3,811)
At 31 March 2005	47,125	43,569	2,971	86,186	4,385	184,236
Currency realignment	(993)	—	—	(525)	(42)	(1,560)
Additions	—	—	—	13,085	250	13,335
Disposals and write off	—	—	—	(693)	(235)	(928)
Disposal of a subsidiary	—	—	—	(150)	–	(150)
At 31 December 2005	46,132	43,569	2,971	97,903	4,358	194,933
Analysis of cost or valuation:						
At 31 March 2003						
At cost	20,639	43,569	2,971	84,212	7,892	159,283
At valuation	28,207	—	—	—	—	28,207
	48,846	43,569	2,971	84,212	7,892	187,490
At 31 March 2004						
At cost	17,815	43,569	2,971	98,142	6,062	168,559
At valuation	28,207	—	—	—	—	28,207
	46,022	43,569	2,971	98,142	6,062	196,766
At 31 March 2005						
At cost	18,918	43,569	2,971	86,186	4,385	156,029
At valuation	28,207	—	—	—	—	28,207
	47,125	43,569	2,971	86,186	4,385	184,236
At 31 December 2005						
At cost	17,925	43,569	2,971	97,903	4,358	166,726
At valuation	28,207	—	—	—	—	28,207
	46,132	43,569	2,971	97,903	4,358	194,933

20. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Land and buildings *HK$'000*	Plant and machinery *HK$'000*	Moulds *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE GROUP						
DEPRECIATION, AMORTIZATION AND IMPAIRMENT						
At 1 April 2002	7,223	34,454	3,375	36,277	2,819	84,148
Currency realignment	(1)	—	78	1,439	1	1,517
Provided for the year	1,090	3,413	1,225	13,742	1,801	21,271
Impairment loss recognized in the income statement	1,305	—	—	—	—	1,305
Eliminated on disposals	—	—	(1,723)	(2,920)	(220)	(4,863)
At 31 March 2003	9,617	37,867	2,955	48,538	4,401	103,378
Currency realignment	7	—	—	2,682	4	2,693
Provided for the year	1,012	1,470	7	15,968	1,175	19,632
Eliminated on disposals	(2,056)	—	—	(4,456)	(1,928)	(8,440)
At 31 March 2004	8,580	39,337	2,962	62,732	3,652	117,263
Currency realignment	31	—	—	(4,262)	24	(4,207)
Provided for the year	1,014	1,106	8	16,886	771	19,785
Eliminated on disposals and write off	—	—	—	(14,970)	(1,864)	(16,834)
Eliminated on disposal of a subsidiary	—	—	—	(2,328)	—	(2,328)
At 31 March 2005	9,625	40,443	2,970	58,058	2,583	113,679
Currency realignment	(32)	—	—	(375)	(28)	(435)
Provided for the period	762	323	1	8,014	322	9,422
Eliminated on disposals and write off	—	—	—	(601)	(42)	(643)
Eliminated on disposal of a subsidiary	—	—	—	(86)	—	(86)
At 31 December 2005	10,355	40,766	2,971	65,010	2,835	121,937
NET BOOK VALUES						
At 31 December 2005	35,777	2,803	—	32,893	1,523	72,996
At 31 March 2005	37,500	3,126	1	28,128	1,802	70,557
At 31 March 2004	37,442	4,232	9	35,410	2,410	79,503
At 31 March 2003	39,229	5,702	16	35,674	3,491	84,112

20. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The Group's land and buildings comprise

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Outside Hong Kong:				
Under medium-term leases in other regions of the PRC	25,978	25,050	24,122	23,426
Freehold in Taiwan	12,151	12,392	13,378	12,351
Under a medium-term lease in Macau	1,100	—	—	—
	39,229	37,442	37,500	35,777

The valuation of land and buildings held under medium-term leases in other regions of the PRC in 1994 was made by Messrs. American Appraisal Hong Kong Limited, an independent firm of Chartered Surveyors, on an open market value basis.

Had the revalued land and buildings been carried at cost less accumulated depreciation and amortization, their carrying amount would have been stated at HK$21,862,000, HK$21,157,000, HK$20,452,000 and HK$19,923,000 at 31 March 2003, 2004, 2005 and 31 December 2005, respectively.

Included in the net book value of property, plant and equipment are assets held under finance leases amounting to HK$2,660,000, HK$1,985,000 and HK$510,000 at 31 March 2003, 2004 and 2005 respectively.

For the year ended 31 March 2004, the Group disposed of a property located in Macau at a consideration of HK$1,100,000. Accordingly, impairment loss of HK$1,305,000 has been recognized in respect of land and buildings for the year ended 31 March 2003 by reference to the subsequent selling price.

21. INTANGIBLE ASSETS

	Goodwill arising on acquisition before 1 January 2005	Goodwill arising on acquisition after 1 January 2005	Trademark licences	Patent	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note a)	*(note b)*	*(note c)*	*(note d)*	
COST					
At 1 April 2002	153,093	—	91,318	—	244,411
Additions	201,572	—	—	—	201,572
At 31 March 2003					
– as previously reported	354,665	—	91,318	—	445,983
– adjustment on adoption of SSAP 12 (Revised)	(1,982)	—	—	—	(1,982)
– as restated	352,683	—	91,318	—	444,001
Arising on acquisition of a subsidiary	4,598	—	—	—	4,598
Additions	—	—	190,000	8,065	198,065
Eliminated on partial disposal of shareholding in a subsidiary	(69,857)	—	—	—	(69,857)
At 31 March 2004	287,424	—	281,318	8,065	576,807
Arising on acquisition of additional interest in a subsidiary	—	24,430	—	—	24,430
At 31 March 2005	287,424	24,430	281,318	8,065	601,237
Eliminated against accumulated amortization upon the application of HKFRS 3	(143,946)	—	(54,631)	—	(198,577)
Additions	—	623	—	—	623
Impairment loss on trademark licences	—	—	(164,667)	—	(164,667)
At 31 December 2005	143,478	25,053	62,020	8,065	238,616
AMORTIZATION					
At 1 April 2002	76,190	—	15,600	—	91,790
Provided for the year	9,772	—	4,566	—	14,338
At 31 March 2003	85,962	—	20,166	—	106,128
Provided for the year	32,768	—	10,899	470	44,137
Impairment loss recognized in the consolidated income statement	4,598	—	—	—	4,598

21. INTANGIBLE ASSETS *(Cont'd)*

	Goodwill arising on acquisition before 1 January 2005	Goodwill arising on acquisition after 1 January 2005	Trademark licences	Patent	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note a)	*(note b)*	*(note c)*	*(note d)*	
Eliminated on partial disposal of shareholding in a subsidiary	(6,075)	—	—	—	(6,075)
At 31 March 2004	117,253	—	31,065	470	148,788
Provided for the year	26,693	—	23,566	807	51,066
At 31 March 2005	143,946	—	54,631	1,277	199,854
Eliminated against cost upon the application of HKFRS 3	(143,946)	—	(54,631)	—	(198,577)
Provided for the period	—	—	—	605	605
At 31 December 2005	—	—	—	1,882	1,882
CARRYING VALUES					
At 31 December 2005	143,478	25,053	62,020	6,183	236,734
At 31 March 2005	143,478	24,430	226,687	6,788	401,383
At 31 March 2004	170,171	—	250,253	7,595	428,019
At 31 March 2003	266,721	—	71,152	—	337,873

Notes:

a. At 1 April 2002, the amount represented the goodwill on the acquisition of the businesses of Memtek Products Division of Tandy Corporation and Memorex Computer Supplies in 1993.

For the year ended 31 March 2003, the addition of goodwill of approximately HK$201,572,000 attributed to the acquisition of an additional 14.9% interest in the Vendor. The goodwill is amortized over an average of seventeen years on a straight line basis.

For the year ended 31 March 2004, the addition of goodwill of approximately HK$4,598,000 attributed to the acquisition of the entire interest in Zhuhai Hanny and the Group has also reduced its interest in the Vendor by 23.5% and goodwill with net carrying amount of approximately HK$63,782,000 was released upon this reduction in interest accordingly.

21. INTANGIBLE ASSETS *(Cont'd)*

For the year ended 31 March 2004, the directors reviewed the carrying value of the goodwill arising on acquisition of Zhuhai Hanny of HK$4,598,000 and identified an impairment loss of HK$4,598,000 which was charged to the consolidated income statement.

Upon the adoption of HKFRS 3 from 1 April 2005 onwards, the Group has discontinued amortizing the above goodwill which arised from acquisition after 1 April 2001 and goodwill will be tested for impairment annually.

b. For the year ended 31 March 2005, the amount represents the goodwill on the acquisition of a further of 1.6% interest in the Vendor after 1 January 2005. The goodwill of approximately HK$24,430,000 is not subject to amortization in accordance with HKFRS 3.

For the nine months ended 31 December 2005, the addition of goodwill of approximately HK$623,000 attributed to the acquisition of the entire interest in Createsuccess and 83% equity interest in Sino Partner.

c. At 1 April 2002, the amount represented the acquisition of the "Memorex" trademark licenses from Memorex Telex N.V. in 1999 and were amortized over twenty years on a straight line basis.

For the year ended 31 March 2004, the Group acquired the "Dysan" and "Precision" trademark licenses from an independent third party for a consideration of HK$190,000,000 with reference to the valuation performed by Grant Sherman Appraisal Limited, a firm of independent valuers. Trademark licenses are amortized over ten years on straight line basis. The Group is in the process of registration of the trademark licenses in the respective jurisdiction.

Upon the adoption of HKAS 38 from 1 April 2005 onwards, the Group reassessed the useful lives of the trademark licenses and concluded that the trademark licenses with a total carrying amount of approximately HK$226,687,000 have indefinite useful lives and are not subject to amortization but are tested for impairment annually.

d. The amount represents the acquisition of a labelmaker patent in 2004. The patent is amortized over ten years on a straight line basis.

For the nine months ended 31 December 2005, the impairment testing on the goodwill and trademark licenses are as follows:

	Goodwill	**Trademark licenses**
	HK$'000	*HK$'000*
Trading of computer related products – "Memorex" brand	167,908	62,020
Investment in port business in the PRC	623	—
Trading of computer related products – "Dysan" and "Precision" brand	—	164,667
	168,531	226,687

The carrying amounts of goodwill and trademark licenses are allocated to individual CGU of trading of computer related products under "Memorex" as well as "Dysan" and "Precision" trade name, and long-term investment in port business in the PRC.

21. INTANGIBLE ASSETS *(Cont'd)*

The recoverable amounts of the CGU of trading of computer related products under "Memorex" trade name is determined based on fair value less cost to sell calculation method, which the fair value is with reference to the initial consideration agreed at the Disposal whilst the cost to sell is with reference to the other terms of the Agreement. Given the current estimated net consideration of approximately HK$2,454,000,000, as set out in the announcement of the Company dated 26 January 2006, no impairment on the goodwill and trademark license is considered necessary.

The recoverable amounts of the CGU of trading of computer related products under "Dysan" and "Precision" trade name is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period from the acquisition date to 31 December 2005. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Based on cash flow forecasts derived from the most recent financial budgets for the next four years approved by management using a discount rate of 11.5%, impairment loss of HK$164,667,000 is identified and recognized in the consolidated income statement for the nine months ended 31 December 2005.

22. INTERESTS IN ASSOCIATES

		As at 31 March		As at 31 December
	2003	2004	2005	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of investment in associates which are:				
– listed in Hong Kong *(note a)*	—	508,994	508,994	508,994
– listed overseas	211,612	211,162	195,736	200,024
– unlisted	25,904	26,354	6,579	6,579
Share of post-acquisition losses and reserves, net of dividends received	(65,171)	(128,965)	(129,977)	(118,124)
Goodwill on acquisitions of associates less amortization *(note c)*	65,520	256,629	51,094	38,979
Negative goodwill arising on acquisition of an associate less realization *(note d)*	—	—	(225)	—
	237,865	874,174	632,201	636,452
Loans to associates less allowance *(note b)*	7,651	1,361	1,331	1,331
Amounts due from associates *(note b)*	25,846	30,874	2,197	—
	271,362	906,409	635,729	637,783
Fair value of listed shares	134,561	320,500	299,240	387,859

22. INTERESTS IN ASSOCIATES *(Cont'd)*

Notes:

a. At 31 March 2003, an amount of approximately HK$698,400,000 included in investments in securities represented the Group's 14.55% equity interest in CSHL. CSHL and its subsidiaries are principally engaged in the areas of manufacturing, property development and investment, hotel operation, construction and related business, provision of package tours, transportation and other related services.

For the year ended 31 March 2004, the Group acquired an additional interest of 16.65% in CSHL for a consideration of approximately HK$19,300,000. Accordingly, the investment in CSHL was increased to 31.20% and it was reclassified from investments in securities to interests in associates.

For the year ended 31 March 2005, the Group's equity interest in CSHL was diluted from 31.20% to 29.36% as a result of exercise of share options of CSHL.

At 31 March 2005 and 31 December 2005, the Group held 29.36% equity interest in CSHL.

b. Loan to an associate is unsecured and has no fixed terms of repayment. Other than an amount of HK$7,516,000, HK$1,336,000 HK$1,331,000 and HK$1,331,000 at 31 March 2003, 2004 and 2005 and at 31 December 2005 respectively which bears interest at prevailing market rates, the remaining amount is interest free.

For the three years ended 31 March 2003, 2004 and 2005, the amounts due from associates are unsecured, interest free and have no fixed terms of repayment. Repayment of the balances will not be demanded within one year of the balance sheet date and, accordingly, the amounts are classified as non-current.

The fair values of the Group's loan to an associate and amounts due from associates as at the balance sheet dates, determined based on the estimated future cash flows discounted using the prevailing market rate at the balance sheet dates, approximate to the carrying amounts of the receivables.

22. INTERESTS IN ASSOCIATES *(Cont'd)*

c. Included in the investment in associates is goodwill of HK$65,520,000, HK$256,629,000, HK$51,094,000 and HK$38,979,000 as at 31 March 2003, 2004 and 2005 and 31 December 2005 arising on acquisition of associates during the Relevant Periods respectively. The movement of goodwill is set out below:

	HK$'000
COST	
Additions and balance at 31 March 2003	72,132
Additions	208,760
At 31 March 2004 and 2005	280,892
Elimination against accumulated amortization upon the application of HKFRS 3 (see Note 2)	(229,798)
Additions	2,276
At 31 December 2005	53,370
AMORTIZATION AND IMPAIRMENT	
Provided for the year and balance at 31 March 2003	6,612
Provided for the year	17,651
At 31 March 2004	24,263
Provided for the year	28,089
Impairment loss recognized for the year	177,446
At 31 March 2005	229,798
Elimination against cost upon the application of HKFRS 3 (see Note 2)	(229,798)
Impairment loss recognized for the period	14,391
At 31 December 2005	14,391
CARRYING VALUE	
At 31 December 2005	38,979
At 31 March 2005	51,094
At 31 March 2004	256,629
At 31 March 2003	65,520

Until 31 March 2005, goodwill had been amortized for a period of 10 years.

22. INTERESTS IN ASSOCIATES *(Cont'd)*

d. Negative goodwill arising on acquisition of an associate:

	HK$'000
GROSS AMOUNT	
At 31 March 2003 and 2004	—
Additions	(233)
At 31 March 2005	(233)
Elimination against accumulated realization upon the application of HKFRS 3 *(see Note 2)*	233
At 31 December 2005	—
REALIZATION	
At 31 March 2003 and 2004	—
Released during the year	(8)
At 31 March 2005	(8)
Elimination against gross amount upon the application of HKFRS 3 *(see Note 2)*	8
At 31 December 2005	—
CARRYING AMOUNT	
At 31 December 2005	—
At 31 March 2005	(225)
At 31 March 2004	—
At 31 March 2003	—

Until 31 March 2005, negative goodwill had been released to income on a straight-line basis over 10 years. From 1 April 2005 onwards, all negative goodwill with carrying amount of HK$225,000 previously included in interests in associates was derecognized at 1 April 2005 upon the application of HKFRS 3 (see Note 2).

22. INTERESTS IN ASSOCIATES *(Cont'd)*

e. Details of the Group's principal associates at the respective balance sheet dates are as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Proportion of equity interest attributable to the Group				Principal activities
			As at 31 March			As at December 31,	
			2003	2004	2005	2005	
			%	%	%	%	
CSHL	Corporate	Hong Kong	—	29.36	29.36	29.36	Investment holding
PSCL	Corporate	Singapore	27.45	27.45	21.71	24.26	Supply of household consumer products

CSHL is a company listed in Hong Kong and its financial year end date is 31 December. Only published financial information of CSHL will be available and used by the Group in applying the equity method. Accordingly, the Group's share of interest in CSHL at 31 March 2004 and 2005 and at 31 December 2005, respectively is calculated based on the net assets of CSHL at 31 December 2003, 2004 and 2005, respectively and the result from the date on which CSHL became an associate of the Group to respective balance sheet dates.

PSCL is a company listed in the Republic of Singapore and its financial year end date is 31 December. The Group's share of interest in PSCL at 31 March 2003, 2004 and 2005 and at 31 December 2005, respectively is calculated based on the net assets of PSCL at 31 March 2003, 2004 and 2005 and at 31 December 2005, respectively extracted from the published financial information of PSCL and the result from the date on which PSCL became an associate of the Group to respective balance sheet dates.

The above tables list the associates of the Group which, in the opinion of the directors, principally affected the results of the Group for the Relevant Periods or formed a substantial portion of the net assets of the Group at the end of each of the financial year. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

On 10 March 2005, the Group and PYI Corporation Ltd. (formerly known as Paul Y. ITC Construction Holdings Limited) ("PYI"), another substantial shareholder of CSHL, entered into a share sale agreement with an independent third party for the disposal of an aggregate 270,000,000 shares of CSHL (representing a 15.3% interest in CSHL or 135,000,000 shares each held by the Group and PYI) for a total consideration of approximately HK$52,000,000 (the "Proposed Disposal"). The completion of the Proposed Disposal is subject to the completion of a proposed group reorganization by CSHL ("CSHL Reorganization").

On 19 April 2005, CSHL and the Company has jointly announced the details of the CSHL Reorganization which, if approved and implemented, will result in (i) CSHL continuing to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products, investments in securities and property and investment in unlisted investment; (ii) all other subsidiaries of CSHL carrying on property development and investment holding business, and all other associates of CSHL carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services being grouped under Group Dragon Investment Limited ("GDI") (a wholly owned subsidiary of CSHL) and its subsidiaries upon completion of the CSHL Reorganization; and (iii) the distribution in specie of shares in GDI to the then shareholders of CSHL on a record date to be fixed, on the basis of one GDI share for every share in CSHL after consolidation under the capital reorganization.

On the same date, the Group proposed to acquire an additional interest in GDI (the "Proposed Acquisition") subject to the completion of the CSHL Reorganization. The Proposed Acquisition was approved by the shareholders of the Company on 17 October 2005.

Details of the Proposed Disposal and Proposed Acquisition are set out in a circular of the Company dated 14 September 2005. The transaction has not yet been completed at the date of this report.

22. INTERESTS IN ASSOCIATES *(Cont'd)*

f. The summarised financial information in respect of the Group's associates is set out below:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,264,576	3,366,013	3,452,648	3,331,625
Total liabilities	(679,846)	(1,307,787)	(1,308,483)	(1,203,568)
Net assets	584,730	2,058,226	2,144,165	2,128,057
Group's share of net assets of associates	237,865	874,174	632,201	636,452

g.

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue	926,817	756,681	898,270	715,748	630,559
Loss for the year/period	(170,131)	(491,459)	(184,410)	(192,213)	(55,664)
Group's share of loss of associates for the year/period	(36,367)	(59,857)	(64,909)	(59,175)	(20,032)

h. The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognized share of loss of these associates which were extracted from the relevant audited financial statements of associates are as follows:

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Unrecognized share of losses of associates for the year/period	(19,230)	—	—	—	—
Accumulated unrecognized share of losses of associates	(19,230)	(19,230)	(19,230)	(19,230)	(19,230)

22A. AMOUNTS DUE FROM ASSOCIATES

The amounts are unsecured, interest free and are repayable on demand. The fair value of the amounts due from associates at 31 December 2005 was approximate to the corresponding carrying amount.

22B. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, interest free and is repayable on demand. The fair value of the amount due to an associate at 31 December 2005 was approximate to the corresponding carrying amount.

23. INVESTMENTS IN SECURITIES

Investment securities as at 31 March 2003, 2004 and 2005 are set out below. Upon the application of HKAS 39 on 1 April 2005, investment in securities were reclassified to appropriate categories under HKAS 39 (See Note 2).

	Investment securities			Other investments			Total		
	As at 31 March			As at 31 March			As at 31 March		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note a)	*(note b)*	*(note c)*						
Listed securities									
Hong Kong	698,407	—	—	108,548	126,114	131,563	806,955	126,114	131,563
Overseas	—	—	—	984	850	1,058	984	850	1,058
Unlisted securities									
Hong Kong	—	—	—	6,000	6,000	—	6,000	6,000	—
Overseas/PRC	204,573	188,890	123,348	78,388	—	—	282,961	188,890	123,348
Unlisted debt security									
Hong Kong *(note d)*	—	—	—	—	—	12,000	—	—	12,000
	902,980	188,890	123,348	193,920	132,964	144,621	1,096,900	321,854	267,969
Market value of listed securities	10,859	—	—	109,532	126,964	132,621	120,391	126,964	132,621
Carrying amount analyzed for reporting purposes as:									
Non-current	887,300	188,890	123,348	330	330	186	887,630	189,220	123,534
Current	15,680	—	—	193,590	132,634	144,435	209,270	132,634	144,435
	902,980	188,890	123,348	193,920	132,964	144,621	1,096,900	321,854	267,969

Note:

a. As at 31 March 2003, the listed investment securities represented a 14.55% interest in CSHL, whilst included in unlisted overseas investment securities was 8.04% interest in Fu Yang Investment Co., Ltd. ("Fu Yang") and 0.61% interest in an infrastructure company established in Taiwan which is mainly engaged in building up telecommunication network in Taiwan ("EBT"). Fu Yang is established in Taiwan on 21 April 2002 by the merger of Indigo Investment Co., Ltd., Solitaire Investment Co., Ltd., Vituoso Investment Co., Ltd. and Ultima Investment Co., Ltd. Fu Yang is mainly engaged in the cable broadcasting business in Taiwan.

b. For the year ended 31 March 2004, EBT was disposed of at a consideration of HK$15,000,000. A net loss of approximately HK$380,000 was recognized in the consolidated income statement.

   As at 31 March 2004, the amount represented the 8.04% interest in Fu Yang.

23. INVESTMENTS IN SECURITIES *(Cont'd)*

c. For the year ended 31 March 2005, interest in Fu Yang was disposed of at an aggregate consideration of approximately HK$150,000,000. A net loss on disposal of approximately HK$29,712,000 was recognized in the consolidated income statement.

As at 31 March 2005, the Group had the following investment securities held for long term strategic purposes:

- 40%* interest in Alfresco Gold Limited which is engaged in investment holding of 85% interest in two companies incorporated in the PRC, whose principal activities are designing and producing advertisements, and provision of advertising agency services.
- 33%* interest in 重慶金瀚實業有限公司 (formerly known as 重慶冠生園輿綠洲食品有限公司), which holds a piece of land in the PRC.
- 30%* interest in Earnbest Holdings Limited which is engaged in investment holding of 40% interest in a company incorporated in the PRC, whose principal activities are resorts and hotel building and travelling business.

* As the Group did not have significant influence on these investments, accordingly, these investments were classified as investment securities.

d. The amount of the unlisted debt security as at 31 March 2005 represented the convertible bond issued by Nippon Asia Investment Holdings Limited ("Nippon Asia Bond", formerly known as China City Natural Gas Holdings Limited), a company listed in Hong Kong. Nippon Asia Bond is interest bearing at 1% per annum and is due for redemption on 1 November 2005. The Group is entitled at any time before the maturity to convert the Nippon Asia Bond into shares of Nippon Asia Investment Holdings Limited at a conversion price of HK$0.025 per share (subject to the relevant adjustments upon conversion).

24. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 analyzed as non-current assets, comprise:

	As at 31 December 2005 *HK$'000*
Listed investments:	
– Equity securities listed in Hong Kong *(note a)*	16,685
Unlisted securities:	
– Equity securities *(note b)*	121,165
– Debt securities *(note c)*	535,611
– Club memberships	4,938
Total	678,399

Notes:

(a) All listed investments are stated at fair value which is determined based on the quoted market bid prices available on the Stock Exchange.

(b) The unlisted equity securities represent investments in unlisted entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that their fair values cannot be measured reliably. For the nine months ended 31 December 2005, the directors of the Company performed impairment review on these unlisted equity securities and no impairment loss is considered necessary.

24. AVAILABLE-FOR-SALE INVESTMENTS *(Cont'd)*

(c) For the nine months ended 31 December 2005, the Group has subscribed three convertible notes with an aggregate amount of HK$650,000,000 from (i) Cheung Tai Hong Holdings Limited, a zero coupon convertible note with maturity on 10 August 2010 at the redemption amount of 110% of the principal amount, (ii) See Corporation Limited (previously known as Ruili Holdings Limited), a zero coupon convertible note with maturity on 9 August 2010 at the redemption amount of 110% of the principal amount; and (iii) Wo Kee Hong (Holdings) Limited, a convertible note at interest of 7.25% per annum payable semi-annually with maturity on 5 September 2008. All these companies are public limited companies with their shares listed on the Stock Exchange. The Group had classified all the debt element of the convertible notes as available-for-sale investments and the conversion option element of the convertible notes as investments held for trading.

As at 31 December 2005, the fair value for the debt element and conversion option element were approximately HK$535,611,000 and HK$65,647,000 respectively. Accordingly, an increase in fair value of approximately HK$3,072,000 for the debt element and a decrease in fair value of approximately HK$51,813,000 for conversion option element were recognized in equity and profit and loss respectively.

25. LOAN RECEIVABLES

		As at 31 March		As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed-rate loan receivables	9,100	6,387	5,533	20,265
Floating-rate loan receivables	81,538	36,745	106,318	151,714
Interest free loan receivables	15,073	2,939	—	—
	105,711	46,071	111,851	171,979
Carrying amount analysed for reporting purposes:				
Within one year	95,523	41,173	111,851	171,979
In more than one year but not more than two years	2,351	4,898	—	—
In more than two years but not more than three years	7,837	—	—	—
	105,711	46,071	111,851	171,979

Included in the carrying amount of loans receivables as at 31 March 2003, 2004 and 2005 and 31 December 2005 is accumulated impairment loss of HK$28,056,000, HK$39,033,000, HK$39,633,000 and HK$39,633,000, respectively.

25. LOAN RECEIVABLES *(Cont'd)*

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed-rate loan receivables:				
within one year	9,100	6,387	5,533	20,265

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
Effective interest rate:				
Fixed-rate loan receivables	3.6% to 10%	3.6% to 10%	3.6% to 10%	10% to 20%
Floating-rate loan receivables	5% to 7.1%	5% to 7%	5% to 7.3%	5.3% to 10.8%

The Group's loan receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	US$	**NTD**
	$'000	*$'000*
As at 31 December 2005	712	40,619
As at 31 March 2005	712	78,000
As at 31 March 2004	823	—
As at 31 March 2003	809	—

The fair values of the Group's loan receivables as at the balance sheet dates, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet dates approximate to the carrying amounts of the receivables.

26. DEPOSITS FOR ACQUISITION OF LONG-TERM INVESTMENTS

For the year ended 31 March 2005, the Group entered into conditional agreement (the "Port Agreement") with an independent third party ("Vendor Party") to acquire equity interests in an unlisted investment established in the PRC for a total consideration of HK$35,000,000. This unlisted investment is mainly engaged in port business in the PRC.

As at the date of report, the due diligence review of the acquisition of unlisted investment has not yet been completed pursuant to the Port Agreement. Accordingly, the conditions in the Port Agreement have not yet been fulfilled and the transaction has not yet been completed.

26. DEPOSITS FOR ACQUISITION OF LONG-TERM INVESTMENTS *(Cont'd)*

For the nine months ended 31 December 2005, the Group paid an aggregate of approximately HK$155,175,000 as tender deposit to three independent third parties for acquisition of certain interests in water supply business, sand mining business, the exploitation right for river sand business and property development business in the PRC (the "Potential Investments"). These payments would be refundable from the counter parties if the terms and conditions for the acquisition of the Potential Investments had not been concluded within one year after the payments made by the Group. Up to the report date, the terms and conditions of the acquisition of the Potential Investments have not yet been concluded with the counter parties.

27. OTHER ASSET

For the year ended 31 March 2004, the amount represents cost incurred in connection with a land development project in the PRC. The project is a land development of 珠海錦興產業園 located at Doumen District, Zhuhai City, the PRC, and is to be jointly developed with an independent third party. The Group is entitled to the exclusive development right to the project and also the right to obtain the land for the development (the "Other Asset"). The Group is also entitled to sell the Other Asset to investors for a consideration to be agreed between themselves.

For the year ended 31 March 2004, the consideration of HK$150,000,000 for obtaining the exclusive development right was paid by the Group whilst RMB5,750,000 (equivalent to approximately HK$5,425,000) was already paid by the Group for site formation and the Group has disposed of part of the Other Asset to independent third parties at a consideration of approximately HK$16,000,000 and a net gain on disposal of other asset of approximately HK$5,660,000 was recognized in the consolidated income statement for the year ended 31 March 2004.

As the directors of the Company are of the opinion that the Other Asset is held for sale, the cost incurred for the Other Asset is included in current assets accordingly.

The directors has assessed the carrying value of the Other Asset with reference to the valuation performed by Norton Appraisals Limited, a firm of independent valuers, on an open market value basis as at 31 March 2004 and no impairment loss is identified.

For the year ended 31 March 2005, the Group disposed of part of the Other Asset to an independent third party for consideration of HK$39,600,000 and a net gain on disposal of other asset of approximately HK$2,515,000 was recognized in the consolidated income statement for the year ended 31 March 2005.

For the nine months ended 31 December 2005, the Group entered into several sale and purchase agreements with independent third parties for the disposal of all the remaining parts of the Other Asset for an aggregate consideration of approximately HK$118,800,000 and a net gain on disposal of other asset of approximately HK$10,800,000 was recognized in the consolidated income statement for the nine months ended 31 December 2005.

28. INVENTORIES

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	9,459	6,769	6,781	4,915
Work in progress	2,702	1,435	1,962	1,772
Finished goods	493,004	869,205	578,335	869,149
	505,165	877,409	587,078	875,836

Included above are raw materials of HK$371,000, HK$109,000, HK$74,000 and HK$312,000 and finished goods of HK$104,422,000, HK$269,854,000, HK$97,486,000 and HK$185,497,000 at 31 March 2003, 2004 and 2005 and 31 December 2005 respectively which are carried at net realizable value.

29. TRADE AND OTHER RECEIVABLES

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	463,138	736,279	653,637	1,034,394
Less: accumulated impairment	(65,374)	(51,254)	(61,854)	(78,955)
	397,764	685,025	591,783	955,439
Other receivables	88,845	53,795	174,494	112,322
Total trade and other receivables	486,609	738,820	766,277	1,067,761

29. TRADE AND OTHER RECEIVABLES *(Cont'd)*

The Group allows an average credit period of one to two months to its trade customers. The following is an aged analysis of trade receivable net of impairment losses at the respective balance sheet date:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not yet due	354,824	624,041	548,407	831,989
Overdue within one month	26,561	52,433	25,996	109,303
Overdue between one to two months	6,916	2,099	4,561	2,016
Overdue more than two months	9,463	6,452	12,819	12,131
	397,764	685,025	591,783	955,439

The fair value of the Group's trade receivables at respective balance sheet date was approximate to the corresponding carrying amount.

30. INVESTMENTS HELD FOR TRADING

Investments held for trading at the respective balance sheet dates included:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed securities:				
– Equity securities listed in Hong Kong *(note a)*	—	—	—	41,429
– Equity securities listed elsewhere *(note a)*	—	—	—	21,818
Unlisted convertible notes *(note b)*	—	—	—	65,647
	—	—	—	128,894

(a) The fair values of these investments are determined based on the quoted market bid prices available on the relevant securities exchanges.

(b) The amount represented the conversion option element of the three convertible notes subscribed by the Group during the nine months ended 31 December 2005. The fair values of the unlisted convertible notes are determined by the directors of the Company with reference to the valuation performed by B.I. Appraisals Limited, a firm of independent valuers.

31. MARGIN LOAN RECEIVABLES/PAYABLES AND BILLS PAYABLE

The fair values of the Group's margin loan receivables, margin loan payables and bills payable at 31 March 2003, 2004 and 2005 and 31 December 2005 approximate to the corresponding carrying amounts.

32. PLEDGED BANK DEPOSIT

The amount represents deposit pledged to bank to secure short-term banking facilities granted to the Group and is therefore classified as current asset.

The deposit carries variable interest rates ranging from 2.54% to 4.36%. The pledged bank deposit will be released upon the settlement of relevant bank borrowings. The fair values of bank deposit at respective balance sheet dates approximate to the corresponding carrying amounts.

33. TRADE AND OTHER PAYABLES

Included within trade and other payables is a trade creditor balance of HK$632,561,000, HK$827,620,000, HK$564,154,000 and HK$704,507,000 at 31 March 2003, 2004, 2005 and 31 December 2005 respectively.

The following is an aged analysis of trade creditors at respective balance sheet date:

		As at 31 March		As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not yet due	319,505	445,088	417,919	524,123
Overdue within one month	99,484	116,373	74,518	134,279
Overdue between one to two months	35,422	50,321	27,951	24,491
Overdue more than two months	178,150	215,838	43,766	21,614
	632,561	827,620	564,154	704,507

The fair value of the Group's trade and other payables at respective balance sheet date approximates to the corresponding carrying amount.

34. BORROWINGS

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Borrowings comprise:				
Bank loans	237,468	205,641	82,010	362,725
Other loans	180,000	151,339	161,341	531,225
	417,468	356,980	243,351	893,950
Analyzed as:				
Secured	107,140	159,583	38,531	530,433
Unsecured	310,328	197,397	204,820	363,517
	417,468	356,980	243,351	893,950
The above amounts bear interest at prevailing market rates and are repayable as follows:				
Within one year or on demand	244,473	349,059	85,881	886,692
Between one and two years	165,238	266	149,751	407
Between two and five years	843	940	1,407	1,358
Over five years	6,914	6,715	6,312	5,493
	417,468	356,980	243,351	893,950
Amount due within one year and shown under current liabilities	(244,473)	(349,059)	(85,881)	(886,692)
Amount due after one year	172,995	7,921	157,470	7,258

34. BORROWINGS *(Cont'd)*

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed-rate borrowings which due within one year	9,422	—	—	200,000

The ranges of effective interest rates (which are equal to contractual interest rates) on the Group's borrowings as follows:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
Effective interest rate:				
Fixed-rate borrowings	6.4%	N/A	N/A	1.5%
Variable-rate borrowings	2.6% to 7.5%	4.3% to 7.5%	2.3% to 7.3%	3.6% to 9.8%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD	**NTD**	**RMB**
	$'000	*$'000*	*$'000*
As at 31 December 2005	38,268	32,951	–
As at 31 March 2005	258	34,148	–
As at 31 March 2004	19,758	35,501	–
As at 31 March 2003	14,090	36,670	10,000

The fair values of the Group's borrowings at respective balance sheet dates approximate to the corresponding carrying amounts.

35. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 March			As at 31 December	As at 31 March			As at 31 December
	2003	2004	2005	2005	2003	2004	2005	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:								
Within one year	1,181	1,117	487	—	1,113	1,068	462	—
In the second to fifth year inclusive	1,868	536	—	—	1,557	462	—	—
	3,049	1,653	487	—				
Less: Future finance charges	(379)	(123)	(25)	—				
Present value of lease obligations	2,670	1,530	462	—	2,670	1,530	462	—
Less: Amount due for settlement within one year (shown under current liabilities)					(1,113)	(1,068)	(462)	—
Amount due for settlement after one year					1,557	462	—	—

The Group has leased certain of its fixtures and equipment under finance leases. The average lease term is two years. The average effective borrowing rate was 12.51%, 9.32%, 6.92% and 6.92% for the year ended at 31 March 2003, 2004, 2005 and for the nine months ended 31 December 2005 respectively. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

Financial lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	NTD	USD
	$'000	*$'000*
As at 31 December 2005	—	—
As at 31 March 2005	—	59
As at 31 March 2004	—	197
As at 31 March 2003	252	336

The fair values of the above Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet dates approximate to their carrying amounts.

36. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount was unsecured, interest free and had no fixed terms of repayment. Repayment of the amount will not be demanded within one year of the balance sheet dates and, accordingly, the amount was classified as non-current.

37. DEFERRED TAX

The following are the major deferred tax liabilities (assets) recognized and movements thereon during the Relevant Periods:

	Accelerated tax depreciation	Tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2002				
– as originally stated	—	—	—	—
– adjustment on adoption of SSAP12 (Revised)	1,532	(15,264)	898	(12,834)
– as restated	1,532	(15,264)	898	(12,834)
Charge (credit) to the consolidated income statement for the year *(note 15)*	551	(491)	226	286
At 31 March 2003	2,083	(15,755)	1,124	(12,548)
Currency realignment	(57)	(1,922)	(20)	(1,999)
Credit to the consolidated income statement for the year *(note 15)*	(1,382)	(2,536)	(16,761)*	(20,679)
Effect of change in tax rate				
– charge (credit) to the consolidated income statement *(note 15)*	100	(255)	37	(118)
At 31 March 2004	744	(20,468)	(15,620)	(35,344)
Currency realignment	(85)	(17)	(19)	(121)
Charge (credit) to the consolidated income statement for the year *(note 15)*	833	19,994	(3,666)*	17,161
Realized on disposal of a subsidiary	(459)	459	—	—
At 31 March 2005	1,033	(32)	(19,305)	(18,304)
Currency realignment	9	—	(34)	(25)
Charge (credit) to the consolidated income statement for the year *(note 15)*	(694)	—	(26,216)	(26,910)
At 31 December 2005	348	(32)	(45,555)	(45,239)

37. DEFERRED TAX *(Cont'd)*

* The deferred tax credit is mainly attributable to the movements of temporary differences arising from the carrying amounts and tax bases of major balance sheet items such as receivables, inventories and accruals of a subsidiary in the USA.

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

		As at 31 March		As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	(13,298)	(35,480)	(18,418)	(45,440)
Deferred tax liabilities	750	136	114	201
	(12,548)	(35,344)	(18,304)	(45,239)

The Group has unused tax losses of HK$470,299,000, HK$363,848,000, HK$387,410,000 and HK$391,695,000 at 31 March 2003, 2004 and 2005 and 31 December 2005 respectively available for offset against future profits. A deferred tax asset has been recognized in respect of HK$45,357,000, HK$69,488,000 HK$185,000 and HK$0 at 31 March 2003, 2004, 2005 and 31 December 2005 respectively of such losses. No deferred tax has been recognized in respect of the remaining HK$424,942,000, HK$294,360,000, HK$387,225,000 and HK$391,695,000 at 31 March 2003, 2004, 2005 and 31 December 2005 respectively due to the unpredictability of future profit streams. The losses can be carried forward indefinitely.

38. SHARE CAPITAL

	Number of shares	Value
		HK$'000
Authorized:		
At 1 April 2002 (Ordinary shares of HK$0.025 each)	26,000,000,000	650,000
Consolidation of shares of 40 into 1 *(note a)*	(25,350,000,000)	—
Adjustment of nominal value of shares *(note a)*	64,350,000,000	—
Cancellation of shares *(note a)*	(45,000,000,000)	(450,000)
At 31 March 2003, 2004 and 2005 and 31 December 2005 (Ordinary shares of HK$0.01 each)	20,000,000,000	200,000
Issued and fully paid:		
At 1 April 2002 (Ordinary shares of HK$0.025 each)	6,412,057,523	160,301
Exercise of warrants *(note b)*	70,595	2
Consolidation and adjustment of nominal value of shares *(note a)*	(6,251,824,916)	(158,700)
At 31 March 2003 (Ordinary shares of HK$0.01 each)	160,303,202	1,603
Issue of new shares *(note c)*	21,500,000	215
Exercise of share options *(note d)*	4,750,000	48
At 31 March 2004 (Ordinary shares of HK$0.01 each)	186,553,202	1,866
Issue upon scrip dividend *(note e)*	75,210	—
Issue of new shares *(note f)*	37,000,000	370
At 31 March 2005 (Ordinary shares of HK$0.01 each)	223,628,412	2,236
Issue upon scrip dividend *(note g)*	2,515,285	25
At 31 December 2005 (Ordinary shares of HK$0.01 each)	226,143,697	2,261

Notes:

(a) Pursuant to special resolutions passed in a special general meeting of the Company held on 17 March 2003:

(i) the shares of the Company were consolidated on the basis that every 40 issued and unissued shares of HK$0.025 each were consolidated into one share of HK$1.00 each;

(ii) the par value of the shares of the Company was reduced from HK$1.00 per share to HK$0.01 per share by the cancellation of HK$0.99 paid up on each share;

(iii) the par value of the authorized but unissued shares of the Company was sub-divided into shares of HK$0.01 each; and the number of authorized but unissued shares was increased accordingly; and

(iv) the authorized share capital of the Company was reduced from HK$650,000,000 to HK$200,000,000 by the cancellation of 45,000,000,000 shares of HK$0.01 each.

(b) For the year ended 31 March 2003, 70,595 shares in the Company of HK$0.025 each were issued upon the exercise of 70,595 warrants at a price of HK$0.36 per share. The shares issued during the year rank pari passu with the then existing shares in all respects.

38. SHARE CAPITAL *(Cont'd)*

(c) On 28 January 2004, arrangements were made for a private placement to independent private investors of 21,500,000 shares of HK$0.01 each in the Company held by ITC Corporation Limited, a substantial shareholder of the Company, in cash at a price of HK$4.00 per share representing a discount of approximately 8% to the closing price of HK$4.35 per share as quoted on the Stock Exchange on 28 January 2004.

Pursuant to a subscription agreement of the same date, ITC Corporation Limited subscribed for 21,500,000 new shares of HK$0.01 each in the Company at a price of HK$4.00 per share. The proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 28 August 2003 and rank pari passu with other shares in issue in all respects.

(d) For the year ended 31 March 2004, 4,750,000 shares in the Company of HK$0.01 each were issued upon the exercise of 4,750,000 share options at subscription price of HK$2.9888 per share. The shares issued during the year ended 31 March 2004 rank pari passu with the then existing shares in all respects.

(e) On 21 October 2004, 75,210 shares in the Company of HK$0.01 each were issued as scrip dividend at HK$2.745 per share. The shares issued during the year ended 31 March 2005 rank pari passu with the existing shares in all respects.

(f) On 23 November 2004, arrangements were made for a private placement to independent private investors of 37,000,000 shares of HK$0.01 each in the Company held by ITC Corporation Limited, a substantial shareholder of the Company, in cash at a price of HK$3.22 per share representing a discount of approximately 8% to the closing price of HK$3.50 per share as quoted on the Stock Exchange on 22 November 2004.

Pursuant to a subscription agreement of the same date, ITC Corporation Limited subscribed for 37,000,000 new shares of HK$0.01 each in the Company at a price of HK$3.22 per share. The proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 31 August 2004 and ranked pari passu with other shares in issue in all respects.

(g) On 21 October 2005, 2,515,285 shares in the Company of HK$0.01 each were issued as scrip dividend at HK$3.367 per share. The shares issued during the period ended 31 December 2005 rank pari passu with the existing shares in all respects.

39. WARRANTS

In accordance with the conditions attaching to the warrants of the Company, each of the warrants confers rights to the registered holder to subscribe for one new share of the Company in cash at an adjusted subscription price of HK$0.36 per share, subject to adjustment, at any time from the date of issue to 3 April 2002 (both days inclusive). On 3 April 2002, all of the remaining outstanding warrants, which entitled the registered holders to subscribe for 922,543,833 shares of HK$0.025 each in the Company, lapsed.

Details of the exercise of the Company's warrants during the year ended 31 March 2003 are set out in note 38.

40. RESERVES

Capital reserve represents the goodwill arising on acquisitions prior to 1 April 2001.

Other reserves represent the goodwill reserve and other reserves of the Group's associates shared by the Group. The goodwill reserve of HK$13,060,000 as at 31 March 2005 was transferred to retained profits as at 1 April 2005 in accordance with the Transitional Provision of HKFRS 3.

40. RESERVES *(Cont'd)*

The contributed surplus of the Group at the respective balance sheet dates represented:

(i) the credit arising from the transfer of the share premium account of the Group as at 20 February 1998 and 19 February 2003 to the contributed surplus account of the Group;

(ii) the credit arising from the reduction of the nominal value of the shares of the Company in 1999 and 2003; and

(iii) a balance as reduced by amounts transferred to the deficit account to eliminate the deficit of the Group as at 31 January 2000, 31 January 2001, 20 March 2003 and 31 March 2005.

For the year ended 31 March 2003, movements in the contributed surplus of the Group represented:

(i) the entire amount of HK$1,974,565,000 standing to the credit of share premium account of the Group as at 19 February 2003 be cancelled and such amount be transferred to the contributed surplus account of the Group; and the credit arising from the reduction of the nominal value of the shares of the Company from HK$1.00 per share to HK$0.01 per share by the cancellation of HK$0.99 paid up on each share pursuant to special resolutions passed at a special general meeting of the Company on 17 March 2003. Details of which are set out in the circular of the Company dated 21 February 2003; and

(ii) as reduced by an amount of HK$460,000,000 transferred to the deficit account to eliminate the accumulated losses of the Company as at 20 March 2003 pursuant to a resolution passed at a meeting of the directors of the Company on 20 March 2003.

41. ACQUISITION OF A SUBSIDIARY

For the year ended 31 March 2004, the Group acquired 100% of the issued share capital of Zhuhai Hanny for a consideration of HK$150,000,000.

The acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK$4,598,000.

	Year ended 31 March 2004	**Nine months ended 31 December 2005**
	HK$'000	*HK$'000*
NET ASSETS ACQUIRED		
Other asset	150,000	—
Other payables	(4,598)	(15)
Other receivables	—	3,301
Available-for-sale investments	—	1
Minority interests	—	(559)
	145,402	2,728
Goodwill	4,598	623
Total consideration	150,000	3,351
SATISFIED BY:		
Cash	130,508	3,351
Deferred consideration	19,492	—
	150,000	3,351

42. DISPOSAL OF SUBSIDIARIES

	Year ended 31 March			Nine months ended 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NET ASSETS DISPOSED OF				
Property, plant and equipment	—	—	1,483	64
Interest in an associate	—	—	5,244	—
Investment in securities	—	78,388	—	—
Trade and other receivables	—	—	53	1,279
Amounts due from group companies	15,000	157,353	26,758	334
Bank balances and cash	2	5	92	179
Trade and other payables	—	—	(1,832)	(3,671)
Amounts due to group companies	—	(8,853)	(27,187)	(14)
Amount due to an associate	—	(1,433)	(146)	—
Tax payable	(13,027)	(22,531)	—	(214)
Minority interests	—	—	—	280
Amount due to a minority shareholder	—	—	—	(2,514)
	1,975	202,929	4,465	(4,277)
Currency translation reserve realized	—	(216)	7,842	583
Other reserves realized	—	—	(7,810)	—
Attributable capital reserve	—	556	(556)	—
	1,975	203,269	3,941	(3,694)
Gain (loss) on disposal of subsidiaries	25	(1,282)	3,504	6,694
	2,000	201,987	7,445	3,000
SATISFIED BY:				
Cash	2,000	—	7,445	3,000
Other payables	—	201,987	—	—
	2,000	201,987	7,445	3,000
Net cash inflow (outflow) arising from disposal of subsidiaries:				
Cash consideration	2,000	—	7,445	3,000
Bank balances and cash disposed of	(2)	(5)	(92)	(179)
	1,998	(5)	7,353	2,821

The subsidiaries disposed of during the Relevant Periods did not contribute significantly to the turnover and the results of the Group. The cash flow contributed or utilized by the subsidiaries disposed of during the Relevant Periods was not significant.

43. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 March 2003, the major non-cash transactions were as follows:

(a) The Group entered into finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the leases HK$2,990,000.

(b) The Group acquired additional shareholding in a subsidiary for a consideration of HK$278,320,000 which was set off by the assignment of short-term loans receivable of HK$260,578,000. The remaining consideration of HK$17,742,000 was unsettled as at 31 March 2003.

For the year ended 31 March 2004, the major non-cash transactions were as follows:

(a) The Group acquired Zhuhai Hanny for a consideration of HK$150,000,000. The remaining consideration of HK$19,492,000 was unsettled as at 31 March 2004.

(b) The Group disposed of certain subsidiaries of HK$201,987,000 of which HK$124,387,000 was set off by other payables of the same amount under a deed of assignment entered into between the Group and a relevant party. The remaining amount of HK$77,600,000 was satisfied by another payable of the same amount.

(c) The Group acquired trademark licences for a consideration of HK$190,000,000 which was partly satisfied by short-term loans receivable and other receivables of HK$40,699,000 and HK$81,871,000, respectively under various deeds of novation and agreements entered into between the Group and relevant parties, and was partly satisfied by cash of HK$20,000,000. The remaining consideration of HK$47,430,000 was unsettled as at 31 March 2004.

(d) The Group restructured certain of its short-term loans receivable of HK$42,165,000 and other receivables of HK$19,360,000 satisfied by the amount of other loans of HK$43,275,000 and other payables of HK$18,250,000, respectively under various deeds of novation entered into between the Group and relevant parties.

(e) The repayment of other receivables of HK$38,710,000 was satisfied by the other loans of HK$23,543,000 and interest payables of HK$15,167,000 under an agreement between the Group and relevant parties.

(f) The repayment of a short-term loan receivable of HK$22,866,000, an interest receivable of HK$1,290,000 and settlement of a payable of HK$24,000 was satisfied by a consideration for an acquisition of an investment of HK$24,180,000.

(g) Increase in the loan from an associate of HK$19,024,000 as a result of the acquisition of an associate and was subsequently set off by a short-term loan receivable of the same amount under a deed of novation signed by the Group and a relevant party.

(h) The Group disposed of certain amount of other asset for a consideration of HK$16,000,000 which was satisfied by a short-term loan receivable of the same amount under a deed of novation signed by the Group and a relevant party.

43. MAJOR NON-CASH TRANSACTIONS *(Cont'd)*

For the year ended 31 March 2005, the major non-cash transactions were as follows:

(a) The Group restructured certain of its other payables of HK$15,000,000 satisfied by the same amount of other receivables under a deed of assignment entered into between the Group and the relevant parties.

(b) The repayment of a short-term loan receivable of HK$2,057,000 was satisfied by the same amount of investment in securities.

(c) The Group had disposed of an investment in securities for a consideration of HK$6,000,000 which was satisfied by cash of HK$1,500,000 and by setting off through an amount due from an associate of the Group for the remaining balance of HK$4,500,000.

For the nine months ended 31 December 2005, the major non-cash transactions were as follows:

(a) The repayments of a short-term loan receivable and an other receivable of HK$25,590,000 and HK$5,770,000, respectively, from a related company were satisfied by the same amount of an investment held for trading.

(b) The repayment of other receivables of HK$169,647,000 was satisfied by short-term loan receivables and a short-term loan receivable from a related company of HK$118,800,000 and HK$50,847,000, respectively.

(c) The repayment of a short-term loan receivable from a related company of HK$12,479,000 was satisfied by the same amount of a short-term loan receivable.

44. CONTINGENT LIABILITIES

		As at 31 March		**As at 31 December**
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts utilized in respect of guarantees given to banks and other financial institutions for facilities granted to outsiders	11,674	—	—	—

The Group is involved in two patent infringement lawsuits in the USA. The damages claim arising from the lawsuits range from approximately US$285,000 (equivalent to HK$2,213,000) to US$855,000 (equivalent to HK$6,639,000) for the years ended 31 March 2004 and 2005. As the outcome of the lawsuits is not certain, the Group has made a provision of US$302,000 and US$302,000 (equivalent to HK$2,345,000) for these cases at 31 March 2004 and 2005 respectively to cover the possible damages as estimated by the Directors.

The Group has no contingent liabilities as at 31 December 2005.

44. CONTINGENT LIABILITIES *(Cont'd)*

The following contingent liabilities arise from interests in associates:

		As at 31 March		As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of contingent liabilities of associates arising from guarantees given to banks in respect of bank facilities utilised by:				
— investees	—	9,758	4,551	2,349
— third parties	238,692	449	175	—
Other guarantees issued to				
— investees	—	236	9,037	—
— third parties	16,567	14,210	—	9,037
	255,259	24,653	13,763	11,386

The above amounts represented share of contingent liabilities from interests in associates which was based on the published information of those associates as at 31 December 2002, 2003, 2004 and 2005.

45. OPERATING LEASE COMMITMENTS

The Group as lessee

		As at 31 March		As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Minimum lease payments paid under operating leases during the year:				
Land and buildings	24,209	27,134	30,585	19,797
Property, plant and equipment	2,959	8,615	23,267	17,232
	27,168	35,749	53,852	37,029

45. OPERATING LEASE COMMITMENTS *(Cont'd)*

At the respective balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 March 2003		As at 31 March 2004		As at 31 March 2005		As at 31 December 2005	
	Land and buildings	Property, plant and equipment	Land and buildings	Property, plant and equipment	Land and buildings	Property, plant and equipment	Land and buildings	Property, plant and equipment
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating leases which expire:								
Within one year	19,403	2,594	25,096	22,678	23,008	23,121	15,532	22,314
In the second to fifth year inclusive	50,733	3,018	79,900	41,721	75,368	19,521	44,966	6,682
Over five years	34,437	—	53,162	705	46,519	—	73,147	—
	104,573	5,612	158,158	65,104	144,895	42,642	133,645	28,996

Leases are negotiated for a range of one to ten years and rentals are fixed over the terms of the leases.

The Group as lessor

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Rental income earned under operating leases during the year:				
Land and buildings	4,754	6,568	7,426	4,916
Property, plant and equipment	—	5,000	20,246	15,183
	4,754	11,568	27,672	20,099

45. OPERATING LEASE COMMITMENTS *(Cont'd)*

At the respective balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 March 2003		As at 31 March 2004		As at 31 March 2005		As at 31 December 2005	
	Land and buildings	Property, plant and equipment	Land and buildings	Property, plant and equipment	Land and buildings	Property, plant and equipment	Land and buildings	Property, plant and equipment
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating leases which expire:								
Within one year	2,662	—	4,747	20,000	6,738	20,000	2,244	20,000
In the second to fifth year inclusive	9,780	—	18,109	35,000	24,594	15,000	8,605	—
Over five years	12,057	—	13,914	—	14,426	—	30,814	—
	24,499	—	36,770	55,000	45,758	35,000	41,663	20,000

The Group has committed tenants with lease term for a range of one to ten years.

46. SHARE OPTION SCHEME

The Company's share option scheme was adopted on 21 August 2001 (the "2001 Share Option Scheme") for the primary purpose of providing incentives to the employees of the Group. Under the 2001 Share Option Scheme, the board of directors of the Company may grant options to eligible employees including the directors (but excluding independent non-executive directors) of the Company and the directors of any of the subsidiaries of the Company to subscribe for shares in the Company.

Pursuant to a resolution passed at a special general meeting of the Company on 17 March 2003, the Company has terminated the 2001 Share Option Scheme and adopted a new share option scheme (the "2003 Share Option Scheme"). Under the 2003 Share Option Scheme, the board of directors of the Company may grant options to directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters and service providers of any members of the Group who the board of directors considers have contributed or will contribute or can contribute to the Group. The purpose of the 2003 Share Option Scheme is to provide participants with the opportunity to acquire proprietary interests in the Group and to encourage participants to work towards enhancing the value of the Group and its shares for the benefits of the Group and its shareholders as a whole.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and to be exercised under the 2003 Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the 2003 Share Option Scheme, when aggregated with any shares subject to any other schemes, is not permitted to exceed 10% of the shares of the Company in issue on the date of approval and adoption of the 2003 Share Option Scheme.

46. SHARE OPTION SCHEME *(Cont'd)*

Under the 2003 Share Option Scheme, the options which may be granted to any individual in any one year are not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The number of shares in respect of which options had been granted and remained outstanding under the 2003 and 2001 Share Option Schemes was 16,000,000, 21,800,000, 21,800,000 and 19,000,000, representing 9.98%, 11.69%, 9.75% and 8.40% of the shares of the Company in issue at 31 March 2003, 2004, 2005 and at 31 December 2005, respectively.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK$1. Options may be exercised at any time from the date on which the option is accepted to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company shares on the date of grant or the average closing price of the shares for the five business days immediately preceding the date of grant or the nominal value of the share of the Company.

The following tables disclose details of the Company's share options held by employees (including directors) of the Company and movements in such holdings during the Relevant Periods:

2003 Share Option Scheme

Date of grant	**Exercisable period**	**Exercise price** *HK$*	**Number of share options outstanding at 1.4.2004, 31.3.2004 and 31.3.2005**
Directors			
23.2.2004	23.2.2004 to 22.2.2006	3.415	6,400,000
Employees			
23.2.2004	23.2.2004 to 22.2.2006	3.415	6,400,000
			12,800,000

46. SHARE OPTION SCHEME *(Cont'd)*

			Number of share options			
Date of grant	**Exercisable period**	**Exercise period** *HK$*	**Outstanding at 1.4.2005**	**Transfer during the period** *(Note)*	**Cancelled/ lapsed during the period**	**Outstanding at 31.12.2005**
Directors						
23.2.2004	23.2.2004 to 22.2.2006	3.415	6,400,000	(1,600,000)	—	4,800,000
Employees						
23.2.2004	23.2.2004 to 22.2.2006	3.415	6,400,000	1,600,000	(2,800,000)	5,200,000
			12,800,000	—	(2,800,000)	10,000,000

Note:

A director retired on 1 September 2005 and accordingly the option entitled by that director was transferred to the category under "Employees".

2001 Share Option Scheme

			Number of share options		
Date of grant	**Exercisable period**	**Exercise price** *HK$* *(note b)*	**Outstanding at 1.4.2002**	**Adjustment due to consolidation of the Company's shares**	**Outstanding at 31.3.2003**
Directors: *(note a)*					
31.8.2001	31.8.2001 to 30.8.2006	2.9888	460,000,000	(448,500,000)	11,500,000
Employees:					
31.8.2001	31.8.2001 to 30.8.2006	2.9888	180,000,000	(175,500,000)	4,500,000
			640,000,000	(624,000,000)	16,000,000

Notes:

a. An employee who held 70,000,000 share options as at 1 April 2002 has been appointed as a director of the Company during the year ended 31 March 2003.

b. The exercise price of the share options was adjusted from HK$0.07472 to HK$2.9888 after the consolidation of the Company's shares during the year ended 31 March 2003 as set out in note 38.

46. SHARE OPTION SCHEME *(Cont'd)*

For the year ended 31 March 2004, total consideration received from the directors and employees for taking up the options granted was HK$13.

For the year ended 31 March 2005, no options were granted to or exercised by the directors or employees.

			Number of share options			
Date of grant	**Exercisable period**	**Exercise price** *HK$*	**Outstanding at 1.4.2003**	**Exercised during the year**	**Cancelled/ lapsed during the year**	**Outstanding at 31.3.2004 and 31.3.2005**
Directors						
31.8.2001	31.8.2001 to 30.8.2006	2.9888	11,500,000	(1,750,000)	(750,000)	9,000,000
Employees						
31.8.2001	31.8.2001 to 30.8.2006	2.9888	4,500,000	(3,000,000)	(1,500,000)	–
			16,000,000	(4,750,000)	(2,250,000)	9,000,000

The share options were exercised on 15 January 2004. The closing price of the Company's share immediately before the date on which the share options were exercised was HK$2.80.

			Number of share options		
Date of grant	**Exercisable period**	**Exercise price** *HK$*	**Outstanding at 1.4.2005**	**Transfer** *(Note)*	**Outstanding at 31.12.2005**
Directors					
31.8.2001	31.8.2001 to 30.8.2006	2.9888	9,000,000	(1,750,000)	7,250,000
Employees					
31.8.2001	31.8.2001 to 30.8.2006	2.9888	—	1,750,000	1,750,000
			9,000,000	—	9,000,000

Note:

A director retired on 1 September 2005 and accordingly the option entitled by that director was transferred to the category under "Employees".

47. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund ("MPF") scheme for qualifying employees of the Company and its subsidiaries in Hong Kong. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The Group also operates various retirement benefit schemes for qualifying employees of its overseas subsidiaries, including subsidiaries in the United Kingdom, the USA and Singapore. The assets of the retirement benefit schemes are held separately from those of the Group, in funds under control of trustees. The Group contributes 4% to 10% of the relevant payroll costs to the schemes, which contribution is matched by employees.

The Group's employees who are employed by subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

48. PLEDGE OF ASSETS

At the respective balance sheet dates, the following assets were pledged by the Group and the Company to secure banking and other financing facilities:

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other receivables	174,431	217,420	105,494	286,173
Listed securities of associates	59,148	75,199	88,467	265,790
Inventories	39,162	93,180	—	153,253
Land and buildings	30,818	12,392	13,378	12,351
Investments in securities	944	813	12,816	—
Available-for-sale investments	—	—	—	521,808
Investments held for trading	—	—	—	129,241
Bank deposits	19,226	—	20,014	20,591
	323,729	399,004	240,169	1,389,207

49. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the Relevant Periods and nine months ended 31 December 2004, the Group had significant transactions with the following related parties, together with balances with them at the respective balance sheet dates, details of which are as follows:

	Year ended 31 March			Nine months ended 31 December	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Substantial shareholder and its associates:					
Loan receivables of the Group at end of the year/period *(note a)*	67,997	167,365	224,233	172,843	186,019
Amount due from the Group at the end of the year/period *(note a)*	3,796	—	—	—	—
Loan payables of the Group at end of the year/period *(note a)*	165,000	149,333	149,333	149,333	321,225
Loans advanced by (repaid to) the Group during the year/ period *(note a)*	224,875	140,541	56,868	(5,479)	(38,213)
Amount due to the Group at the end of the year/period *(note a)*	3,339	—	—	—	—
Interest received and receivable by the Group *(note a)*	4,789	3,015	12,066	8,587	17,822
Interest paid and payable by the Group *(note a)*	9,857	12,263	10,490	7,901	19,871
Disposal of a subsidiary *(note c)*	—	—	238	—	—
Management fee income *(note c)*	5,256	1,182	—	—	—
Acquisition of property, plant and equipment *(note c)*	3,000	13	—	—	—
Loans advanced to (repaid by) the Group during the year/ period *(note a)*	172,000	(15,667)	—	—	(88,108)
Parking fee income *(note b)*	—	101	68	—	—
Rent paid and payable by the Group *(note b)*	1,023	1,283	1,298	958	1,836
Associates:					
Rental paid and payable by the Group *(note b)*	2,524	1,347	1,353	1,016	653
Interest received and receivable by the Group *(note a)*	639	1,507	94	70	85
Management fee income *(note c)*	9,336	6,677	3,608	2,704	2,409
Loans advanced by (repaid to) the Group during the year/ period (note a)	6,400	(41,173)	—	—	—
Purchase of finished goods *(note b)*	76,894	—	—	—	—
Sales of finished goods *(note b)*	3,566	—	—	—	142
Rent received and receivable by the Group *(note b)*	405	232	232	162	162

49. TRANSACTIONS AND BALANCES WITH RELATED PARTIES *(Cont'd)*

Details of balances with associates at the respective balance sheet date are set out in note 22.

Notes:

a. The loans advanced to/by and the balances due by/to the Group are unsecured, bear interest at prevailing market rates and repayable in accordance with the respective loan agreements, if any.

b. The transactions were carried out at terms by reference to market prices of similar transactions.

c. The transactions were determined based on terms mutually agreed by the parties concerned.

In addition, certain banking and other facilities of the Group were secured by personal guarantee from a director of the Company, to the extent of HK$6,306,000, HK$6,441,000, HK$6,681,000 and HK$404,103,000 at 31 March 2003, 2004, 2005 and 31 December 2005 respectively.

Save as disclosed above, there were no other significant transactions with related parties during the Relevant Periods and the nine months ended 31 December 2004 or no significant balances with them at the respective balance sheet dates.

50. SUBSEQUENT EVENTS

(a) On 19 January 2006, the Vendor has entered into the Agreement with the Purchaser, to dispose of interest in certain subsidiaries and the trademark licenses for an aggregate consideration which comprises: (1) an initial consideration of US$330,000,000 (equivalent to approximately HK$2,562,450,000), (2) plus the amount, if any, by which the amount of the Completion Date Net Current Asset Amount (as defined in the Circular) exceeds US$87,000,000 (equivalent to approximately HK$675,555,000) or minus the amount, if any, by which the amount of the Completion Date Net Current Asset Amount falls short of US$87,000,000 (equivalent to approximately HK$675,555,000); and (3) plus the Earnout Amount which is to be determined by reference to the earnings before interest, tax, depreciation and amortization of the electronic data storage business of the Vendor and the Disposed Companies to be disposed of by the Vendor and calculated on an agreed basis set out in the Agreement for each of the twelve-month periods ending on 31 March 2007, 31 March 2008 and 31 March 2009. The Earnout Amount shall have a cumulative minimum of US$5,000,000 (equivalent to approximately HK$38,825,000) and a cumulative maximum of US$45,000,000 (equivalent to approximately HK$349,425,000). In the event that the Purchaser transfers control of the Business at any time prior to 1 April 2009, the Purchaser will pay the Vendor an amount equal to whatever would be required to bring the aggregate amount of earnout payments to US$45,000,000 (equivalent to approximately HK$349,425,000).

 (i) Included in the net book value of intangible assets of the Group are the "Memorex" trademark licences and other intangible assets relating to the Business amounting to HK$337,873,000, HK$244,352,000, HK$236,716,000 and HK$236,111,000 at 31 March 2003, 2004 and 2005 and 31 December 2005, respectively.

50. SUBSEQUENT EVENTS *(Cont'd)*

(ii) Included in the consolidated balance sheet of the Group are the assets and liabilities attributable to the Disposed Companies as at respective balance sheet dates which are presented on a combined basis after elimination of intra-entities balances:

		As at 31 March		As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	23,938	25,661	25,926	31,258
Intangible assets	40,305	47,154	45,934	45,003
Deferred tax assets	13,298	34,281	18,026	45,440
	77,541	107,096	89,886	121,701
CURRENT ASSETS				
Inventories	484,710	844,329	568,876	868,868
Trade and other receivables	403,005	695,874	584,300	963,716
Tax recoverable	3,424	—	17,513	5,047
Bank balances and cash	62,367	17,841	159,165	17,468
Pledged bank deposit	19,226	—	—	—
	972,732	1,558,044	1,329,854	1,855,099
CURRENT LIABILITIES				
Trade and other payables	463,518	1,014,792	898,134	1,024,761
Tax payable	—	1,829	11,789	23,876
Borrowings – due within one year	89,505	151,418	—	292,902
Obligations under finance leases – due within one year	1,113	1,068	462	—
Bank overdrafts	—	—	28,362	—
	554,136	1,169,107	938,747	1,341,539
NET CURRENT ASSETS	418,596	388,937	391,107	513,560
TOTAL ASSETS LESS CURRENT LIABILITIES	496,137	496,033	480,993	635,261

50. SUBSEQUENT EVENTS *(Cont'd)*

	As at 31 March			As at 31 December
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES				
Obligations under finance leases and hire purchase contracts – due after one year	1,557	462	—	—
Amounts due to fellow subsidiaries	188,114	7,147	185	140,731
Amounts due to related companies	1,182	581	32	—
	190,853	8,190	217	140,731
TOTAL ASSETS AND LIABILITIES	305,284	487,843	480,776	494,530

(iii) Included in the consolidated income statement of the Group are the results attributable to the Disposed Companies during the Relevant Periods and for the nine months ended 31 December 2004 which are presented on a combined basis after elimination of intra-entities transactions:

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue	2,883,912	3,617,542	3,851,959	2,856,940	3,172,533
Cost of sales	(1,977,695)	(2,614,755)	(2,690,494)	(2,022,707)	(2,252,703)
Gross profit	906,217	1,002,787	1,161,465	834,233	919,830
Other operating income	41,462	72,697	20,320	15,069	8,420
Distribution and selling expenses	(674,758)	(679,804)	(756,765)	(561,433)	(682,977)
Administrative expenses	(115,972)	(145,498)	(160,283)	(107,646)	(115,854)
Other operating expenses	(89,329)	(13,549)	(212,185)	(149,280)	(76,388)
Finance costs	(3,816)	(5,262)	(3,043)	(2,956)	(8,692)
Profit before income tax	63,804	231,371	49,509	27,987	44,339
Income tax expense	(6,264)	(27,388)	(50,583)	(45,132)	(35,811)
Profit (loss) for the year/period	57,540	203,983	(1,074)	(17,145)	8,528

50. SUBSEQUENT EVENTS *(Cont'd)*

(iv) Included in the consolidated cash flow statement of the Group are the cash flows attributable to the Disposed Companies during the Relevant Periods and for the nine months ended 31 December 2004 which are presented on a combined basis after elimination of intra-entities transactions:

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before income tax	63,804	231,371	49,509	27,987	44,339
Adjustments for:					
Interest income	(9,348)	(12,023)	(9,683)	(7,221)	(2,601)
Interest expense and finance charges	3,816	5,262	3,043	2,956	8,692
Amortization of intangible assets	—	1,228	1,228	921	920
Allowance for slow moving and obsolete inventories	18,020	24,512	24,528	(2,857)	19,449
Depreciation and amortization of property, plant and equipment	12,465	13,252	11,623	8,942	7,437
Loss on disposal of property, plant and equipment	717	819	693	(30)	104
Operating cash flows before movements in working capital	89,474	264,421	80,941	30,698	78,340
(Increase) decrease in inventories	(62,617)	(358,732)	248,638	308,360	(320,473)
(Increase) decrease in trade and other receivables	(339)	(304,818)	97,521	(108,517)	(391,553)
(Increase) decrease in amounts due from fellow subsidiaries	(199,878)	(11,778)	20,730	(36,976)	66,205
(Decrease) increase in trade and other payables	(107,274)	507,811	(121,438)	(172,552)	128,066
Increase (decrease) in amounts due to fellow subsidiaries	257,579	(156,319)	(3,528)	150,221	91,183
Increase (decrease) in amounts due to related companies	1,182	(643)	(600)	—	(31)

50. SUBSEQUENT EVENTS *(Cont'd)*

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash generated (used in) from operations	(21,873)	(60,058)	322,264	171,234	(348,263)
Interest and finance charges paid	(3,816)	(5,262)	(3,043)	(2,956)	(8,692)
Interest received	501	809	412	227	875
Tax paid	(19,977)	(41,263)	(41,370)	(27,202)	(37,683)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(45,165)	(105,774)	278,263	141,303	(393,763)
INVESTING ACTIVITIES					
Proceeds from disposal of property, plant and equipment	175	543	285	462	117
Purchase of property, plant and equipment	(12,001)	(15,651)	(13,586)	(7,351)	(13,069)
Purchase of intangible assets	—	(8,065)	—	—	—
NET CASH USED IN INVESTING ACTIVITIES	(11,826)	(23,173)	(13,301)	(6,889)	(12,952)
FINANCING ACTIVITIES					
Bank loans raised	400,046	423,969	700,528	677,203	591,624
Repayments of bank loans	(318,325)	(361,849)	(852,140)	(789,940)	(298,722)
Repayments of obligations under finance leases	(437)	(1,137)	(1,069)	(796)	(462)
(Increase) decrease in pledged bank deposits	(19,226)	19,226	—	—	—

50. SUBSEQUENT EVENTS *(Cont'd)*

	Year ended 31 March			Nine months ended 31 December	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
NET CASH FROM (USED IN) FINANCING ACTIVITIES	62,058	80,209	(152,681)	(113,533)	292,440
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,067	(48,738)	112,281	20,881	(114,275)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	53,927	62,367	17,841	17,841	130,803
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3,373	4,212	681	558	940
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	62,367	17,841	130,803	39,280	17,468
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	62,367	17,841	159,165	39,280	17,468
Bank overdrafts	—	—	(28,362)	—	—
	62,367	17,841	130,803	39,280	17,468

(v) According to the Agreement, the Vendor will cause each of the Disposed Companies to repay and discharge in full, if any and all intercompany balances and related company balances prior to the closing date as defined in the Circular.

(b) On March 9, 2006, the Group has entered into an agreement with Asset Manage Limited ("AML"), which is a wholly-owned subsidiary of Capital Strategic Investment Limited ("CSIL"), in which a substantial shareholder of the Company has 8.18% interest in CSIL, to purchase the entire issued share capital of Rapid Growth Profits Limited ("Rapid Growth") and all amounts due from Island Town Limited to AML at consideration of approximately HK$39 million. Rapid Growth is a company incorporated in the BVI and holds investment properties in Hong Kong.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong"

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the GDI Group extracted from the accountants' report thereon contained in this appendix is set out below:

Results

	Year ended 31st December,		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Turnover			
— Continued operation	5,298	—	—
— Discontinued operation	—	96,262	2,884,493
	5,298	96,262	2,884,493
(Loss) profit before income tax	(54,304)	96,858	(310,310)
Income tax	(4,247)	(5,257)	(567)
(Loss) profit for the year from continued operations	(58,551)	91,601	(310,877)
Profit for the year from discontinued operations	—	1,511	104,075
Dividends	—	—	—
Earnings (loss) per GDI Share	Not applicable	Not applicable	Not applicable
Dividend per GDI Share	—	—	—

Assets and liabilities

	As at 31st December,		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Non-current assets	804,735	684,590	900,347
Current assets	1,694,814	1,852,780	1,663,751
	2,499,549	2,537,370	2,564,098
Non-current liabilities	21,175	—	1,322
Current liabilities	3,053,617	3,099,738	3,177,564
	3,074,792	3,099,738	3,178,886

No extraordinary or exceptional items were recorded in each of the three financial years ended 31st December, 2003, 2004 and 2005. No qualification was contained in the accountants' report in respect of each of the three financial years ended 31st December, 2003, 2004 and 2005.

Set out below is the text of a report, prepared for the purpose of incorporation in this document, received from Deloitte Touche Tohmatsu in connection with the GDI Group:

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

26th May, 2006

The Directors
Hanny Holdings Limited
Group Dragon Investments Limited

Dear Sirs,

We set out below our report on the financial information, which is presented on the basis as set out in note 1 to the financial information, regarding Group Dragon Investments Limited ("GDI") and the companies which have become subsidiaries of GDI pursuant to the group reorganisation which became effective on 19th May, 2006 referred to below (hereinafter collectively referred to as the "GDI Group") for the three years ended 31st December, 2005 (the "Relevant Periods") for inclusion in the composite document dated 26th May, 2006 issued by Well Orient Limited ("Well Orient", a wholly owned subsidiary of Hanny Holdings Limited ("Hanny") and a shareholder of China Strategic Holdings Limited ("CSH")) and GDI, in connection with the voluntary unconditional offer made by Somerley Limited (a financial advisor to Hanny and Well Orient) on behalf of Well Orient to acquire all the GDI shares not already held by Well Orient and parties acting in concert with it (other than PYI Corporation Limited) (the "Document").

Following the completion of group reorganisation, all subsidiaries of CSH carrying on property development, sand mining and investment holding business and all associates of CSH carrying on manufacturing and marketing of tires product, business of providing package tour, travel and other related services ("Distributing Business") have been acquired by GDI and continues to be operated by the existing management of CSH. CSH continues to be a public listed company with its subsidiaries concentrating on the business of manufacturing and trading of batteries products and investment in securities. GDI becomes the holding company of the GDI Group which comprise companies carrying on Distributing Business, and the issued shares of GDI have been distributed as dividend in specie to the shareholders of CSH (the "Group Reorganisation"). Details of the Group Reorganisation are set out under the section "Letter from the GDI Board" contained in the Document. The Group Reorganisation was approved by the shareholders of CSH in an extraordinary general meeting on 6th October, 2005 and effective on 19th May, 2006.

GDI was incorporated on 1st March, 2005 in the British Virgin Islands ("BVI") under the International Business Companies Act. GDI is an investment holding company and was a wholly owned subsidiary of CSH prior to completion of the Group Reorganisation. GDI has not carried on any business since its incorporation, except that it is undergoing the Group Reorganisation which become effective on 19th May, 2006.

Particulars of the subsidiaries acquired by GDI pursuant to the Group Reorganisation are as follows:

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI		Principal activities
			Directly %	Indirectly %	
Acrow Limited *(note 1)*	8th August, 1996 BVI	US$1	—	100	Inactive
APEC.com Limited *(note 2)*	15th October, 1992 Hong Kong	HK$2	—	100	Inactive
B2B Limited *(note 2)*	18th August, 1992 Hong Kong	HK$2	—	100	Holding license
Capital Canton Limited *(note 1)*	2nd May, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Capital Passion Limited *(note 1)*	15th December, 2000 BVI	US$1	—	100	Inactive
Carling International Limited *(note 1)*	24th September, 1991 BVI	US$1	—	100	Investment holding
Century Lead Limited *(note 1)*	2nd May, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
China Advertising Holdings Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Inactive
China Audio & Communications Limited *(note 2)*	15th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Automobile (Holdings) Limited *(note 2)*	16th January, 1992 Hong Kong	HK$2	—	100	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Proportion of share capital/ registered capital held by GDI Indirectly %	Principal activities
China B2B Net.com Limited *(note 2)*	5th February, 1991 Hong Kong	HK$2	—	100	Inactive
China Barter Trade.com Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Broadcasts (Holdings) Limited *(note 2)*	16th January, 1992 Hong Kong	HK$2	—	100	Inactive
China Cable (BVI) Limited *(note 1)*	18th July, 1995 BVI	US$3	—	100	Inactive
China Cement Holdings Limited *(note 2)*	9th February, 1988 Hong Kong	HK$20	—	100	Inactive
China Computer Limited *(note 2)*	21st August, 1987 Hong Kong	HK$20	—	100	Inactive
China Data Center Limited *(note 2)*	4th June, 1991 Hong Kong	HK$2	—	100	Inactive
China Digital Corporation Limited *(note 2)*	15th January, 1997 Hong Kong	HK$2	—	100	Inactive
China e-Barter.com Limited *(note 2)*	15th October, 1991 Hong Kong	HK$2	—	100	Inactive
China eBay.com Limited *(note 2)*	19th December, 1991 Hong Kong	HK$2	—	100	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
China e-commerce.com Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Inactive
China e-Link.com Limited *(note 2)*	11th October, 1989 Hong Kong	HK$2	—	100	Inactive
China e-printing.com Limited *(note 2)*	23rd December, 1992 Hong Kong	HK$2	—	100	Inactive
China Electric Corporation Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Electronics Industries Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
China Enterprises Limited ("CEL") *(note 5(a))*	28th January, 1993 Bermuda	Super voting common stock US$30,000 Common stock US$60,173	—	55.22 *(note 5(a))*	Investment holding
China Grains.com Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
China I.T. Net.com Limited *(note 2)*	8th February, 1994 Hong Kong	HK$2	—	100	Inactive
China Internet Capital Group Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
China Internet Global Alliance Limited *(note 2)*	12th November, 1991 Hong Kong	HK$10,000	—	100	Investment holding

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
China Logistic.com Limited *(note 2)*	16th January, 1992 Hong Kong	HK$2	—	100	Inactive
China Micro Systems Limited *(note 2)*	3rd January, 1997 Hong Kong	HK$2	—	100	Inactive
China Pharmaceutical Industrial Limited *(note 2)*	24th March, 1992 Hong Kong	HK$2	—	57.26 (note 4(b))	Investment holding
China Pharmaceutical Pty Limited *(note 6)*	17th December, 1993 Australia	A$1	—	57.26 (note 4(b))	Inactive
China Resources Holdings Limited *(note 1)*	15th June, 1994 BVI	US$1	—	57.26 *(note 4(b))*	Inactive
China Strategic (B.V.I.) Limited *(note 1)*	5th July, 2001 BVI	US$1	100	—	Investment holding
China Strategic Investments Pty Ltd *(note 6)*	17th December, 1993 Australia	A$2	—	57.26 *(note 4(b))*	Inactive
China Technologies Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China Telecom International Limited *(note 2)*	12th January, 1993 Hong Kong	HK$2	—	51	Inactive
China Television (Holdings) Limited *(note 2)*	5th February, 1991 Hong Kong	HK$2	—	100	Inactive
China University Online Limited *(note 2)*	12th November, 1991 Hong Kong	HK$2	—	100	Investment holding

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
China VU.com Limited *(note 2)*	5th February, 1991 Hong Kong	HK$2	—	100	Inactive
China Wireless Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
China WTO.com Limited *(note 2)*	18th August, 1992 Hong Kong	HK$2	—	100	Investment holding
China Youth Net.com Limited *(note 1)*	23rd December, 1993 Cayman Islands	US$1,000	—	100	Inactive
Citybest Limited *(note 1)*	3rd January, 1997 BVI	US$1	—	100	Inactive
Com.com Limited *(note 2)*	10th January, 1997 Hong Kong	HK$2	—	100	Inactive
Container Limited *(note 1)*	22nd January, 1998 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Crown Dragon Limited *(note 1)*	2nd November, 2000 BVI	US$1	—	100	Inactive
CSI Land Group Limited *(note 2)*	19th December, 1991 Hong Kong	HK$2	—	100	Inactive
Dom.com Limited *(note 2)*	3rd November, 1966 Hong Kong	HK$737,680	—	100	Inactive
Earnfull Industrial Limited *(note 2)*	23rd January, 1987 Hong Kong	HK$10,000,000	—	90	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
eAsia Limited *(note 2)*	18th August, 1992 Hong Kong	HK$2	—	100	Inactive
Ease Wealth Limited *(note 1)*	12th December, 2001 BVI	US$1	—	100	Investment holding
Easy Legend Limited *(note 1)*	5th July, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Ever Excellent Limited *(note 1)*	15th December, 2000 BVI	US$1	—	100	Investment holding
Evergrowth Properties Limited *(note 1)*	1st December, 2000 BVI	US$1	—	100	Investment holding
Expert Commerce Limited *(note 1)*	8th March, 2000 BVI	US$1	—	100	Investment holding
Expert Solution Limited *(note 1)*	26th April, 2001 BVI	US$1	—	100	Inactive
Fast Settle Development Company Limited *(note 2)*	2nd March, 1993 Hong Kong	HK$2	—	100	Inactive
Favour Leader Limited *(note 1)*	8th March, 1994 BVI	US$1	—	100	Investment holding
Future Returns Limited *(note 1)*	28th February, 2001 BVI	US$1	—	100	Investment holding
Glory Eagle Limited *(note 1)*	18th September, 1996 BVI	US$1	—	100	Investment holding

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
Gold Label Investments Limited *(note 1)*	1st April, 1992 BVI	US$1	—	100	Inactive
Golden Flower Limited *(note 1)*	3rd January, 1997 BVI	US$1	—	100	Investment holding
Good Trend Enterprises Limited *(note 1)*	18th October, 2000 BVI	US$1	—	100	Investment holding
Great Joint Profits Limited *(note 1)*	29th January, 2002 BVI	US$1	—	100	Investment holding
Group Dragon Limited *(note 1)*	12th December, 2003 BVI	US$1	—	100	Investment holding
Great Windfall Agents Limited *(note 1)*	28th November, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Grotto Profits Limited *(note 1)*	6th January, 2000 BVI	US$1	—	100	Inactive
Happy Access Limited *(note 1)*	15th December, 2000 BVI	US$1	—	100	Inactive
Hollywood & Co., Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Investment holding
Honest Map Limited *(note 1)*	15th November, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Honest Sincere Limited *(note 1)*	28th February, 2001 BVI	US$1	—	100	Investment holding

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
Hongkong Macau Telecom Holdings Limited *(note 2)*	3rd December, 1991 Hong Kong	HK$2	—	100	Inactive
Hong Kong Pharmaceutical Industries Corporation Limited *(note 2)*	5th December, 1991 Hong Kong	HK$2	—	100	Inactive
Kamthorn Limited *(note 1)*	23rd July, 1996 BVI	US$1	—	100	Investment holding
Katmon Limited *(note 1)*	10th November, 1992 BVI	US$1	—	100	Investment holding
Keen Strategic Limited *(note 1)*	26th November, 2003 BVI	US$1	—	100	Investment holding
Leading Returns Limited *(note 1)*	12th June, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Longnew Ltd. *(note 1)*	19th September, 1997 BVI	US$1	—	100	Investment holding
Manwide Holdings Limited *(note 1)*	3rd March, 2004 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Million Good Limited *(note 1)*	28th November, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
MRI Holdings Limited ("MRI") *(note 4(a))*	7th August, 1925 Australia	A$31,184,116	—	57.26 *(note 4(b))*	Investment holding
MRI Infrastructure Holdings Limited *(note 1)*	3rd January, 1995 Bermuda	US$12,000	—	57.26 *(note 4(b))*	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
MRI Services (Overseas) Limited *(note 1)*	8th January, 1999 BVI	US$1	—	57.26 *(note 4(b))*	Inactive
Orion (B.V.I.) Tire Corporation *(note 1)*	14th February, 1994 BVI	US$100	—	60 *(note 5(c))*	Inactive
Orion Tire Corporation *(note 1)*	7th March, 1994 USA	N/A	—	60 *(note 5(c))*	Inactive
Perfect City Limited *(note 1)*	28th November, 2001 BVI	US$1	—	100	Inactive
Pioneer Honour Limited *(note 1)*	11th August, 2001 BVI	US$1	—	100	Investment holding
Premier Zhou En Lai Foundation Limited *(note 2)*	28th February, 1991 Hong Kong	HK$2	—	100	Inactive
Quality Best Limited *(note 1)*	28th February, 2001 BVI	US$1	—	100	Investment holding
Regal Tender Limited *(note 1)*	5th July, 2001 BVI	US$1	—	100	Investment holding
Rosedale Luxury Hotel & Suites Ltd. *(note 5(d))*	28th August, 2004 PRC	US$20,000,000	—	55.22 *(note 5(d))*	Property holding
Ruby Services Limited *(note 1)*	21st February, 1995 BVI	US$1	—	100	Inactive
Ruby Uniforms Limited *(note 2)*	8th April, 1988 Hong Kong	HK$10,000	—	90	Inactive

Name of subsidiary	**Date and place of incorporation/ registration**	**Issued and fully paid up share capital/ registered capital**	**Proportion of share capital/ registered capital held by GDI**		**Principal activities**
			Directly	**Indirectly**	
			%	*%*	
See Ying Limited *(note 1)*	1st September, 1997 BVI	US$1	—	100	Investment holding
Sheen Trade Limited *(note 1)*	3rd December, 2004 BVI	US$1	—	100	Investment holding
Shine Brilliant Limited *(note 1)*	2nd June, 2005 BVI	US$1	—	100	Investment holding
Sifford Limited *(note 1)*	24th September, 1991 BVI	US$1	—	100	Investment holding
Sincere Ocean Limited *(note 1)*	12th June, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Strawberg Limited *(note 1)*	8th August, 1996 BVI	US$1	—	100	Inactive
Super Plus Limited *(note 1)*	8th November, 2001 BVI	US$1	—	100	Inactive
Supreme Solutions Limited *(note 1)*	16th May, 2002 BVI	US$1	—	55.22 *(note 5(b))*	Investment holding
Treasure Way Services Limited *(note 2)*	6th August, 1991 Hong Kong	HK$10,000	100	—	Secretarial services
United China Internet Capital Limited *(note 2)*	25th July, 1991 Hong Kong	HK$10,000,000	—	100	Inactive

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI Directly %	Indirectly %	Principal activities
Union Money International Limited *(note 2)*	14th August, 2002 Hong Kong	HK$2	—	100	Inactive
Ventures Kingdom Limited *(note 1)*	12th June, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Venture Leader Limited *(note 1)*	28th March, 2001 BVI	US$1	—	100	Investment holding
Vision Leader Limited *(note 1)*	26th June, 2002 BVI	US$1	—	100	Investment holding
Wai Cheong Limited *(note 1)*	1st December, 2000 BVI	US$1	—	100	Investment holding
Wealth Faith Limited *(note 1)*	18th October, 2001 BVI	US$1	—	55.22 *(note 5(b))*	Inactive
Wealthy Mark Limited *(note 1)*	5th July, 2001 BVI	US$1	—	100	Investment holding
Widecheer Limited *(note 1)*	2nd June, 2005 BVI	US$1	—	100	Investment holding
Winning Effort Limited *(note 1)*	28th March, 2001 BVI	US$1	—	100	Inactive
Zhuhai Zhongce Property Investment Limited *(note 1)*	16th December, 2002 BVI	US$1	—	100	Property development

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of share capital/ registered capital held by GDI		Principal activities
			Directly	Indirectly	
			%	%	
東莞市江海貿易有限公司（"東莞市江海"）*(note 3)*	14th July, 1997 The People's Republic of China (the "PRC")	RMB500,000	—	88	Vessel for sand mining
廣州耀陽實業有限公司（"廣州耀陽"）*(note 3)*	9th December, 2004 PRC	RMB1,000,000	—	100	Vessel for sand mining

Note 1: No audited financial statements have been issued for these companies, which are incorporated in a country where there are no statutory audit requirements. For the purpose of this report, we have carried out independent audit procedures in accordance with the Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the management accounts of these companies for each of the Relevant Periods, or since their respective dates of incorporation or acquisition, where this is a shorter period, which were prepared in accordance with HKFRS.

Note 2: We have acted as auditors of these companies for each of the Relevant Periods or since their respective dates of incorporation or acquisition, where this is a shorter period. Audited financial statements have been prepared in accordance with HKFRS for these companies for each of the three years ended 31st December, 2005, or from their respective date of incorporation, where this is a shorter period.

Note 3: No statutory financial statements for the year ended 31st December, 2005 of 東莞市江海 and廣州耀陽 since there are no statutory audit requirements. We have undertaken an independent audit in accordance with the HKSA issued by the HKICPA on the financial statements of東莞市江海 and廣州耀陽for the period from its acquisition to 31st December, 2005 which were prepared in accordance with HKFRS.

Note 4 *(a):* MRI is a company listed on The Australian Stock Exchange and operates in both Hong Kong and Australia. The statutory financial statements of MRI were audited by Deloitte Touche Tohmatsu Australia, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements of MRI were prepared in accordance with the relevant accounting principles and financial regulations applicable in Australia. For the purpose of this report, we have undertaken an independent audit in accordance with the HKSA issued by the HKICPA on the financial statements of MRI for each of the three years ended 31st December, 2005 which were prepared in accordance with HKFRS.

(b): These companies are wholly owned subsidiaries of MRI and the GDI Group holds a 57.26% effective equity interest in MRI.

Note 5 *(a):* CEL is a company with its shares trading on the Over the Counter Bulletin Board of the United States of America and operates in both Hong Kong and PRC. The GDI Group will hold 55.22% effective equity interest and 88.8% effective voting interest in CEL. We have audited the financial statements of CEL for each of the three years ended 31st December, 2005. The statutory financial statements of CEL were prepared in accordance with the relevant accounting principles and financial regulation applicable in the United States of America. For the purpose of this report, we have undertaken an independent audit in accordance with HKSA issued by the HKICPA on the financial statements of CEL for each of the three years ended 31st December, 2005, which were prepared in accordance with HKFRS.

(b): These companies are wholly-owned subsidiaries of CEL and the GDI Group holds 55.22% effective equity interest in CEL.

(c): Orion (B.V.I.) Tire Corporation and Orion Tire Corporation are 60% subsidiaries of CEL and the GDI Group holds 55.22% effective equity interest in CEL.

(d): The statutory financial statements of Rosedale Luxury Hotel & Suites Ltd was audited by Shanghai Justiword Associated Certified Public Accountants. For the purpose of this report, we have undertaken an independent audit in accordance with the HKSA issued by the HKICPA for each of the three years ended 31st December, 2005 which were prepared in accordance with HKFRS.

Note 6: China Pharmaceutical Pty Limited and China Strategic Investments Pty Ltd. are subsidiaries of MRI. MRI is a 57.26% owned subsidiary of the GDI Group. The statutory financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Ltd. were audited by Deloitte Touche Tohmatsu Australia, which is a member firm of Deloitte Touche Tohmatsu. The statutory financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Ltd. were prepared in accordance with the relevant accounting principles and financial regulations applicable in Australia. For the purpose of this report, we have undertaken an independent audit in accordance with the HKSA issued by the HKICPA on the financial statements of China Pharmaceutical Pty Limited and China Strategic Investments Pty Ltd. for each of the three years ended 31st December, 2005 which were prepared in accordance with HKFRS.

No audited financial statements have been prepared for GDI since the date of incorporation as it is newly incorporated in a country where there is no statutory requirement and has not carried on any business. We have, however, reviewed all relevant transactions of GDI since incorporation.

We have examined the audited financial statements or, where appropriate, management accounts (the "Underlying Financial Statements") of the companies comprising the GDI Group for the Relevant Periods or since their respective dates of incorporation or acquisition to 31st December, 2005. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The combined income statements and combined cash flow statements of the GDI Group for the Relevant Periods and the combined balance sheets of the GDI Group as at 31st December, 2003, 2004 and 2005 as set out in this report have been prepared from the Underlying Financial Statements of the companies comprising the GDI Group on the basis set out in note 1 to the financial information, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Document.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of CSH are responsible for the contents of the Document in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 below, the financial information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the GDI Group as at 31st December, 2003, 2004 and 2005 and of the combined results and combined cash flows of the GDI Group for each of the three years ended 31st December, 2005.

I. FINANCIAL INFORMATION

The following are the financial information of the GDI Group and GDI as at 31st December, 2003, 2004 and 2005 and of the GDI Group for the Relevant Periods prepared on the basis set out in note 1 to the financial information.

COMBINED INCOME STATEMENTS

		Year ended 31st December,		
	Notes	**2003**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*
Turnover	*6*	—	—	5,298
Cost of sales		—	—	(4,457)
Gross profit		—	—	841
Other income	*8*	55,879	52,660	33,622
Distribution costs		—	—	(1,365)
Administrative expenses		(35,639)	(9,852)	(33,802)
Other expenses	*9*	(40,782)	(9,020)	(23,030)
Allowances for loans and interest receivable	*10*	(50,645)	(32,419)	(31,116)
Change in fair value of conversion option of unlisted convertible note	*21(iii)*	—	76,959	(39,743)
Finance costs	*13*	(55)	(1,491)	—
Gain (loss) on disposal of interests in associates		—	57,542	(2,814)
Loss on deemed disposal of associate		(36,480)	—	—
Share of results of associates		(189,887)	(37,521)	43,103
Allowance on receivables advanced to an associate		(12,712)	—	—
Gain on disposal of interests in subsidiaries		11	—	—
(Loss) profit before taxation	*11*	(310,310)	96,858	(54,304)
Taxation	*14*	(567)	(5,257)	(4,247)
(Loss) profit for the year from continuing operations		(310,877)	91,601	(58,551)
Profit for the year from discontinued operations	*15*	104,075	1,511	—
(Loss) profit for the year		(206,802)	93,112	(58,551)
(Loss) profit attributable to:				
Equity holders of the parent		(216,323)	21,619	(54,259)
Minority interests		9,521	71,493	(4,292)
(Loss) profit for the year		(206,802)	93,112	(58,551)

COMBINED BALANCE SHEETS

	Notes	GDI Group As at 31st December, 2003 HK$'000	2004 HK$'000	2005 HK$'000	GDI As at 31st December, 2005 HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	*17*	36,074	220	109,811	—
Deposit paid for acquisition of interest in properties	*18*	—	47,012	55,716	—
Deposit for acquisition of subsidiaries	*19*	—	40,000	—	—
Goodwill	*20*	9,325	—	9,123	—
Interests in associates	*21*	508,110	309,149	558,738	—
Unlisted convertible notes and loans receivable due from an associate	*21(ii) & 21(iv)*	320,674	187,967	—	—
Loans and interest receivables — due after one year	*22*	—	28,283	—	—
Investment in securities	*24*	26,164	71,959	—	—
Investment in securities at fair value through profit or loss	*24*	—	—	71,347	—
		900,347	684,590	804,735	—
CURRENT ASSETS					
Other asset	*28*	226,718	227,167	229,288	—
Inventories	*29*	66,976	—	102	—
Trade receivables	*30*	13,718	—	—	—
Amounts due from associates	*21*	129	54,373	151,206	—
Loans and interest receivables — due within one year	*22*	251,691	540,931	448,961	—
Other receivables, deposits and prepayments	23	35,861	79,800	40,672	4
Other investments	*24*	1,142	—	—	—
Amounts due from former fellow subsidiaries	*26*	756,570	878,028	721,091	—
Bank balances and cash	*27*	310,946	72,481	103,494	—
		1,663,751	1,852,780	1,694,814	4
CURRENT LIABILITIES					
Trade payables, other payables and accrued charges	*31*	78,834	25,497	17,475	—
Payables — due within one year	*32*	29,180	444	583	—
Amounts due to associates	*21*	—	673	286	—
Income and other tax payable		3,150	8,144	12,257	—
Amounts due to former fellow subsidiaries	*26*	3,040,386	3,064,980	3,023,016	14
Bank loans and other borrowings — due within one year	*33*	26,014	—	—	—
		3,177,564	3,099,738	3,053,617	14
NET CURRENT LIABILITIES		(1,513,813)	(1,246,958)	(1,358,803)	(10)
		(613,466)	(562,368)	(554,068)	(10)
CAPITAL AND RESERVES					
Share capital	*34*	10,777	10,777	10,777	—
Reserves		(874,892)	(893,489)	(902,023)	(10)
Equity attributable to equity holders of the parent		(864,115)	(882,712)	(891,246)	(10)
Minority interests		249,327	320,344	316,003	—
		(614,788)	(562,368)	(575,243)	(10)
NON-CURRENT LIABILITIES					
Bank loans and other borrowings — due after one year	*33*	129	—	—	—
Payables — due after one year	*32*	1,193	—	—	—
Deferred tax liabilities	*25*	—	—	21,175	—
		1,322	—	21,175	—
		(613,466)	(562,368)	(554,068)	(10)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK$'000	Contributions from shareholders HK$'000 (Note a)	Goodwill on consolidation HK$'000	Exchange reserve HK$'000	Other non-distributable reserve HK$'000 (Note b)	Accumulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
GDI GROUP									
At 1st January, 2003	10,777	191,479	121,049	(5,160)	39,942	(990,403)	(632,316)	722,277	89,961
Exchange adjustment	–	–	–	301	–	–	301	553	854
Share of reserves movement of associates	–	–	–	2,090	(172)	–	1,918	–	1,918
Net income (expense) recognised directly in equity	–	–	–	2,391	(172)	–	2,219	553	2,772
Loss for the year	–	–	–	–	–	(216,323)	(216,323)	9,521	(206,802)
Realised on disposal of interests in associates	–	–	(20,333)	(128)	(238)	–	(20,699)	–	(20,699)
Realised on disposal of interests in subsidiaries	–	–	6,852	(3,848)	(17,863)	17,863	3,004	(481,183)	(478,179)
Total recognised income and expense for the year	–	–	(13,481)	(1,585)	(18,273)	(198,460)	(231,799)	(471,109)	(702,908)
Acquisition from minority interests	–	–	–	–	–	–	–	(410)	(410)
Dividend paid to minority interests	–	–	–	–	–	–	–	(1,431)	(1,431)
Appropriation	–	–	–	–	1,339	(1,339)	–	–	–
At 31st December, 2003	10,777	191,479	107,568	(6,745)	23,008	(1,190,202)	(864,115)	249,327	(614,788)
Exchange adjustment	–	–	–	(611)	–	–	(611)	(476)	(1,087)
Share of reserves movement of associates	–	–	–	(99)	9,531	–	9,432	–	9,432
Net income (expense) recognised directly in equity	–	–	–	(710)	9,531	–	8,821	(476)	8,345
Profit for the year	–	–	–	–	–	21,619	21,619	71,493	93,112
Realised on disposal of interests in associates	–	–	(48,225)	(825)	–	–	(49,050)	–	(49,050)
Realised on disposal of interests in subsidiaries	–	–	–	13	–	–	13	–	13
Total recognised income and expense for the year	–	–	(48,225)	(1,522)	9,531	21,619	(18,597)	71,017	52,420
At 31st December, 2004	10,777	191,479	59,343	(8,267)	32,539	(1,168,583)	(882,712)	320,344	(562,368)
Effect of changes in accounting policies *(Note 2(b))*	–	–	(59,343)	–	–	106,401	47,058	–	47,058
At 1st January, 2005 — as restated	10,777	191,479	–	(8,267)	32,539	(1,062,182)	(835,654)	320,344	(515,310)
Exchange adjustment	–	–	–	(1,333)	–	–	(1,333)	(2,623)	(3,956)
Net expense recognised directly in equity	–	–	–	(1,333)	–	–	(1,333)	(2,623)	(3,956)
Loss for the year	–	–	–	–	–	(54,259)	(54,259)	(4,292)	(58,551)
Total recognised income and expense for the year	–	–	–	(1,333)	–	(54,259)	(55,592)	(6,915)	(62,507)
Arising on acquisition of subsidiaries	–	–	–	–	–	–	–	2,574	2,574
At 31st December, 2005	10,777	191,479	–	(9,600)	32,539	(1,116,441)	(891,246)	316,003	(575,243)

Note:

(a) The amount represents the investments in subsidiaries contributed to the GDI Group by GDI pursuant to the Group Reorganisation on the basis that the Group Reorganisation had been effected on 1st January, 2003 and it represents the investments directly made by GDI in companies to be acquired by GDI in previous years.

(b) The other non-distributable reserves of the GDI Group include statutory reserves required to be appropriated from the profit after taxation of the GDI's subsidiaries and associates of the PRC under PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' board of directors.

COMBINED CASH FLOW STATEMENTS

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
(Loss) profit before taxation	(310,310)	96,858	(54,304)
Adjustments for:			
Dividend income	(60)	—	—
Interest income	(33,202)	(46,148)	(29,762)
Interest expenses	34,096	1,491	—
Depreciation of property, plant and equipment	57,576	2,031	5,865
Amortisation of goodwill	1,628	155	—
Changes in fair value on investments in securities at fair value through profit or loss	8,121	(70)	(1,208)
(Gain) loss on disposal of interests in associates	—	(57,542)	2,814
(Gain) loss on disposal of interests in subsidiaries	(12,309)	5,266	—
Loss (gain) on disposal of investments in securities through profit or loss	1,774	(2,959)	716
Loss on deemed disposal of associate	36,480	—	—
Allowances for bad and doubtful debts	6,919	1,724	18,575
Allowances for amounts due from associates	2,458	4,099	—
Allowance on receivables advanced to an associate	12,712	—	—
Impairment loss of goodwill on acquisition of subsidiaries	20,387	—	—
Write-down for inventories	4	—	—
Allowances for loans and interest receivable	50,645	32,419	31,116
Change in fair value of conversion option of unlisted convertible note	—	(76,959)	39,743
Gain on disposal of property, plant and equipment	(15,995)	—	—
Share of results of associates	175,697	37,521	(43,103)
Profit from discontinued operations	114,442	1,511	—
Operating cash flows before movements in working capital	151,063	(603)	(29,548)
Decrease (increase) in inventories	22,997	17,657	(96)
Increase in trade receivables	(10,287)	(118)	—
(Increase) decrease in other receivables, deposits and prepayments	(214)	(41,655)	19,272
Increase (decrease) in trade payables, other payables and accrued charges	43,903	(10,021)	(8,127)
Increase in amounts due from associates	(29,065)	(4,097)	(15,164)
Increase (decrease) in amounts due to associates	—	673	(387)
Increase in other asset	(226,718)	(449)	(2,121)
Decrease in income and other tax payable	(19,493)	—	—
Net cash outflow from operations	(67,814)	(38,613)	(36,171)
Tax (paid) refunded in other jurisdictions	(7,420)	(233)	245
NET CASH USED IN OPERATING ACTIVITIES	(75,234)	(38,846)	(35,926)

	Notes	Year ended 31st December, 2003 HK$'000	2004 HK$'000	2005 HK$'000
INVESTING ACTIVITIES				
Repayment from loans and interest receivables		697,425	160,903	345,672
Repayment from associates		92,267	143,214	—
Proceeds from disposal of investments in securities		16,711	152,642	77,547
Proceeds from disposal of property, plant and equipment		25,994	771	125
Increase in pledged bank deposits		(45,259)	—	—
Interest received		4,506	7,200	8,488
Proceeds from disposal of interests in associates		23,887	110,341	—
Proceeds from disposal of interest in subsidiaries (net of cash and cash equivalents disposed of)	*35*	(58,564)	13,324	—
Dividend received from investments in securities		60	—	—
Dividend income received from associates		—	—	2,427
Investment in associates		—	—	(63,152)
Amount advanced to loans and interest receivables		(553,342)	(501,146)	(285,122)
Amount advanced to associates		(260,373)	(163,828)	—
Purchase of investments in securities		(23,278)	(26,250)	(78,259)
Purchase of property, plant and equipment		(268,682)	(1,864)	(331)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	*36*	(785)	—	(9,651)
Payment for acquisition of interests in property		—	(326)	(8,704)
(Increase) decrease in amounts due from former fellow subsidiaries		(229,601)	(121,456)	121,572
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(579,034)	(226,475)	110,612
FINANCING ACTIVITIES				
Advance from third parties/related parties		29,193	13,000	—
New bank loans and other borrowings raised		994,271	39,033	—
Increase (decrease) in payables due to former fellow subsidiaries		380,907	24,596	(41,964)
Repayment of bank loans and other borrowings		(721,048)	(4,827)	—
Repayment of third parties/related parties		(44,108)	(43,537)	—
Dividend paid to minority interests		(1,431)	—	—
Repayment of obligations under finance leases		(181)	(1)	—
Interest paid		(32,848)	(883)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES		604,755	27,381	(41,964)

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,513)	(237,940)	32,722
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	356,829	310,944	72,481
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3,628	(523)	(1,709)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	310,944	72,481	103,494
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	310,946	72,481	103,494
Bank overdrafts	(2)	—	—
	310,944	72,481	103,494

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The combined income statements, combined statements of changes in equity, and combined cash flow statements of the companies comprising the GDI Group for the Relevant Periods are prepared as if they had been formed as a single reporting entity throughout the Relevant Periods, or since their respective dates of incorporation or acquisition or up to the effective dates of disposal, where this is a shorter period of the individual company. The combined balance sheets as at 31st December, 2003, 2004 and 2005 have been prepared to present the assets and liabilities of the GDI Group as at the respective dates as if they had been formed as a single reporting entity at those dates.

The financial information of Relevant Periods has been prepared in accordance with the accounting policies adopted by China Strategic Holdings Limited ("CSH").

The financial information has been prepared on the going concern basis because CSH has committed to provide continuing financial support to the companies comprising the GDI Group to enable the GDI Group to meet its financial obligations as they fall due in the foreseeable future.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the GDI.

All significant intra-group transactions and balances have been eliminated on combination.

2(a). APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In preparation of the financial information for the year ended 31st December, 2005 the GDI Group has applied a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of these new HKFRSs has resulted in a change in the presentation of the combined income statement, combined balance sheet and combined statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the GDI Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting periods are prepared and presented:

Business combinations

During the year ended 31st December, 2005, the GDI Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the GDI Group are summarised below:

Goodwill

Prior to 31st December, 2004, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life.

2(a). APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Business combinations *(Cont'd)*

The GDI Group has applied the relevant transitional provisions in HKFRS 3. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 are not required to be restated.

Excess of the GDI Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the GDI Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the GDI Group derecognised all negative goodwill on 1st January, 2005, of which negative goodwill of approximately HK$59,343,000 was previously recorded in reserves and approximately HK$47,058,000 was previously presented as a deduction from interests in associates), with a corresponding decrease to accumulated loss as at 1st January, 2005.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. As no material contingent liabilities of the acquirees were identified in relation to acquisitions that took place in the current year, this change in accounting policy has had no material effect on the goodwill calculation. In addition, because the revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1st January, 2005, comparative figures for 2004 and 2003 have not been restated.

Financial instruments

During the year ended 31st December, 2005, the GDI Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. The adoption of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the GDI Group. The principal effects on the GDI Group as a result of implementation of HKAS 39 are summarised below:

2(a). APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Classification and measurement of financial assets and financial liabilities

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

On or before 31st December, 2004, the GDI Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised holding gains or losses included in the profit or loss. From 1st January, 2005 onwards, the GDI Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

From 1st January, 2005 onwards, the GDI Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Other investments classified under non-current assets with carrying amounts of approximately of HK$71,959,000 at 31st December, 2004 were reclassified to investments in securities at fair value through profit or loss, which are designated to be stated at fair value through profit or loss.

Embedded derivatives

In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA, the conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the convertible notes and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option, representing a discount on subscription of the convertible note, was estimated using the relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. Prior to 1st January, 2005, the GDI Group measured the fair value of the embedded derivatives in accordance with the requirement under HKAS 39 and therefore, no adjustments was made on 1st January, 2005. During the Relevant Periods, the GDI Group measured the fair value of the embedded derivatives in accordance with the requirements and recognised the changes in fair value of the conversion option of the unlisted convertible note as at balance sheet dates and the impact of changes in fair value of this conversion option, taking into account the portion of the conversion option exercised during the year ended 31st December, 2003, 31st December, 2004 and 31st December, 2005 was nil, gain of approximately HK$76,959,000 and loss of approximately HK$39,743,000 respectively, which have been recognised in the combined income statement.

2(b). SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in accounting policies described in Note 2(a) on the results for the Relevant Periods are as follows:

(i) On results

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Non-amortisation of goodwill	—	—	456
Changes in fair value of conversion option of unlisted convertible note	—	76,959	(39,743)
Share of results of associates — Depreciation on hotel properties	—	(3,192)	(8,252)
Increase in (loss) profit for the year	—	73,767	(47,539)

(ii) On income statement line items

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Decrease in administrative expenses	—	—	456
Change in fair value of conversion option of unlisted convertible note	—	76,959	(39,743)
Decrease in share of results of associates	—	(3,192)	(8,252)
	—	73,767	(47,539)

2(b). SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

(iii) On balance sheet items

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

THE GDI GROUP	As at 31st December, 2004 (original stated)	Effect of HKFRS 3	Effect of HKAS 39	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items				
Interests in associates				
— Negative goodwill	(47,058)	47,058	—	—
	(47,058)	47,058	—	—
Investments in securities				
— non-current	71,959	—	(71,959)	—
Investments in securities at fair value through profit or loss	—	—	71,959	71,959
Total effects on assets	24,901	47,058	—	71,959
Goodwill on consolidation	(59,343)	59,343	—	—
Accumulated losses	1,168,583	(106,401)	—	1,062,182
Total effects on equity	1,109,240	(47,058)	—	1,062,182

2(c). SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost basis except for investments in securities and financial instruments, which are measured at fair values as explained in the accounting policies set out below. The financial information has been prepared in accordance with HKFRS(s) issued by HKICPA.

Recognition of revenue

Turnover represents the fair value of amounts received and receivable for goods sold by the GDI Group less discount allowances and goods returned.

Revenue of the GDI Group for the Relevant Periods is recognised on the following bases:

Sales of goods are recognised when goods are delivered and title has passed.

Dividend income from investments in securities is recognised when the GDI Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that's net carrying amount.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the GDI Group's interest in the fair value of the identifiable assets, liabilities of the relevant subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 previously recognised in reserves, and have been transferred to the GDI Group's accumulated losses at 1st January, 2005.

For previous capitalised goodwill arising on acquisitions after 1st January, 2001, the GDI Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the GDI Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which the goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition of a subsidiary in a financial year, the cash-generating unit to which the goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of that unit, the impairment loss is allocated to reduce the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the combined income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill *(Cont'd)*

Excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition of an associate (which is accounted for using the equity method) is included as income in determination of the investor's share of results of the associate in the Relevant Periods in which the investment is acquired.

Negative goodwill arising on acquisition after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

All negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the GDI Group's accumulated losses.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investment in associates are carried in the combined balance sheet at cost as adjusted for post-acquisition changes in the GDI Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the GDI Group's share of losses of an associate equals or exceeds its interest in that associate (which include any long-term interests that, in substance, form part of the GDI Group's net investment in the associate), the GDI Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the GDI Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill (included in interests in associates) are tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. If the recoverable amount of goodwill is estimated to be less than its carrying amount. The carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When the GDI Group transacts with an associate, profits and losses are eliminated to the extent of the GDI Group's interest in the relevant associate.

Impairment losses (other than goodwill (see the accounting policy in respect of goodwill above))

At each balance sheet date, the GDI Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment

Construction in progress

Construction in progress are stated at cost, which includes amortisation of land cost, the related construction costs, less accumulated impairment losses. No depreciation is provided on construction in progress until the construction is completed and the properties and assets are available for use.

Other property, plant and equipment

Property, plant and equipment, other than construction in progress are stated at cost less subsequent accumulated depreciation, accumulated amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined income statement in the year in which the item is derecognised.

Non-current assets held for sales

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the Relevant Periods in which they are incurred.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of to the lessee. All other leases are classified as operating leases.

The GDI Group as lessee

Assets held under finance leases are recognised as assets of the GDI Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating lease are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefit received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the Relevant Periods in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the Relevant Periods except for the differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies *(Cont'd)*

For the purpose of presenting the combined financial information, the assets and liabilities of the GDI Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average rates for the year, unless exchange rates fluctuate significantly during the Relevant Periods, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the Relevant Periods in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences are recognised in the exchange reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1st January, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefit costs

Payment to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Financial instruments

Prior to 1st January, 2005, investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

From 1st January, 2005 onwards, financial assets and financial liabilities are recognised on the balance sheet when the GDI Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are add to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The GDI Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two categories , including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the Relevant Periods in which they arise.

Embedded derivatives

The conversion option element of the convertible note represents an embedded derivative instrument which is accounted for separately from the convertible note and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option is estimated using a relevant option pricing model at the date of subscription of the convertible note, and as at subsequent reporting dates. Changes in fair value of the conversion option of the unlisted convertible note are recognised directly in profit and loss.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including receivables, trade receivables, amounts due from associates, amounts due from former fellow subsidiaries) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the GDI Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the GDI Group after deducting all of its liabilities. The GDI Group's major financial liabilities are generally other financial liabilities. The accounting policy adopted are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued charges, payables, amounts due to associates, amounts due to former fellow subsidiaries, bank loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issue by the Company are recorded at the proceeds received, net of direct issue costs.

2(c). SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The GDI Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the GDI Group as a parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the combined income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The GDI Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the GDI Group anticipate that the application of these standards or Interpretations will have no material impact on the financial statements of the GDI Group except that HKAS 39 (Amendment) — The fair value option require the GDI Group shall de-designate any financial asset or financial liability previously designated as at fair value through profit or loss only if it does not qualify for such designation in accordance with those new and amended paragraphs. When a financial asset or financial liability will be measured at amortised cost after de-designation, the date of de-designation is deemed to be its date of initial recognition.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS — INT 4	Determining whether an arrangement contains a lease[2]
HKFRS — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) — INT 8	Scope of HKFRS 2[5]
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives[6]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June, 2006.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the GDI Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial information are disclosed below:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the GDI Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the three years ended 31st December, 2005, management of the GDI Group determined that there were no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in note 20.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Estimated impairment on loan and interest receivables

The assessment of the impairment loss on loan and interest receivables of the GDI Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness of each borrowers or debtors. If the financial conditions of borrowers or debtors of the GDI Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Allowances made in the loans and interest receivables as at 31st December, 2003, 2004 and 2005 were approximately HK$50,645,000, HK$32,419,000 and HK$31,116,000 respectively.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The GDI Group's major financial instruments include loans and interest receivables, amounts due from associate, trade receivables, other receivables and deposits, investments in securities at fair value through profit and loss, trade payables, payables, amounts due to associates, amounts due to related companies and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The GDI Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the balance sheet dates is in relation to the carrying amount of such item on balance sheet and other class of financial assets as stated in the combined balance sheet. In order to minimise the credit risk, the management of the GDI Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the GDI Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the GDI Group's credit risk is significantly reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned in international credit-rating agencies.

The GDI Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the GDI Group to foreign currency risk. Also, certain trade receivables, trade payables, bank balances and bank borrowings of the GDI Group are denominated in foreign currencies. The GDI Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Other price risk

The GDI Group's investments in securities at fair value through profit or loss is measured at fair value at each balance sheet date. Therefore, the GDI Group is exposed to equity security and debt price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

The GDI Group's objective is to maintain a balance between continuity of funding and flexibility through the funds generated from its operations. The Directors have given careful consideration on the measures currently undertaken by the GDI Group in respect of the GDI Group's liquidity position. During the year, the GDI Group has continued to tighten cost controls over operating costs to improve the cash flows, profitability and operations of the GDI Group. The directors believe that the Group will have sufficient working capital for its future operational requirements.

6. TURNOVER

Turnover represents the net amount received and receivable from outside customers net of sales and business tax during the Relevant Periods and is analysed as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods, net of returns and sales taxes	—	—	5,298

7. SEGMENT INFORMATION

Business segments

Pursuant to the Group Reorganisation, companies carrying on property development, sand mining and investment holding will be acquired by GDI, which represent the GDI Group's current main business segment. For the purpose of the presentation of the business segments and except for the segment of sand mining business which commenced in 2005, the segment of property development and investment holding during the Relevant Periods are grouped under "Others" segment.

During the Relevant Periods, certain companies under the GDI Group were engaged in the operations of manufacturing and trading of chinese and western medicine products, tire operation, consumer goods, electronic products and heavy industry which were discontinued upon the disposal of these operations held by these companies. Details of these discontinuing operations are set out below.

An analysis of the GDI Group's turnover segment results and segment assets and liabilities by business segments is presented below:

	Discontinued operation			Continuing operation			
	Tires	Pharmaceutical products	Sub-total	Investments in securities and advance	Others	Sub-total	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31st December, 2003							
(i) TUROVER							
— External	2,635,235	249,258	2,884,493	—	—	—	2,884,493
(ii) OTHER INCOME							
— Interest income	4,457	49	4,506	25,175	3,521	28,696	33,202
— Dividend income	—	—	—	60	—	60	60
— Gain on disposal of property, plant and equipment	15,573	—	15,573	—	422	422	15,995
— Others	2,248	2,937	5,185	—	26,701	26,701	31,886
	22,278	2,986	25,264	25,235	30,644	55,879	81,143
RESULT							
Segment result	100,304	(20,184)	80,120	19,548	(18,097)	1,451	81,571
Unallocated corporate expenses							(30,763)
Finance costs	(31,689)	(2,352)	(34,041)	(55)	—	(55)	(34,096)
Gain on disposal of interests in subsidiaries	3,711	8,587	12,298	—	11	11	12,309
Loss on deemed disposal of associate	—	—	—	(36,480)	—	(36,480)	(36,480)
Share of results of associates	14,188	2	14,190	(202,262)	12,375	(189,887)	(175,697)
Allowance on receivables advanced to an associate	—	—	—	(12,712)	—	(12,712)	(12,712)
Profit/(loss) before taxation			114,442			(310,310)	(195,868)
Taxation			(10,367)			(567)	(10,934)
Profit/(loss) for the year			104,075			(310,877)	(206,802)

7. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Tires *HK$'000*	**Pharmaceutical products** *HK$'000*	**Investments in securities and advance** *HK$'000*	**Others** *HK$'000*	**Combined** *HK$'000*
Assets and liabilities at 31st December, 2003					
ASSETS					
Segment assets	—	88,395	1,335,051	70,324	1,493,770
Interests in associates	—	15,416	—	492,694	508,110
Unlisted convertible notes and loans receivable due from an associate	—	—	—	320,674	320,674
Unallocated total assets					241,544
Combined total assets					2,564,098
LIABILITIES					
Segment liabilities	—	(56,505)	(4,110)	(16,232)	(76,847)
Unallocated corporate liabilities					(3,102,039)
Combined total liabilities					(3,178,886)
Other information for the year ended 31st December, 2003					
Capital expenditure — Property, plant and equipment	260,872	7,978	—	—	268,850
Depreciation and amortisation	47,750	11,454	—	—	59,204
Impairment loss of goodwill on acquisition of subsidiaries	—	—	—	20,387	20,387
Allowances for loans and interest receivable	—	—	50,645	—	50,645
Allowances on receivables advanced to an associate	—	—	12,712	—	12,712
Allowance for bad and doubtful debts	—	—	—	6,919	6,919
Change in fair value on investments in securities at fair value through profit or loss	—	—	8,121	—	8,121
Allowances for amounts due from associates	2,458	—	—	—	2,458
Write-down for inventories	—	4	—	—	4
Loss on disposal of investments in securities	—	—	1,774	—	1,774

7. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Discontinued operation	Continuing operation				
	Pharmaceutical products *HK$'000*	**Investments in securities and advance** *HK$'000*	**Others** *HK$'000*	**Sub-total** *HK$'000*	**Elimination** *HK$'000*	**Combined** *HK$'000*
For the year ended 31st December, 2004						
(i) TURNOVER						
— External	96,262	—	—	—	—	96,262
— Inter-segment	—	—	1,200	1,200	(1,200)	—
	96,262	—	1,200	1,200	(1,200)	96,262
(ii) OTHER INCOME						
— Interest income	17	40,622	5,509	46,131	—	46,148
— Others	446	6,529	—	6,529	—	6,975
	463	47,151	5,509	52,660	—	53,123
RESULT						
Segment result	6,777	20,217	2,758	22,975	—	29,752
Unallocated corporate expenses						(21,606)
Finance costs	—	(486)	(1,005)	(1,491)	—	(1,491)
Change in fair value of conversion option of unlisted convertible note	—	—	76,959	76,959	—	76,959
Loss on disposal of interests in subsidiaries	(5,266)	—	—	—	—	(5,266)
Gain on disposal of interests in associates	—	—	57,542	57,542	—	57,542
Share of results of associates	—	—	(37,521)	(37,521)	—	(37,521)
Profit before taxation	1,511			96,858		98,369
Taxation	—			(5,257)		(5,257)
Profit for the year	1,511			91,601		93,112

Inter-segment sales are charged at terms determined and agreed between the GDI Group's companies.

7. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Pharmaceutical products *HK$'000*	**Investments in securities and advance** *HK$'000*	**Others** *HK$'000*	**Combined** *HK$'000*
Assets and liabilities at 31st December, 2004				
ASSETS				
Segment assets	—	300,009	231,803	531,812
Interests in associates	—	—	309,149	309,149
Unlisted convertible notes and loans receivables due from an associate	—	—	187,967	187,967
Unallocated total assets				1,508,442
Combined total assets				2,537,370
LIABILITIES				
Segment liabilities	—	(580)	(25,590)	(26,170)
Unallocated corporate liabilities				(3,073,568)
Combined total liabilities				(3,099,738)
Other information for the year ended 31st December, 2004				
Capital expenditure				
— Property, plant and equipment	1,370	—	494	1,864
— Deposit paid for acquisition of interest in properties	—	—	47,012	47,012
Depreciation and amortisation	2,000	—	31	2,031
Allowances for loans and interest receivable	—	32,419	—	32,419
Allowance for bad and doubtful debts	—	—	1,724	1,724
Allowances for amounts due from associates	—	—	4,099	4,099
Loss on disposal of interests in subsidiaries	5,266	—	—	5,266

7. **SEGMENT INFORMATION** *(Cont'd)*

	Investments in securities and advance HK$'000	Sand mining HK$'000 (Note)	Others HK$'000	Combined HK$'000
For the year ended 31st December, 2005				
(i) TURNOVER				
— External	—	5,298	—	5,298
(ii) OTHER INCOME				
— Interest income	24,395	—	5,367	29,762
— Others	1,124	2,059	677	3,860
	25,519	2,059	6,044	33,622
RESULT				
Segment result	(25,528)	1,576	(26,984)	(50,936)
Unallocated corporate expenses				(3,198)
Loss on disposal of investments in securities at fair value through profit or loss	(716)	—	—	(716)
Change in fair value of conversion option of unlisted convertible note	—	—	(39,743)	(39,743)
Loss on disposal of interests in associates				(2,814)
Share of results of associates				43,103
Loss before taxation				(54,304)
Taxation				(4,247)
Loss for the year				(58,551)

Note: During the year, the GDI Group acquired 88% and 100% of the issued capital of 東莞市江海 and 廣州耀陽 for an aggregate cash consideration of HK$50 million respectively. The two newly acquired subsidiaries are engaged in the business of sand mining. The segment of sand mining is regarded as a new business segment of the GDI Group upon completion of the acquisition.

7. SEGMENT INFORMATION *(Cont'd)*

	Investments in securities and advance *HK$'000*	**Sand mining** *HK$'000*	**Others** *HK$'000*	**Combined** *HK$'000*
Assets and liabilities at 31st December, 2005				
ASSETS				
Segment assets	440,935	110,716	114,151	665,802
Interests in associates	—	—	558,738	558,738
Unallocated total assets				1,275,009
Combined total assets				2,499,549
LIABILITIES				
Segment liabilities	(6,674)	(736)	(18,796)	(26,206)
Unallocated corporate liabilities				(3,048,586)
Combined total liabilities				(3,074,792)
Other information for the year ended 31st December, 2005				
Capital expenditure				
— Property, plant and equipment	331	113,183	—	113,514
— Goodwill arising from acquisition of subsidiaries	—	9,123	—	9,123
— Goodwill arising from acquisition of associates	—	—	10,181	10,181
Depreciation and amortisation	40	5,811	14	5,865
Allowance for bad and doubtful debts	7,823	—	10,752	18,575
Allowance for loans and interest receivable	31,116	—	—	31,116

7. SEGMENT INFORMATION *(Cont'd)*

An analysis of the GDI Group's turnover by geographical market, irrespective of the origin of the goods and services is presented below:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
PRC	—	—	5,298
Hong Kong	—	—	—
Overseas	—	—	—
	—	—	5,298

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of assets			Capital additions		
	As at 31st December,			Year ended 31st December,		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
PRC	752,431	—	118,579	260,872	47,012	113,183
Hong Kong	1,638,133	2,371,568	2,126,456	7,978	1,864	331
Overseas	173,534	165,802	165,656	—	—	—
	2,564,098	2,537,370	2,410,691	268,850	48,876	113,514

8. OTHER INCOME

	Year ended 31st December, 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Interest income from loans receivable	24,579	38,637	24,390
Interest income from banks	3,274	3,197	350
Interest income from unlisted convertible notes	843	4,297	5,022
Net exchange gain	22,352	3,072	—
Change in fair value on investments in securities at fair value through profit or loss	—	70	1,208
Gain on disposal of investments in securities	—	2,959	—
Dividend income from listed investments	60	—	—
Gain on disposal of property, plant and equipment	422	—	—
Others	4,349	428	2,652
	55,879	52,660	33,622

9. OTHER EXPENSES

	Year ended 31st December, 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Impairment loss of goodwill on acquisition of subsidiaries *(Note)*	20,387	—	—
Allowances for bad and doubtful debts	6,919	1,724	18,575
Change in fair value on investments in securities at fair value through profit or loss	8,121	—	—
Loss on disposal of investment in securities through profit or loss	1,774	—	716
Allowances for amounts due from associates	2,458	4,099	—
Net exchange loss	—	—	3,739
Others	1,123	3,197	—
	40,782	9,020	23,030

Note:

On 19th March, 2004, the GDI Group entered into a conditional agreement to dispose of its entire interests in Tung Fong Hung Investment Limited ("Tung Fong Hung") to a third party subsequent to 31st December, 2003. The directors have considered the consideration receivable from the said disposal and operating losses of Tung Fong Hung and have identified the impairment loss attributable to the goodwill arising from acquisition of Tung Fong Hung amounting to approximately HK$20 million. The amount was charged to the combined income statement accordingly.

10. ALLOWANCES FOR LOANS AND INTEREST RECEIVABLE

As at 31st December, 2003, 2004 and 2005, the directors have reviewed the carrying value of the GDI Group's loans and interest receivables and determined that the recoverable amount of certain loans and interest receivables is below their carrying value with reference to present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Accordingly, an impairment loss of approximately HK$50,645,000, HK$32,419,000 and HK$31,116,000 had been charged to the income statement for the year ended 31st December, 2003, 31st December, 2004 and 31st December, 2005 respectively.

11. (LOSS) PROFIT BEFORE TAXATION

	Discontinued operation			Continuing operation			Combined		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss) profit before taxation has been arrived at after charging:									
Staff costs									
— directors' remuneration *(note 12(a))*	—	—	—	77	117	458	77	117	458
— other staff costs *(note 12(b))*	144,530	11,619	—	525	618	1,306	145,055	12,237	1,306
— retirement benefit scheme contributions, excluding directors	26,925	469	—	23	26	50	26,948	495	50
— redundancy payment	1,938	—	—	—	—	—	1,938	—	—
Total staff costs	173,393	12,088	—	625	761	1,814	174,018	12,849	1,814
Auditors' remuneration									
Current year	725	427	—	3,174	3,286	4,721	3,899	3,713	4,721
Underprovision in prior years	—	392	—	—	—	—	—	392	—
Depreciation of property, plant and equipment	57,576	2,000	—	—	31	5,865	57,576	2,031	5,865
Amortisation of goodwill included in administrative expenses	1,628	155	—	—	—	—	1,628	155	—

12. DIRECTORS' AND EMPLOYEE'S REMUNERATION

(a) Directors' remuneration

The emoluments of the directors for the Relevant Periods are as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Basic salaries and allowance	77	117	458
	77	117	458
Name of director			
Chan Kwok Keung, Charles	—	—	—
Yap, Allan	77	117	229
Chau Mei Wah, Rosanna	—	—	—
Chan Ling, Eva	—	—	229
Li Bo	—	—	—
Chan Kwok Hung	—	—	—
Lui Siu Tsuen, Richard	—	—	—
	77	117	458

The directors' emoluments are presented as if the directors of GDI Group had been appointed throughout the Relevant Periods, or since their respective dates of appointment, where this is a shorter period, and the emoluments had been paid for their appointment as GDI Group's directors.

During the Relevant Periods, no emoluments were paid by the GDI Group to any director as an inducement to join or upon joining the GDI Group or as compensation for loss of office.

None of the directors waived any emoluments during the Relevant Periods.

12. DIRECTORS' AND EMPLOYEE'S REMUNERATION *(Cont'd)*

(b) Employees' remuneration

Of the five individuals with the highest emoluments in the GDI Group, none, none and two was director of the Company for the three years ended 31st December, 2005, whose emolument is included in the disclosures in note 12(a) above. The emoluments of the remaining five, five and three individuals are as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	4,732	3,535	1,306
Retirement benefit scheme	—	20	50
Bonus	—	—	—
	4,732	3,555	1,356

	Number of employees Year ended 31st December,		
	2003	**2004**	**2005**
Nil to HK$1,000,000	5	5	3

During the Relevant Periods, no emoluments were paid by the GDI Group to the five highest paid individuals as an inducement to join or upon joining the GDI Group or as compensation for loss of office.

13. FINANCE COSTS

	Year ended 31st December, 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
Bank borrowings wholly repayable within five years	—	482	—
Other borrowings and payables	55	1,009	—
	55	1,491	—

14. TAXATION

	Discontinued operation			Continuing operation			Combined		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The charge comprises:									
Taxation in other jurisdictions									
— Current year	11,137	—	—	329	1,340	1,010	11,466	1,340	1,010
— Under(over)provision in prior years	—	—	—	238	—	(663)	238	—	(663)
Hong Kong Profits Tax									
— Current year	—	—	—	—	3,917	1,300	—	3,917	1,300
— Under provision in prior years	—	—	—	—	—	2,600	—	—	2,600
Deferred tax credit *(note 25)*	(770)	—	—	—	—	—	(770)	—	—
Taxation attributable to the GDI Group	10,367	—	—	567	5,257	4,247	10,934	5,257	4,247

Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for the year ended 31st December, 2003, 2004 and 2005. No provision for Hong Kong Profits Tax was made in the financial statements for the year ended 31st December, 2003 as GDI and companies comprising the GDI Group had no assessable profit for those years.

14. TAXATION *(Cont'd)*

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain companies comprising the GDI Group are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years ("Tax Reduction"). Since these companies were disposed of during the year ended 31st December, 2003, no companies comprising the GDI Group were exempted from Tax Reduction.

The tax charge for the year can be reconciled to the (loss) profit before taxation as per the combined income statements as follows:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) profit before taxation	(310,310)	96,858	(54,304)
Tax at the average income tax rate *(Note a)*	(73,113)	18,258	(20,293)
Tax effect of share of results of associates	—	5,899	10,182
Tax effect of income not taxable for tax purpose	(27,389)	(50,770)	(31,142)
Tax effect of expenses not deductible for tax purpose	92,749	29,636	35,373
Underprovision in respect of prior year	238	—	1,937
Tax effect of deductible temporary differences not recognised	12,546	1,979	8,410
Tax effect of tax losses not recognised	—	255	—
Utilisation of tax losses previously not recognised	(4,464)	—	(220)
Tax expense for the year	567	5,257	4,247

Notes:

(a) The average income tax rate for the Relevant Periods represents the weighted average income tax rate of the operations in different jurisdictions on the basis of the relative amounts of profits before taxation and the related statutory rates.

(b) As at 31st December, 2003, 2004 and 2005, the GDI Group had unused tax loss of approximately HK$8,364,000, HK$9,214,000 and HK$8,480,000 respectively available to offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams.

15. DISCONTINUED OPERATIONS

During year 2003, the GDI Group disposed of its 51% interest in Yinchuan C.S.I., (Greatwall) Rubber Company Limited, 25% in Hangzhou Zhongce Rubber Company Limited and 50% interest in Pacific Wins Development Ltd, which are engaged in the manufacturing of tires, the business segment of manufacturing of tires was regarded as discontinued operation during the year ended 31st December, 2003.

During year 2004, the GDI Group disposed of the 100% interests in Tung Fong Hung Investment Limited and its subsidiaries which are engaged in the manufacturing and trading of pharmaceutical products, the business segment of manufacturing and trading of pharmaceutical products was regarded as discontinued operation during the year ended 31st December, 2004.

The profits for the year ended 31st December, 2003 and 31st December, 2004 from the discontinued operations were analysed as follows:

	2003	**2004**
	HK$'000	*HK$'000*
Profits of tires and pharmaceutical products segment for the year	91,777	6,777
Gains/(losses) on disposal of tires and pharmaceutical products segment	12,298	(5,266)
	104,075	1,511

15. DISCONTINUED OPERATIONS *(Cont'd)*

The profit of tire and pharmaceutical products segment for the year 31st December, 2003 and 31st December, 2004, which have been included in the combined income statements and analysed as follows:

	1st January, 2003 to 31st December, 2003	**1st January, 2004 to 30th April, 2004**
	HK$'000	*HK$'000*
Turnover	2,884,493	96,262
Cost of sales	(2,520,175)	(60,381)
Other income	25,264	419
Distribution costs	(174,955)	(21,056)
Administrative expenses	(90,187)	(8,467)
Finance costs	(34,041)	—
Other expenses	(2,445)	—
Share of results of associates	14,190	—
Profit before tax	102,144	6,777
Taxation	(10,367)	—
Profit for the period	91,777	6,777

The carrying amounts of the assets and liabilities of Yinchuan C.S.I., (Greatwall) Rubber Company Limited, Hangzhou Zhongce Rubber Company Limited, Pacific Wins Development Ltd. and Tung Fong Hung Investment Limited and its subsidiaries at the date of disposal are disclosed in note 35.

16. LOSS PER SHARE

Loss per share had not been presented as such information is not required for disclosure for a private company.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Machinery and equipment	Motor vehicles	Sand vessels	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1st January, 2003	281,943	58,253	871,103	32,918	—	118,933	1,363,150
Currency realignment	(1,301)	682	(3,514)	72	—	(419)	(4,480)
Reclassification	138	1,602	—	—	—	(1,740)	—
Additions	1,778	5,902	8,368	2,329	—	250,473	268,850
Transfer	29,417	—	127,136	—	—	(156,553)	—
Disposals	(132)	(4,728)	(27,883)	(1,209)	—	—	(33,952)
Disposal of subsidiaries	(307,253)	(30,105)	(973,696)	(31,262)	—	(209,934)	(1,552,250)
At 31st December, 2003	4,590	31,606	1,514	2,848	—	760	41,318
Currency realignment	—	8	—	—	—	—	8
Additions	—	828	12	837	—	187	1,864
Reclassification	—	205	—	—	—	(205)	—
Disposals	—	(1,258)	—	—	—	—	(1,258)
Disposal of subsidiaries	(4,590)	(31,389)	(1,526)	(3,191)	—	(742)	(41,438)
At 31st December, 2004	—	—	—	494	—	—	494
Currency realignment	—	—	4	—	2,062	—	2,066
Additions	—	—	12	319	—	—	331
Arising from acquisition of subsidiaries	—	—	164	—	113,019	—	113,183
Disposals	—	—	(124)	—	—	—	(124)
At 31st December, 2005	—	—	56	813	115,081	—	115,950
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSS							
At 1st January, 2003	112,275	3,448	441,861	21,271	—	45,354	624,209
Currency realignment	(485)	724	(1,880)	(65)	—	—	(1,706)
Provided for the year	9,115	7,930	38,700	1,831	—	—	57,576
Eliminated on disposals	(5,199)	(4,020)	(14,315)	(419)	—	—	(23,953)
Disposal of subsidiaries	(115,328)	(5,356)	(463,927)	(20,917)	—	(45,354)	(650,882)
At 31st December, 2003	378	2,726	439	1,701	—	—	5,244
Provided for the year	24	1,822	44	141	—	—	2,031
Eliminated on disposals	—	(487)	—	—	—	—	(487)
Disposal of subsidiaries	(402)	(4,061)	(483)	(1,568)	—	—	(6,514)
At 31st December, 2004	—	—	—	274	—	—	274
Provided for the year	—	—	10	101	5,754	—	5,865
At 31st December, 2005	—	—	10	375	5,754	—	6,139
NET BOOK VALUES							
At 31st December, 2005	—	—	46	438	109,327	—	109,811
At 31st December, 2004	—	—	—	220	—	—	220
At 31st December, 2003	4,212	28,880	1,075	1,147	—	760	36,074

17. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The above items of property, plant and equipment were depreciated on a straight-line basis at the following rates per annum:

Buildings	2% or the term of the lease or land use rights, if shorter
Furniture and fixtures	10% – 25%
Machinery and equipment	10% – 20%
Motor vehicles	12.5% – 25%
Sand vessels	10%

At 31st December, 2003, buildings of the GDI Group were held under medium-term land use rights in the PRC.

The net book value of motor vehicles and furniture and fixtures as at 31st December, 2003 included an amount of approximately HK$154,000 respectively in respect of assets held under finance leases.

18. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES

During the year ended 31st December, 2004, the GDI Group entered into a conditional agreement with a third party ("Vendor") to acquire the properties interest in a parcel of land situated in Shanghai, the PRC (the "Land") and the 24-storey building being erected upon the land together with 2 levels of underground carparks (the "Building") (collectively referred to as to the "Properties") for a consideration of RMB450,000,000 (approximately HK$424,528,000). A deposit of RMB50,000,000 (HK$47,012,000) was paid upon the entering into the conditional agreement.

According to the conditional agreement, prior to the completion of acquisition, the Vendor should (i) obtain the certificate in respect of the land use rights of the Land and the ownership of the Building; (ii) obtain an approval from 上海市計劃委員會 that the use of the Properties be changed from office to both commercial and residential and that all relevant fee and charges arising from the sale of the Land payable to the relevant authorities including 上海市國土局 having been settled in full; (iii) agree with the GDI Group on the specification of installation, fixtures and furniture and other internal decoration of the Properties; (iv) procure all the contractors engaged in the development/construction of the Properties to enter into agreements with the GDI Group to bind these contractors with obligations to the GDI Group to rectify all defects of the Properties which may arise after the completion of the development/construction; and (v) procure the granting of a loan ("Loan") to be granted by PRC banks to the GDI Group to finance the remaining consideration.

The remaining consideration will be settled upon the grant of the Loan and the transfer of the ownership of the Properties to the GDI Group.

It is one of the conditions for completion of the acquisition that the Vendor should obtain approval for the change of use of the Properties from office to both commercial and residential. Should the Vendor fail to obtain such approval within 150 days from the date of the agreement, the GDI Group is entitled to either (i) to proceed with the agreement in accordance with the existing terms and conditions; or (ii) to acquire the 1st to 7th floors and the 23rd floor of the Properties together with the two levels underground carparks for a consideration of RMB70,000,000 (HK$65,817,000).

18. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES *(Cont'd)*

Provided that if the conditions are not fulfilled on or before 1st June, 2005, the GDI Group shall agree to a further extension of not less than 60 days without imposing any fine on the Vendor. If the conditions are not fulfilled within the extended period, the GDI Group shall be entitled to terminate the agreement and the Vendor shall refund the deposit to the GDI Group together with interests accrued during the period from the date of the agreement to the date the deposit is refunded and calculated on the relevant prevailing market interest rate.

However, the conditions stated above for the change of the use of the Properties has not yet fulfilled within the said period and accordingly the Vendor and the GDI Group had entered into another agreement dated 3rd February, 2005 pursuant to which, among other things, (i) the GDI Group will pay, on behalf of the Vendor, RMB22,000,000 (equivalent to approximately HK$20,663,000) to the main contractor of the Properties (the "Main Contractor"); and (ii) the amount paid by the GDI Group in (i) will be deducted from the sales consideration.

Further, the GDI Group had advanced an additional RMB8,000,000 (equivalent to approximately HK$7,512,000) to the Vendor pursuant to this additional agreement and the aggregate sum paid by the GDI Group to the Vendor amounted to RMB58,000,000 (approximately HK$55,716,000) as of 31st December, 2005.

In June 2005, the GDI Group had commenced legal proceedings against the Vendor, among other things, to demand the Vendor to fulfil its obligations under the above two agreements and applied to a PRC court an injunction order on the Properties to stop the Properties from being transferred (the "Injunction Orders"). It had also come to the attention of the GDI Group that one of the three secured creditors of the Vendor and the Main Contractor had already applied to and being granted the Injunction Orders and they, together with the other two secured creditors, had priority over the GDI Group on the Properties.

As a condition precedent to the application of the Injunction Orders, the GDI Group had issued a counter guarantee of RMB402,000,000 (approximately HK$377,500,000) to an institution in the PRC which provided a guarantee of the same amount to the PRC court on behalf of the GDI Group.

At the same time, the directors of the GDI Group are also in discussion with the Vendor for settlement of the above matters; however, there can be no assurance that such matters can be resolved and settled with the Vendor eventually. Despite the above developments, the directors of the GDI Group have consulted its legal counsel and decided to proceed with the acquisition of the Properties in consideration of the following:

(a) the transaction can be continued with the payment of outstanding consideration of RMB392 million (approximately to HK$376 million) and the legal title of the Properties can be transferred to the GDI Group when the debts of the Vendor owed to the three secured creditors and the Main Contractor are settled by the GDI Group;

18. DEPOSIT PAID FOR ACQUISITION OF INTEREST IN PROPERTIES *(Cont'd)*

(b) the usage of the Properties can be changed to both commercial and residential when the GDI Group obtains the legal title to the Properties and makes the application to the relevant authority;

(c) the acquisition of the Properties, on a completion basis, is expected to bring economic benefits to the GDI Group taking into account of the estimated market value of the Properties as of 31st December, 2005; and the ability of the GDI Group to meet the cash flow requirements to finance the acquisition and completion of the Properties, given the current financial position of the GDI Group and financial resources available to the GDI Group from internally generated funds, advances from its holding companies and/or financial institutions.

The directors of GDI are of the view that the carrying amount of deposit is not less than its recoverable amount at the balance sheet dates.

19. DEPOSIT FOR ACQUISITION OF SUBSIDIARIES

During the year ended 31st December, 2004, the GDI Group entered into conditional agreements with third parties ("Vendor Parties") to acquire the entire interest in 廣州耀陽 and 88% interest in 東莞市江海 for consideration of approximately RMB27,300,000 (approximately HK$25,756,000) and RMB25,700,000 (approximately HK$24,244,000) respectively. 廣州耀陽 and 東莞市江海 are companies incorporated in the PRC and engaged in the business of sand mining. As one of the conditions according to the conditional agreements, the Vendor Parties should procure the GDI Group to obtain all necessary approval from relevant government authorities for the proper transfer of ownership in 廣州耀陽 and 東莞市江海. Deposits of RMB21,200,000 (approximately HK$20,000,000) and RMB21,200,000 (approximately HK$20,000,000) were paid upon entering into the conditional agreements. If the conditions are not fulfilled, the GDI Group shall be entitled to terminate the agreements and the Vendor Parties shall refund the deposit to the GDI Group. During the year ended 31st December, 2005, the conditions have been fulfilled and the acquisition was completed and details in note 36.

20. GOODWILL

	HK$'000
COST	
At 1st January, 2003	33,082
Arising from acquisition of subsidiaries	387
At 31st December, 2003	33,469
Disposal of subsidiaries	(33,469)
At 31st December, 2004	—
Arising from acquisition of subsidiaries	9,123
At 31st December, 2005	9,123
AMORTISATION AND IMPAIRMENT	
At 1st January, 2003	2,129
Provided for the year	1,628
Impairment loss recognised	20,387
At 31st December, 2003	24,144
Provided for the year	155
Eliminated on disposal of subsidiaries	(24,299)
At 31st December, 2004 and 31st December, 2005	—
NET BOOK VALUES	
At 31st December, 2005	9,123
At 31st December, 2004	—
At 31st December, 2003	9,325

On 19th March, 2004, the GDI Group entered into a conditional agreement to dispose of its entire interests in Tung Fong Hung to a third party subsequent to 31st December, 2003. The directors have considered the consideration receivable from the said disposal and have identified the impairment loss attributable to the goodwill arising from acquisition of Tung Fong Hung amounting to approximately HK$20 million. The amount was charged to the combined income statement accordingly.

Prior to 31st December, 2004, goodwill was amortised on a straight-line basis and the amortisation period for goodwill is 10 years.

20. GOODWILL *(Cont'd)*

Particulars regarding impairment testing on goodwill are disclosed below:

The carrying value of goodwill as at 31st December, 2005 is attributable to the acquisition of 廣州耀陽 and 東莞市江海 of HK$9,123,000. 廣州耀陽 and 東莞市江海 are engaged in the business segment of sand mining activities ("Cash Generating Unit of Sand Mining").

During the year ended 31st December, 2005, management of the GDI Group determines that there is no impairment of goodwill of the GDI Group to the cash generating unit.

The basis of the recoverable amount of the Cash Generating Unit of Sand Mining and the major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a 10-year period, and discount rate of 8%. This cash generating unit's cash flow within the first 5-year period are extrapolated using a steady 10% growth rate and no growth rate for the remaining years of the cash flows. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Interests in associates			
Share of net assets	537,692	354,201	546,551
Goodwill *(note (i))*			
At beginning of year	91,785	91,785	2,006
Accumulated amortisation at beginning of year	(1,148)	(10,326)	—
Arising from acquisition of associates	—	3,931	10,181
Less: amortisation provided for the year	(9,178)	(3,059)	—
Realised upon deemed disposal of interest in associates	—	(80,325)	—
As at year ended	81,459	2,006	12,187
Negative goodwill *(note (i))*			
At beginning of year	(123,379)	(123,379)	(69,994)
Accumulated release of negative goodwill at beginning of year	—	12,338	22,936
Release of negative goodwill during the year	12,338	10,598	—
Derecognition of negative goodwill to retained profit as at 1st January, 2005	—	—	47,058
Release upon disposal of interests in associates	—	53,385	—
As at year ended	(111,041)	(47,058)	—
	508,110	309,149	558,738

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

Notes:

(i) Prior to 31st December, 2004, goodwill was amortised on a straight-line basis and the amortisation period for goodwill is 10 years. Negative goodwill was released to income over 10 years. No amortisation of goodwill or release of negative goodwill is provided for on or after 1st January, 2005.

(ii) The carrying value of the unlisted convertible notes as at 31st December, 2003 represented investments in convertible note issued by Wing On Travel (Holdings) Limited ("Wing On") ("Wing On Note"). The Wing On Note carried interest at 2% per annum and was due for redemption on 19th April, 2004 at HK$84,800,000 with accrued interest. It also entitled the holders at any time after the date of the issuance of the Wing On Note and up to 19th April, 2004 to convert the Wing On Note into shares of Wing On at an initial conversion price of HK$0.032 per share (subject to adjustment). The effective interest rate for the unlisted convertible notes during the Relevant Periods is 8%.

In January 2004, the GDI Group entered into a new convertible note agreement with Wing On pursuant to which Wing On issued the convertible notes with principal amount of HK$155,000,000 ("New Wing On Note") to the GDI Group, of which HK$84,800,000 were used to settle the Wing On Note and HK$70,200,000 were used to settle the receivables due from Wing On. The New Wing On Note carried interest at 2% per annum and is due for redemption on 14th June, 2007 at HK$155,000,000 with accrued interest. The New Wing On Note entitles the holders at any time after the date of the issuance of the New Wing On Note and up to 14th June, 2007 to convert the New Wing On Note into shares in Wing On at an initial conversion price of HK$0.020 per share (subject to adjustment).

In October and November, 2004, the GDI Group converted HK$100,000,000 convertible notes of Wing On into ordinary shares of HK$0.01 each in Wing On at the conversion price of HK$0.020 per share. Certain convertible notes holders also converted their convertible notes of Wing On into ordinary shares of HK$0.01 each in Wing On at conversion price of HK$0.020 per share. The interest in Wing On held by the GDI Group increased from approximately 32.21% to approximately 38.16% upon the conversion of the convertible notes into shares of HK$0.01 each in Wing On by the GDI Group and other convertible note holder. The GDI Group also disposed of approximately 7.88% interest in Wing On for a consideration of approximately HK$45 million and the interest in Wing On held by the GDI Group was decreased to approximately 30.28%.

On 30th November, 2004, the GDI Group further entered into two placing and subscription agreements with Wing On and placing agent pursuant to which the placing agent agreed to place 6,000 million ordinary shares of HK$0.01 each in Wing On on behalf of the GDI Group at the price of HK$0.028 per share and the GDI Group would subscribe up to 6,000 million new ordinary shares in Wing On at HK$0.028 per share. The placing of 6,000 million ordinary shares of HK$0.01 each in Wing On and subscription of 3,660 million new ordinary shares of HK$0.01 each in Wing On were completed in December, 2004 and the GDI Group's interest in Wing On was decreased to approximately 19.58% as at 31st December, 2004.

The GDI Group further subscribed 8,740 million new ordinary shares of US$0.01 each in January and February 2005 and the GDI Group's interest was increased to approximately 21.1%. In April, 2005, the GDI Group further acquired 6,967,700 ordinary shares of HK$0.01 each in Wing On and further converted HK$55,000,000 convertible notes of Wing On into ordinary share of HK$0.01 each in Wing On at the conversion price of HK$0.02 per share and the interest in Wing On held by the GDI Group was increased to 27.74%

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

Notes: (Cont'd)

(iii) In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by HKICPA, the conversion option element of the Wing On Note and New Wing On Note represents an embedded derivative instrument which must be accounted for separately from the unlisted convertible notes and, as such, to be measured at fair value when initially recorded and at subsequent reporting dates. The fair value of this conversion option, representing a discount on subscription of the Wing On Note and the New Wing On Note, was estimated using the Black-Scholes option pricing model at the date of subscription of the Wing On Note and the New Wing On Note, and as at 31st December, 2003, 2004 and 2005. The impact of changes in fair value of this conversion option, taking into account the portion of the conversion option exercised during the year ended 31st December, 2003, 2004 and 2005 were nil, gain of HK$76,959,000 and loss of HK$39,743,000 respectively, which have been recognised in the combined income statement.

(iv) Loans and interest receivables due from associates are unsecured, carries interest at prevailing market rate (effective interest rate ranged from 5% – 8% per annum) and repayable after one year from balance sheet date. The fair value of the GDI Group's loans and interest receivables due from associates at each balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates.

(v) In March 2004, Pacific Century Premium Development Limited ("PCPD", formerly known as Dong Fang Gas Holdings Limited whose shares are listed on The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange"), a then 43.06% owned associate of the GDI Group, entered into agreements with PCCW Limited ("PCCW", a company whose shares are listed on the Hong Kong Stock Exchange) to acquire various property interests from PCCW for a consideration of approximately HK$6,557 million which was satisfied by the issue of new shares and convertible notes by PCPD to PCCW or as it may direct. The above transaction was completed in May 2004 and the GDI Group's interest in PCPD was decreased from 43.06% to 2.83% and PCPD ceased to be an associate of the GDI Group accordingly and resulted in gain in deemed disposal of associates of approximates HK$28,510,000. The GDI Group further disposed of all its 2.83% interest in PCPD and no interest in PCPD was held by the GDI Group as at 31st December, 2004.

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from associates	129	54,373	151,206
Amounts due to an associate	—	673	286

During the year ended 31st December, 2003, all receivables due from associates were unsecured, non-interest bearing and repayable on demand. During the year ended 31st December, 2004 and 2005, all amounts are repayable on demand and except for amount due from an associate of approximately HK$54,247,000 and HK$151,073,000 respectively are interest bearing at prevailing interest rate ranged from 5% to 8% per annum, all remaining amounts due from associates were non-interest bearing. The fair value of the amounts due from associates at balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates. The amounts due to an associate is unsecured, non-interest bearing and repayable on demand. The fair value of the amounts due to an associate at balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates.

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

Particulars of the principal associates to be acquired by GDI pursuant to Group Reorganisation are as follows:

Name of associate	Place of the incorporation/ registration/ establishment	Place of operation	Proportion of nominal value of issued share capital/registered capital held indirectly by the GDI Group %	Principal activities
China Velocity Group Limited ("China Velocity", formerly known as Rosedale Hotel Group Limited and China Land Group Limited) *(notes a and b)*	Bermuda	Hong Kong and PRC	22.65	Property investment and development in the PRC
Wing On (formerly known as Ananda Wing On Travel (Holdings) Limited) *(notes a and b)*	Bermuda	Hong Kong	27.74	Business of providing package tours, travel and other related services
Hangzhou Zhongce Rubber Company Limited ("HZ Rubber") *(note c)*	PRC	PRC	26.0	Manufacturing of tires

Notes:

(a) The shares of China Velocity and Wing On are listed on the Hong Kong Stock Exchange.

(b) These companies are a limited liability company incorporated in the respective jurisdiction.

(c) This is a sino-foreign equity joint venture.

The above table lists the associates of the GDI Group which, in the opinion of the directors, constituted a substantial portion of the share of results or of net assets of the associates. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Cont'd)*

The summarised financial information in respect of the GDI Group's associates is set out below:

	For the year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,680,756	6,519,685	8,382,622
(Loss) profit for the year	(631,017)	(102,198)	133,498
(Loss) profit for the year attributable to the GDI Group	(175,697)	(37,521)	43,103

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	4,097,522	5,875,595	7,431,386
Total liabilites	(2,721,716)	(4,049,781)	(5,037,199)
Net assets	1,375,806	1,825,814	2,394,187

	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Share of net assets by the GDI Group: As at 31st December	508,110	309,149	523,373
Market value of interest held by the GDI Group	323,245	311,480	317,752

22. LOANS AND INTEREST RECEIVABLES

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Loans and interest receivables			
— secured *(note a)*	114,784	120,819	121,223
— unsecured *(note b)*	190,723	558,038	355,709
Receivable due from related companies *(note c)*	10	—	—
	305,517	678,857	476,932
Less: Allowances	(53,826)	(109,643)	(27,971)
	251,691	569,214	448,961
Less: Amounts due within one year and shown under current assets	(251,691)	(540,931)	(448,961)
Amounts due after one year	—	28,283	—

The directors consider that the carrying amount of receivables due after one year approximates their fair value.

Notes:

(a) The secured loans and interest receivables represented the amount due from Lucklong Venture Limited ("Lucklong"). Ms. Chau Mei Wah, Rosanna, director of the CSH, was also a director of Lucklong during the year ended 31st December, 2003. Allowances made in the loans receivables due from Lucklong as at 31st December, 2003, 2004 and 2005 were approximately HK$24,000,000, HK$50,619,000 and HK$81,222,000 respectively with reference to the market value of the collateral secured to the GDI Group. Shares in certain property holding companies were pledged to the GDI Group as securities to the loans receivables.

(b) The loans receivables carry interest at the prevailing market rate ranging from 8% to 12% and repayable on demand.

(c) Details of the receivables due from related companies are as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
PYI Corporation Limited ("Paul Y") (formerly known as "Paul Y.-ITC Construction Holdings Limited")	5	—	—
ITC Corporation Limited	5	—	—
	10	—	—

22. LOANS AND INTEREST RECEIVABLES *(Cont'd)*

The amounts were unsecured, non-interest bearing and were repayable on demand.

Paul Y is a substantial shareholder of CSH and ITC Corporation Limited is a shareholder of Paul Y.

The fair value of the GDI Group's loan and interest receivables at each balance sheet date approximated to the carrying amount of the receivables.

23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The carrying amount of the other receivables, deposits and prepayments at each balance sheet date approximate the corresponding fair value at respective balance sheet date.

24. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENTS

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Equity securities:			
Listed	2,761	2,252	3,297
Unlisted	125	43,623	43,619
	2,886	45,875	46,916
Debt securities:			
Unlisted	24,420	26,084	24,431
Total	27,306	71,959	71,347
Total and reported as:			
Listed			
Hong Kong	835	—	—
Elsewhere	1,926	2,252	3,297
	2,761	2,252	3,297
Unlisted	24,545	69,707	68,050
	27,306	71,959	71,347

24. INVESTMENTS IN SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENTS *(Cont'd)*

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Classified under			
Current	1,142	—	—
Non-current	26,164	71,959	71,347
	27,306	71,959	71,347

The fair values of the listed securities at balance sheet date are determined based on the quoted market bid prices available on the relevant exchanges.

The carrying value of unlisted securities in Hong Kong at 31st December, 2004 and 31st December, 2005 included an amount of HK$43,498,000, representing 9.77% interest in Apex Quality Group Limited ("Apex"). Apex is incorporated in the British Virgin Islands and engaged in hotel and leisure related business. Apex was a 22.65% associate of the GDI Group as at 31st December, 2003. Upon the completion of disposal of approximately 12.88% interest of Apex by the GDI Group in September 2004, Apex ceased to be the GDI Group's associate during the year ended 31st December, 2004. The fair value of the unlisted equity securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximate to the corresponding carrying amount.

The carrying value of unlisted debt securities at balance sheet dates represented a convertible note issued by a company incorporated in Australia which is engaged in the trading of fruit business. The convertible note bears interest at 8% per annum and will be matured on 29th March, 2008. The fair value of the unlisted equity securities are determined based on the present value of the estimated future cash flow discounted using the effective interest rate at the balance sheet date, approximate to the corresponding carrying amount.

25. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movement during the Relevant Periods:

	Bad and doubtful debts and allowance	**Revaluation of property, plant and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2003	13,454	—	13,454
Credit to the combined income statement	770	—	770
	14,224	—	14,224
Realised on disposal of subsidiaries	(14,224)	—	(14,224)
At 31st December, 2003 and 2004	—	—	—
Arising on acquisition of subsidiaries	—	(20,796)	(20,796)
Exchange difference	—	(379)	(379)
At 31st December, 2005	—	(21,175)	(21,175)

26. AMOUNTS DUE FROM/TO FORMER FELLOW SUBSIDIARIES

Following the completion of the Group Reorganisation, CSH has remained as the holding company of the companies carrying on manufacturing and trading of batteries products and investment in securities. The amounts due from (to) former fellow subsidiaries represent balances due from (to) the subsidiaries held under CSH and are investing in nature. All amounts are unsecured, non-interest bearing and repayable on demand.

The amounts due from (to) former fellow subsidiaries has been assigned to GDI upon the completion of Group Reorganisation.

The carrying value of the amounts due from former fellow subsidiaries at each balance sheet dates approximates to the corresponding fair value at respective balance sheet dates.

The carrying value of amount due to former fellow subsidiaries at each balance sheet date approximates to the corresponding fair value at respective balance sheet dates.

27. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the GDI Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximated their fair value. The average interest rate ranged from 2.3% to 4.0% for the three years ended 31st December, 2005.

The bank balances and cash of the GDI Group are mainly denominated in Australia dollars, Renminbi, Hong Kong dollars and United States dollars. Included in the bank balances and cash as at the three years ended 31st December, 2005 were an amount in Australia dollars approximately of A$9,884,000, A$8,041,000 and A$8,286,000.

28. OTHER ASSET

The amount represents cost incurred in connection with a land development project in the PRC. The project is a land development of 珠海市龍山智業產業園 located in Long Shan Development Area, Doumen District, Zhuhai City and is to be jointly developed with 珠海市龍山工業區管理委員會. The GDI Group is entitled to the exclusive development right to the project and also the right to obtain the land for the development ("Other Asset"). The GDI Group is also entitled to sell the Other Asset to investors at consideration to be agreed among themselves.

The amount of approximately HK$226,718,000, HK$227,167,000 and HK$229,288,000 as at 31st December, 2003, 2004 and 2005 respectively was paid by the GDI Group for obtaining the exclusive development right to the project and in obtaining certain parts of the right for land development.

As at the date of this report, the GDI Group has appointed property agent to negotiate with potential investors and the directors considered that the other asset will be sold in the next year, and the directors do not expect material further cost will be incurred for the sale of Other Asset.

At respective balance sheet dates, the directors of CSH has assessed the carrying value of the Other Asset with reference to the valuation performed by Norton Appraisal Limited, an independent valuer, on open market value basis and no impairment loss is identified during the Relevant Periods.

29. INVENTORIES

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	12,146	—	102
Work in progress	163	—	—
Finished goods	54,667	—	—
	66,976	—	102

The cost of inventories recognised as an expense during the year ended 31st December, 2003 and 2005, were approximately HK$2,459,991,000 and HK$4,457,000 respectively.

30. TRADE RECEIVABLES

The GDI Group allows its trade customers with credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the balance sheet dates is as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
0 - 90 days	12,011	—	—
91 - 180 days	762	—	—
Over 180 days	945	—	—
	13,718	—	—

The carrying amount of the GDI Group's trade receivables for the three years ended 31st December, 2005 approximates to the corresponding fair value.

31. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables with the following aged analysis:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
0 - 90 days	39,468	—	—
91 - 180 days	1,413	—	—
Over 180 days	622	293	299
	41,503	293	299
Add: Other payables and accrued charges	37,331	25,204	17,176
	78,834	25,497	17,475

The carrying amount of the GDI Group's trade payables at each balance sheet dates approximates to the corresponding fair value at respective balance sheet dates.

32. PAYABLES

Details of the payables are as follows:

		As at 31st December,		
		2003	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Payables due to related companies	*(a)*	3,181	417	556
Payables due to third parties	*(b)*	27,192	27	27
		30,373	444	583
Less: Amounts shown under current liabilities		(29,180)	(444)	(583)
		1,193	—	—

32. PAYABLES *(Cont'd)*

Notes:

(a) Details of the payables due to related companies are as follows:

		As at 31st December,		
		2003	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
PYI Management Limited (formerly known as "Paul Y.-ITC Management Limited")	*(i)*	450	—	—
Cycle Company Limited and Gunnell Properties Limited	*(i)*	693	417	556
ITC Corporation Limited	*(ii)*	744	—	—
Paul Y. (E&M) Company Limited (formerly known as "Paul Y.-ITC (E&M) Company Limited")	*(i)*	1,014	—	—
Paul Y. (E&M) Contractors Limited (formerly known as "Paul Y.-ITC (E&M) Contractors Limited")	*(i)*	280	—	—
		3,181	417	556

Notes:

(i) These companies are non wholly-owned subsidiaries of the substantial shareholders of CSH.

(ii) ITC Corporation Limited is a shareholder of the CSH's substantial shareholder.

The amounts are unsecured, carry interest at prevailing market rate ranging from 8% to 10% per annum and are repayable on demand. The fair value of the GDI Group's payables at three years ended 31st December, 2005 approximates to the corresponding carrying amount.

Except for the payable of HK$1,193,000 as at 31st December, 2003 which was repayable after one year from the balance sheet date, all remaining balances are repayable on demand.

(b) The amounts are unsecured, carry interest at prevailing market rate ranging from 8% to 10% per annum and are repayable on demand. The fair value of the GDI Group's payables at balance sheet dates approximates to the corresponding carrying amount at respective balance sheet date.

The fair value of the GDI Group's payables at each balance sheet dates approximates to the corresponding carrying amount at respective balance sheet dates.

33. BANK LOANS AND OTHER BORROWINGS

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans	12,990	—	—
Obligations under finance leases *(note a)*	151	—	—
Bank overdrafts	2	—	—
Other borrowings *(note b)*	13,000	—	—
	26,143	—	—
Secured	151	—	—
Unsecured	25,992	—	—
	26,143	—	—
Repayable as follows:			
Within one year	26,014	—	—
Between one and two years	21	—	—
Between two and five years	108	—	—
	26,143	—	—
Less: Amount due within one year included under current liabilities	(26,014)	—	—
Amount due after one year	129	—	—

Bank overdrafts are repayable on demand. The bank loans carry interest at prevailing market rate ranging from 8% to 10% and were secured by the GDI Group's bank deposits and investment in securities. There were no undrawn facilities for the three years ended as at 31st December, 2005.

The GDI Group's bank and other borrowings are denominated in Hong Kong Dollars.

The fair value of the GDI Group's bank and other borrowings at 31st December, 2003 approximates to the corresponding carrying amount.

33. BANK LOANS AND OTHER BORROWINGS *(Cont'd)*

Notes:

(a)

	Minimum lease payments			Present value of minimum lease payments		
	As at 31st December,			As at 31st December,		
	2003	2004	2005	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:						
Within one year	31	—	—	20	—	—
In the second to fifth years inclusive	147	—	—	131	—	—
	178	—	—	151	—	—
Less: Future finance charges	(27)	—	—	—	—	—
Present value of lease obligations	151	—	—	151	—	—
Less: Amount due within one year				(22)	—	—
Amount due after one year				129	—	—

The average lease term was five years. The average effective borrowing rate was 6.7% for the year ended 31st December, 2003. Interest rate was fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The GDI Group's obligations under finance leases contract are secured by the lessor's charge on the hired assets.

(b) As at 31st December, 2003, the amount was secured, carried interest at prevailing market rates ranged from 8% to 12% per annum and was fully repaid during the year 2004.

34. SHARE CAPITAL

For the purpose of the preparation of the combined balance sheets, the balances of share capital at 31st December, 2003, 2004 and 2005, respectively represent share capital of companies now comprising the GDI Group.

35. DISPOSAL OF INTERESTS IN SUBSIDIARIES

Year ended 31st December, 2003

The GDI Group disposed of its 51% interest in Yinchuan C.S.I., (Greatwall) Rubber Company Limited, 25% interest in Hangzhou Zhongce Rubber Company Limited (a 51% owned subsidiary of GDI Group) and 50% interest in Pacific Wins Development Ltd. at an aggregate consideration of approximately HK$206,000,000.

Year ended 31st December, 2004

The GDI Group disposed of its 100% interest in Tung Fong Hung Investment Limited for a consideration of HK$42,000,000.

Details of the assets and liabilities of the subsidiaries disposed of during the year ended 31st December, 2003 and 2004 were as follows:

	Year ended 31st December,	
	2003	**2004**
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	901,368	34,924
Deferred tax assets	14,224	—
Interests in associates	103,064	14,808
Receivables due from associates	81,551	—
Investments in securities	5,216	—
Inventories	737,767	49,319
Trade receivables	530,528	12,112
Other receivables, deposits and prepayments	207,315	8,436
Pledged bank deposits	70,098	—
Bank balances and cash	282,356	22,176
Trade payables, other payables and accrued charges	(757,379)	(43,316)
Income and other taxes payable	(34,335)	(30)
Bank loans and other borrowings	(1,274,058)	(60,197)
Obligations under finance leases	—	(149)
Minority interests	(481,183)	—
	386,532	38,083
Less: Interest retained as interests in associates	(178,053)	—
	208,479	38,083
Goodwill realised	6,852	9,170
Exchange reserve realised	(3,848)	13
	211,483	47,266
Gain (loss) on disposal	12,309	(5,266)
	223,792	42,000

35. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(Cont'd)*

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Satisfied by:			
Cash	223,792	35,500	—
Promissory note included in receivables	—	6,500	—
	223,792	42,000	—
Analysis of the net (outflow) inflow of cash and cash equivalents in connection with the disposal of subsidiaries:			
Cash consideration received	223,792	35,500	—
Bank balances and cash disposed of	(282,356)	(22,176)	—
Net (outflow) inflow of cash and cash equivalents	(58,564)	13,324	—

The subsidiaries disposed of during the Relevant Periods contributed the following approximately amount to the GDI Group's turnover and the GDI Group's loss before taxation:

	Year ended 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Amount contributed to the GDI Group's turnover	2,653,540	92,262	—
(Loss) profit contributed to the GDI Group's loss before taxation	(90,362)	6,778	—

36. PURCHASE OF SUBSIDIARIES

Year ended 31st December, 2005

On 30th June, 2005, the GDI Group acquired 88% and 100% of the issued share capital of 東莞市江海and 廣州耀陽, respectively, for an aggregate cash consideration of HK$50 million. The two newly acquired subsidiaries are incorporated in the PRC and engaged in the business of sand mining. These transactions have been accounted for using the purchase method of accounting. The directors are of the view that it is impracticable to disclose the revenue and the results for the six months ended 30th June, 2005 as if the acquisition had been effected on 1st January, 2005 since such information was not provided by the vendor.

	Year ended 31st December, 2005		
	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	50,165	63,019	113,184
Inventories	6	—	6
Trade receivables	75	—	75
Other receivables, deposits and prepayments	647	—	647
Bank balances and cash	349	—	349
Trade payables, other payables and accrued charges	(244)	—	(244)
Amounts due to former shareholders	(49,770)	—	(49,770)
Deferred tax liabilities	—	(20,796)	(20,796)
	1,228	42,223	43,451
Minority interests	(48)	(2,526)	(2,574)
	1,180	39,697	40,877
Goodwill arising on acquisition			9,123
			50,000
Satisfied by:			
— Cash			10,000
— Deposit paid for acquisition of subsidiaries in 2004			40,000
			50,000
Net cash outflow arising or acquisition			
Cash consideration paid			(10,000)
Cash and cash equivalents acquired			349
			(9,651)

36. PURCHASE OF SUBSIDIARIES *(Cont'd)*

Year ended 31st December, 2003 and 2004

	Year ended 31st December,	
	2003	**2004**
	HK$'000	*HK$'000*
Net assets acquired:		
Trade payables, other payables and accrued charges	(12)	—
Minority interests	410	—
	398	—
Goodwill arising on acquisition	387	—
	785	—
Satisfied by:		
Cash	785	—
Analysis of the net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	(785)	—
Net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries	(785)	—

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the GDI Group's products in the new markets.

東莞市江海 and 廣州耀陽 contributed HK$5,298,000 to the GDI Group's turnover and loss before taxation of HK$3,735,000 to the GDI Group's loss before taxation for the period between the date of acquisition and 31st December, 2005.

37. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2003, the major non-cash transaction was the finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the leases of approximately HK$168,000.

During the year ended 31st December, 2004, the major non-cash transactions were as follows:

(a) Addition to deposit paid for acquisition of interest in properties of approximately HK$46,686,000 were transferred from loans receivables due from associates.

(b) Addition to investment in securities of approximately HK$43,588,000 were as result of disposal of interests in associates.

(c) Loan receivables due from associates of HK$70,200,000 were settled by the issuance of convertible notes by the associates included in interests in associates.

(d) Additions to deposits paid for acquisition of subsidiaries of HK$40,000,000 were repayments from receivables.

During the year ended 31st December, 2005, the major non-cash transaction was amount due to former shareholders of approximately HK$50,000,000 was settled by the assignment of loans and interest receivable from outsiders.

38. COMMITMENTS

At the balance sheet date, the GDI Group had the following capital commitments:

			As at 31st December,	
		2003	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*
Contracted for but not provided in the financial information in respect of				
(i)	Acquisition of interest in properties *(note)*	—	377,516	—
(ii)	Other assets	91,489	91,981	93,301
(iii)	Acquisition of subsidiaries *(note 18)*	—	10,000	—
		91,489	479,497	93,301

Note:

In respect of the conditional agreement entered into by the GDI Group in 2004 to acquire properties interest of 香樟花園 located in Shanghai, PRC at a consideration of RMB450 million (of which deposit of RMB58 million was paid by the GDI Group as at 31st December, 2005), the GDI Group has commenced legal proceedings in 2005 to demand the vendor of the properties to fulfil its obligations under the agreement. Having consulted the legal counsel and under certain considerations, the GDI Group has at present decided to exercise its discretion to proceed with the acquisition of the properties.

39. OPERATING LEASE COMMITMENTS

Lessee

The GDI Group made minimum lease payments in respect of office premises of approximately HK$25,707,000, HK$7,460,000 and $Nil under operating leases for the years ended 31st December, 2003, 2004 and 2005, respectively.

At the balance sheet dates, the GDI Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31st December,		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	15,639	—	—
In the second to fifth year inclusive	16,930	—	—
	32,569	—	—

Leases were negotiated for an average term of one year and rentals were fixed for an average of one year.

40. PLEDGE OF ASSETS

As at 31st December, 2004 and 2005, the GDI Group had no pledge of assets.

As at 31st December, 2003:

(a) Interests in an associates with net assets value attributable to the GDI Group of approximately HK$83,622,000 were pledged to secure credit facilities granted to the associates of the GDI Group.

(b) Investment in securities with a carrying value of HK$29,046,000 were pledged to secure margin account credit facilities and banking facilities granted to the GDI Group.

The margin loan facility amounting to approximately HK$3,000 included in bank loans and other borrowings were utilised by the GDI Group.

41. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the GDI Group entered into the following significant transactions with related parties:

Name of company	Nature of transactions	*Notes*	Year ended 31st December, 2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*
Lucklong	Loan interest income received and receivable by the GDI Group	*(a)*	5,984	—	—
Hanny Magnetics Limited	Sale of goods made by the GDI Group	*(b)*	63	—	—
PYI Management Limited (formerly known as "Paul Y.-ITC Manngement Limited")	Loan interest paid and payable by the GDI Group	*(b)*	1,193	—	—
	Sales of goods by the GDI Group		687	3	—
Paul Y. (E & M) Company Limited (formerly known as "Paul Y.-ITC (E&M) Company Limited")	Repair and maintenance fee paid and payable by the GDI Group	*(b)*	58	42	—
	Project management fee paid and payable by the GDI Group		872	—	—
	Mechanical and electrical service fee paid and payable by the GDI Group		7	—	—
Cycle Company Limited and Gunnell Properties Limited	Rental expenses paid and payable by the GDI Group	*(b)*	554	553	138
Paul Y. Interior Contractors Limited (formerly known as "Paul Y.-ITC Interior Contractors Limited")	Project management fee paid and payable by the GDI Group	*(b)*	15	—	—
Millennium Target Holdings Limited	Loan interest income received and receivable by the GDI Group	*(c)*	31	—	—
Wing On	Loan interest income received and receivable by the GDI Group	*(d)*	2,198	1,466	3,175
China Velocity	Loan interest income received and receivable by the GDI Group	*(d)*	3,249	—	—
Rosedale Park Limited	Sale of goods made by the GDI Group	*(f)*	11	—	—
	Hotel expense paid and payable by the GDI Group		14	—	—

41. RELATED PARTY TRANSACTIONS *(Cont'd)*

			Year ended 31st December,		
Name of company	**Nature of transactions**	*Notes*	**2003**	**2004**	**2005**
			HK$'000	*HK$'000*	*HK$'000*
Hong Kong Wing On Travel Service Limited	Air ticketing and travel service expenses paid and payable by the GDI Group	*(c)*	73	260	—
	Sale of goods made by the GDI Group		209	—	—
Apex	Loan interest income received and receivable by the GDI Group	*(e)*	248	3,280	2,931
Chief Altantic Profits Limited	Loan interest income received and receivable by the GDI Group	*(g)*	306	303	—

Notes:

(a) Ms. Chau Mei Wah, Rosanna ("Ms. Chau"), a director of CSH, ceased to be a director of Lucklong during the year ended 31st December, 2004. Mr. Lau Ko Yuen, the former alternate director to Ms. Chau, is a director of substantial shareholder of CSH and a director of Lucklong.

(b) Hanny Magnetics Limited, PYI Management Limited, Paul Y. (E & M) Company Limited, Cycle Company Limited and Gunnell Properties Limited, Paul Y. Interior Contractors Limited are wholly-owned subsidiaries of a substantial shareholder of CSH.

(c) Millennium Target Holdings Limited and Hong Kong Wing On Travel Service Limited are wholly-owned subsidiaries of Wing On.

(d) Wing On and China Velocity are associates of the GDI Group.

(e) Apex ceased to be associate of the GDI Group during the year ended 31st December, 2004.

(f) Rosedale Park Limited is a wholly-owned subsidiary of Apex.

(g) China Altantic Profits Limited is a wholly owned subsidiary of PCPD and PCPD ceased to be an associate of GDI Group during the year ended 31st December, 2004.

Details of balances with related parties as at the balance sheet dates are set out in the combined balance sheet and in note 21, 22 and 32.

In the opinion of the directors of CSH, the above transactions were undertaken in the ordinary course of business transactions and the terms were mutually agreed between the GDI Group and the related parties.

42. RETIREMENT BENEFIT SCHEME

The GDI Group/CSH operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the GDI Group, in funds under the control of trustees. The GDI Group and employees each contribute 5% of the relevant payroll costs to the Scheme.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the GDI Group at rates specified in the rules of the schemes.

The employees in the joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture companies are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the GDI Group with respect to the pension scheme is to make the required contributions under the scheme. The amount of contributions payable to the pension schemes are charged to the income statement.

At the balance sheet dates, there were no significant forfeited contributions which arose upon employees leaving the scheme prior to their interests in the GDI Group's contributions becoming fully vested and which are available to reduce the contributions payable by the GDI Group in future years.

II. DISTRIBUTABLE RESERVES

GDI was incorporated on 1st March, 2005 and accordingly, GDI has no reserve available for distribution to the shareholders as at 31st December, 2005.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the GDI Group, GDI or any of its subsidiaries have been prepared in respect of any period subsequent to 31st December, 2005.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Set out below are the unaudited pro forma financial information of the Hanny Group illustrating the effect of full acceptance of the GDI Offer upon Hanny's assets, liabilities, profits and business:

(I) THE UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED HANNY GROUP

(A) Under Option 1

The following is the unaudited pro forma balance sheet of the Enlarged Hanny Group assuming that the distribution in specie of the GDI Shares by China Strategic and China Strategic Group Reorganization had been completed and all shareholders of the GDI Group other than the Hanny Group had chosen Option 1 under the GDI Offer, the disposal of Hanny Sale Shares to the Offeror (the "Partial Disposal"), as well as the very substantial disposal transaction regarding the disposal of the Memorex business (the "Memorex Disposal") had been completed as at 31st December, 2005. Accordingly, the unaudited pro forma balance sheet of the Enlarged Hanny Group is based upon the unaudited pro forma financial information of the Hanny Group extracted from a circular of Hanny dated 10th April, 2006 in relation to the Memorex Disposal (the "Pro Forma Remaining Hanny Group Financial Information") (which was based upon audited consolidated financial statements as at 31st December, 2005 as set out in Appendix II of this document after making pro forma adjustments relating to the Memorex Disposal) and the audited consolidated balance sheet of the GDI Group as at 31st December, 2005 extracted from the financial information on the GDI Group (set out in Appendix III of this document), after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma balance sheet was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Hanny Group as at 31st December, 2005 or any future date.

(I) THE UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED HANNY GROUP *(Cont'd)*

(A) Under Option 1 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group as at 31st December, 2005 *HK$'000*	**Pro forma adjustments relating to the distribution in specie of GDI Shares** *HK$'000* *Note 1*	**The Hanny Group after pro forma adjustments** *HK$'000*	**The GDI Group as at 31st December, 2005** *HK$'000*	**Pro forma adjustments relating to China Strategic Group Reorganization** *HK$'000* *Note 2*	**The GDI Group after pro forma adjustments** *HK$'000*	**Pro forma adjustments relating to the GDI Offer** *HK$'000*	*Notes*	**Pro forma Enlarged Hanny Group before the Partial Disposal** *HK$'000*	**Pro forma adjustments relating to the Partial Disposal** *HK$'000*	*Notes*	**Pro forma Enlarged Hanny Group** *HK$'000*
Non-current Assets												
Property, plant and equipment	41,738	—	41,738	109,811	—	109,811	—		151,549	—		151,549
Intangible assets	623	—	623	9,123	—	9,123	(9,123)	*(8)*	623	—		623
Interests in subsidiaries	—	—	—	—	—	—	—	*(3)*	—	—		—
Interests in associates	637,783	(330,043)	307,740	558,738	—	558,738	(12,187)	*(8)*	854,291	(59,069)	*(9) & (10)*	795,222
Interest in an associate — the GDI Group	—	330,043	330,043	—	—	—	(330,043)	*(4)*	—	—		—
Available-for-sale investments	678,399	—	678,399	—	—	—	—		678,399	28,247	*(10)*	706,646
Investment in securities at fair value through profit or loss	—	—	—	71,347	—	71,347	—		71,347	—		71,397
Deposits for acquisition of long-term investments	190,175	—	190,175	—	—	—	—		190,175	—		190,175
Receivable due from the Purchaser	195,441	—	195,441	—	—	—	—		195,441	—		195,441
Deposit paid for acquisition of interest in properties	—	—	—	55,716	—	55,716	—		55,716	—		55,716
	1,744,159	—	1,744,159	804,735	—	804,735	(351,353)		2,197,541	(30,822)		2,166,719
Current Assets												
Other asset	—	—	—	229,288	—	229,288	—		229,288	—		229,288
Inventories	6,968	—	6,968	102	—	102	—		7,070	—		7,070
Trade and other receivables	104,045	—	104,045	40,672	—	40,672	362,139	*(5)*	506,856	7,816	*(11)*	514,672
Loans and interests receivables — due within one year	—	—	—	448,961	(86,822)	362,139	(362,139)	*(5)*	—	—		—
Investments held for trading	128,894	—	128,894	—	—	—	—		128,894	—		128,894
Short-term loan receivables	171,979	—	171,979	—	—	—	—		171,979	—		171,979
Short-term loan receivables from related companies	186,019	—	186,019	—	—	—	—		186,019	—		186,019
Margin loan receivables	24,682	—	24,682	—	—	—	—		24,682	—		24,682
Amounts due from associates	5,260	—	5,260	151,206	—	151,206	—		156,466	—		156,466
Amounts due from former fellow subsidiaries	—	—	—	721,091	(721,091)	—	—		—	—		—
Pledged bank deposit	20,591	—	20,591	—	—	—	—		20,591	—		20,591
Bank balances and cash	2,123,202	—	2,123,202	103,494	—	103,494	(112,099)	*(6)*	2,114,597	15,639	*(11)*	2,130,236
	2,771,640	—	2,771,640	1,694,814	(807,913)	886,901	(112,099)		3,546,442	23,455		3,569,897
Current Liabilities												
Trade and other payables	(274,566)	—	(274,566)	(17,475)	—	(17,475)	(583)	*(5)*	(292,624)	2,600	*(11)*	(290,024)
Payables — due within one year	—	—	—	(583)	—	(583)	583	*(5)*	—	—		—
Margin loan payables	(152)	—	(152)	—	—	—	—		(152)	—		(152)
Dividend payable	(9,046)	—	(9,046)	—	—	—	—		(9,046)	—		(9,046)
Amounts due to associates	(2,026)	—	(2,026)	(286)	—	(286)	—		(2,312)	—		(2,312)
Tax payable	(35,889)	—	(35,889)	(12,257)	—	(12,257)	—		(48,146)	—		(48,146)
Amounts due to former fellow subsidiaries	—	—	—	(3,023,016)	3,023,016	—	—		—	—		—
Amounts due to related parties	—	—	—	—	(199,731)	(199,731)	—		(199,731)	—		(199,731)
Borrowings — due within one year	(593,790)	—	(593,790)	—	—	—	—		(593,790)	—		(593,790)
Bank overdrafts	(26,663)	—	(26,663)	—	—	—	—		(26,663)	—		(26,663)
	(942,132)	—	(942,132)	(3,053,617)	2,823,285	(230,332)	—		(1,172,464)	2,600		(1,169,864)
Net Current Assets (Liabilities)	1,829,508	—	1,829,508	(1,358,803)	2,015,372	656,569	(112,099)		2,373,978	26,055		2,400,033
Total Assets Less Current Liabilities	3,573,667	—	3,573,667	(554,068)	2,015,372	1,461,304	(463,452)		4,571,519	(4,767)		4,566,752
Non-current Liabilities												
Borrowings — due after one year	(7,258)	—	(7,258)	—	—	—	—		(7,258)	—		(7,258)
Deferred tax liabilities	(201)	—	(201)	(21,175)	—	(21,175)	—		(21,376)	—		(21,376)
	(7,459)	—	(7,459)	(21,175)	—	(21,175)	—		(28,634)	—		(28,634)
Net Assets (Liabilities)	3,566,208	—	3,566,208	(575,243)	2,015,372	1,440,129	(463,452)		4,542,885	(4,767)		4,538,118

(I) THE UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED HANNY GROUP *(Cont'd)*

(A) Under Option 1 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group as at 31st December, 2005	**Pro forma adjustments relating to the distribution in specie of GDI Shares**	**The Hanny Group after pro forma adjustments**	**The GDI Group as at 31st December, 2005**	**Pro forma adjustments relating to China Strategic Group Reorganization**	**The GDI Group after pro forma adjustments**	**Pro forma adjustments relating to the GDI Offer**		**Pro forma Enlarged Hanny Group before the Partial Disposal**	**Pro forma adjustments relating to the Partial Disposal**		**Pro forma Enlarged Hanny Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
		Note 1			*Note 2*							
Capital and Reserves												
Share capital	2,261	—	2,261	10,777	—	10,777	(10,154)	*(7)*	2,884	—		2,884
Reserves	2,280,791	—	2,280,791	(902,023)	2,015,372	1,113,349	(453,298)	*(8)*	2,940,842	(4,767)	*(12)*	2,936,075
Equity attributable to equity holders of the parent	2,283,052	—	2,283,052	(891,246)	2,015,372	1,124,126	(463,452)		2,943,726	(4,767)		2,938,959
Minority interests	1,283,156	—	1,283,156	316,003	—	316,003	—		1,599,159	—		1,599,159
	3,566,208	—	3,566,208	(575,243)	2,015,372	1,440,129	(463,452)		4,542,885	(4,767)		4,538,118

(B) Under Option 2

The following is the unaudited pro forma balance sheet of the Enlarged Hanny Group assuming that the distribution in specie of the GDI Shares by China Strategic and China Strategic Group Reorganization had been completed and all shareholders of the GDI Group other than the Hanny Group had chosen Option 2 under the GDI Offer and the Partial Disposal as well as the Memorex Disposal had been completed as at 31st December, 2005. The unaudited pro forma balance sheet of the Enlarged Hanny Group is based upon the Pro Forma Remaining Hanny Group Financial Information (which was based upon audited consolidated financial statements as at 31st December, 2005, as set out in Appendix II of this document after making pro forma adjustments relating to the Memorex Disposal), as set out in the circular of Hanny dated 10th April, 2006, and the audited consolidated balance sheet of the GDI Group as at 31st December, 2005 extracted from the financial information on the GDI Group (set out in Appendix III of this document), after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma balance sheet was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Hanny Group as at 31st December, 2005 or any future date.

(I) THE UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group as at 31st December, 2005	**Pro forma adjustments relating to the distribution in specie of GDI Shares**	**The Hanny Group after pro forma adjustments**	**The GDI Group as at 31st December, 2005**	**Pro forma adjustments relating to China Strategic Group Reorganization**	**The GDI Group after pro forma adjustments**	**Pro forma adjustments relating to the GDI Offer**		**Pro forma Enlarged Hanny Group before the Partial Disposal**	**Pro forma adjustments relating to the Partial Disposal**		**Pro forma Enlarged Hanny Group**
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 2*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current Assets												
Property, plant and equipment	41,738	—	41,738	109,811	—	109,811	—		151,549	—		151,549
Intangible assets	623	—	623	9,123	—	9,123	56,961	*(13)*	66,707	—		66,707
Interests in subsidiaries	—	—	—	—	—	—	—	*(3)*	—	—		—
Interests in associates	637,783	(330,043)	307,740	558,738	—	558,738	(12,187)	*(15)*	854,291	(59,069)	*(9) & (10)*	795,222
Interest in an associate — the GDI Group	—	330,043	330,043	—	—	—	(330,043)	*(4)*	—	—		—
Available-for-sale investments	678,399	—	678,399	—	—	—	—		678,399	28,247	*(10)*	706,646
Investment in securities at fair value through profit or loss	—	—	—	71,347	—	71,347	—		71,347	—		71,347
Deposits for acquisition of a long-term investments	190,175	—	190,175	—	—	—	—		190,175	—		190,175
Receivable due from the Purchaser	195,441	—	195,441	—	—	—	—		195,441	—		195,441
Deposit paid for acquisition of interest in properties	—	—	—	55,716	—	55,716	—		55,716	—		55,716
	1,744,159	—	1,744,159	804,735	—	804,735	(285,269)		2,263,625	(30,822)		2,232,803
Current Assets												
Other asset	—	—	—	229,288	—	229,288	—		229,288	—		229,288
Inventories	6,968	—	6,968	102	—	102	—		7,070	—		7,070
Trade and other receivables	104,045	—	104,045	40,672	—	40,672	362,139	*(5)*	506,856	7,816	*(11)*	514,672
Loans and interests receivables — due within one year	—	—	—	448,961	(86,822)	362,139	(362,139)	*(5)*	—	—		—
Investments held for trading	128,894	—	128,894	—	—	—	—		128,894	—		128,894
Short-term loan receivables	171,979	—	171,979	—	—	—	—		171,979	—		171,979
Short-term loan receivables from related companies	186,019	—	186,019	—	—	—	—		186,019	—		186,019
Margin loan receivables	24,682	—	24,682	—	—	—	—		24,682	—		24,682
Amounts due from associates	5,260	—	5,260	151,206	—	151,206	—		156,466	—		156,466
Amounts due from former fellow subsidiaries	—	—	—	721,091	(721,091)	—	—		—	—		—
Pledged bank deposits	20,591	—	20,591	—	—	—	—		20,591	—		20,591
Bank balances and cash	2,123,202	—	2,123,202	103,494	—	103,494	—		2,226,696	15,639	*(11)*	2,242,335
	2,771,640	—	2,771,640	1,694,814	(807,913)	886,901	—		3,658,541	23,455		3,681,996
Current Liabilities												
Trade and other payables	(274,566)	—	(274,566)	(17,475)	—	(17,475)	(583)	*(5)*	(292,624)	2,600	*(11)*	(290,024)
Payables — due within one year	—	—	—	(583)	—	(583)	583	*(5)*	—	—		—
Margin loan payables	(152)	—	(152)	—	—	—	—		(152)	—		(152)
Dividend payable	(9,046)	—	(9,046)	—	—	—	—		(9,046)	—		(9,046)
Amounts due to associates	(2,026)	—	(2,026)	(286)	—	(286)	—		(2,312)	—		(2,312)
Tax payable	(35,889)	—	(35,889)	(12,257)	—	(12,257)	—		(48,146)	—		(48,146)
Amounts due to former fellow subsidiaries	—	—	—	(3,023,016)	3,023,016	—	—		—	—		—
Amounts due to related parties	—	—	—	—	(199,731)	(199,731)	—		(199,731)	—		(199,731)
Borrowings — due within one year	(593,790)	—	(593,790)	—	—	—	—		(593,790)	—		(593,790)
Bank overdrafts	(26,663)	—	(26,663)	—	—	—	—		(26,663)	—		(26,663)
	(942,132)	—	(942,132)	(3,053,617)	2,823,285	(230,332)	—		(1,172,464)	2,600		(1,169,864)
Net Current Assets (Liabilities)	1,829,508	—	1,829,508	(1,358,803)	2,015,372	656,569	—		2,486,077	26,055		2,512,132
Total Assets Less Current Liabilities	3,573,667	—	3,573,667	(554,068)	2,015,372	1,461,304	(285,269)		4,749,702	(4,767)		4,744,935
Non-current Liabilities												
Borrowings — due after one year	(7,258)	—	(7,258)	—	—	—	—		(7,258)	—		(7,258)
Convertible loan notes	—	—	—	—	—	—	(774,815)	*(16)*	(774,815)	—		(774,815)
Deferred tax liabilities	(201)	—	(201)	(21,175)	—	(21,175)	—		(21,376)	—		(21,376)
	(7,459)	—	(7,459)	(21,175)	—	(21,175)	(774,815)		(803,449)	—		(803,449)
Net Assets (Liabilities)	3,566,208	—	3,566,208	(575,243)	2,015,372	1,440,129	(1,060,084)		3,946,253	(4,767)		3,941,486

(I) THE UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group as at 31st December, 2005	**Pro forma adjustments relating to the distribution in specie of GDI Shares**	**The Hanny Group after pro forma adjustments**	**The GDI Group as at 31st December, 2005**	**Pro forma adjustments relating to China Strategic Group Reorganization**	**The GDI Group after pro forma adjustments**	**Pro forma adjustments relating to the GDI Offer**		**Pro forma Enlarged Hanny Group before the Partial Disposal**	**Pro forma adjustments relating to the Partial Disposal**		**Pro forma Enlarged Hanny Group**
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 2*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Capital and Reserves												
Share capital	2,261	—	2,261	10,777	—	10,777	(10,777)	*(14)*	2,261	—		2,261
Reserves	2,280,791	—	2,280,791	(902,023)	2,015,372	1,113,349	(1,049,307)	*(15)&(16)*	2,344,833	(4,767)	*(12)*	2,340,066
Equity attributable to equity holders of the parent	2,283,052	—	2,283,052	(891,246)	2,015,372	1,124,126	(1,060,084)		2,347,094	(4,767)		2,342,327
Minority interests	1,283,156	—	1,283,156	316,003	—	316,003	—		1,599,159	—		1,599,159
	3,566,208	—	3,566,208	(575,243)	2,015,372	1,440,129	(1,060,084)		3,946,253	(4,767)		3,941,486

(II) THE UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED HANNY GROUP

(A) Under Option 1

The following is the unaudited pro forma income statement of the Enlarged Hanny Group assuming that the distribution in specie of the GDI Shares by China Strategic and China Strategic Group Reorganization had been completed and all shareholders of the GDI Group other than the Hanny Group had chosen Option 1 under the GDI Offer and the Partial Disposal as well as the Memorex Disposal had been completed as at 1st April, 2004, the beginning of the financial period of the Hanny Group. The unaudited pro forma income statement of the Enlarged Hanny Group was prepared based on the Pro Forma Remaining Hanny Group Financial Information (which was based upon audited consolidated income statement for the year ended 31st March, 2005, as set out in Appendix II of this document after making pro forma adjustments relating to the Memorex Disposal), as set out in the circular of Hanny dated 10th April, 2006, and the audited consolidated income statement of the GDI Group for the year ended 31st December, 2005 extracted from the financial information on the GDI Group (as set out in Appendix III of this document) as adjusted by the reversal of the prospective adjustments made to the financial period beginning from 1st January, 2005 for the adoption of the Hong Kong Financial Reporting Standards ("HKFRS") which has been adopted by the GDI Group for the year ended 31st December, 2005 (the "Reversal Adjustments") so as to conform with the Hanny Group's accounting policies, after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma income statement was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Hanny Group for the year ended 31st March, 2005 or any future period.

(II) THE UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(A) Under Option 1 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F)= (D)+(E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group for the year ended 31st March, 2005	Pro forma adjustments relating to the distribution in specie of GDI Shares	The Hanny Group after pro forma adjustments	The GDI Group for the year ended 31st December, 2005	Reversal Adjustments	The GDI Group for the year ended 31st December, 2005 after the Reversal Adjustments	Pro forma adjustments relating to the GDI Offer		Pro forma Enlarged Hanny Group before the Partial Disposal	Pro forma adjustments relating to the Partial Disposal		Pro forma Enlarged Hanny Group
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 17*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Revenue	301,436	—	301,436	5,298	—	5,298	—		306,734	—		306,734
Cost of sales	(187,040)	—	(187,040)	(4,457)	—	(4,457)	—		(191,497)	—		(191,497)
Gross profit	114,396	—	114,396	841	—	841	—		115,237	—		115,237
Other operating income	105,079	—	105,079	33,622	(8,599)	25,023	—		130,102	—		130,102
Distribution and selling expenses	(13,080)	—	(13,080)	(1,365)	—	(1,365)	—		(14,445)	—		(14,445)
Administrative expenses	(139,017)	—	(139,017)	(33,802)	—	(33,802)	(31,116)	*(19)*	(203,935)	—		(203,935)
Other operating expenses	(29,712)	—	(29,712)	(23,030)	—	(23,030)	—		(52,742)	—		(52,742)
Realization of negative goodwill arising on acquisition of an additional interest in an associate	2,057	—	2,057	—	—	—	—		2,057	—		2,057
Finance costs	(24,328)	—	(24,328)	—	—	—	—		(24,328)	—		(24,328)
Share of results of associates	(64,909)	3,061	(61,848)	43,103	—	43,103	—		(18,745)	49,807	*(22)*	31,062
Share of results of an associate — the GDI Group	—	(3,061)	(3,061)	—	—	—	3,061	*(20)*	—	—		—
Impairment loss on goodwill arising on acquisition of an associate	(177,446)	177,446	—	—	—	—	—		—	—		—
Impairment loss on goodwill arising on acquisition of an associate — the GDI Group	—	(177,446)	(177,446)	—	—	—	177,446	*(21)*	—	—		—
Impairment loss on goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	(177,446)	*(21)*	(177,446)	—		(177,446)
Amortization of goodwill arising on acquisition of associates	(28,089)	20,876	(7,213)	—	—	—	—		(7,213)	—		(7,213)
Amortization of goodwill arising on acquisition of an associate — the GDI Group	—	(20,876)	(20,876)	—	—	—	20,876	*(21)*	—	—		—
Amortization of goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	(20,876)	*(21)*	(20,876)	—		(20,876)
Net gain (loss) on disposal of subsidiaries and associates	1,497,101	—	1,497,101	—	—	—	(2,814)	*(19)*	1,494,287	(4,036)	*(23)*	1,490,251
Realization of negative goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	65,361	*(18)*	65,361	—		65,361
Loss on disposal/dilution of interests in associates	—	—	—	(2,814)	—	(2,814)	2,814	*(19)*	—	—		—
Allowances for loans and interest receivable	—	—	—	(31,116)	—	(31,116)	31,116	*(19)*	—	—		—
Change in fair value of conversion option of unlisted convertible note	—	—	—	(39,743)	39,743	—	—		—	—		—
Profit (loss) before income tax	1,242,052	—	1,242,052	(54,304)	31,144	(23,160)	68,422		1,287,314	45,771		1,333,085
Income tax expense	(66,814)	—	(66,814)	(4,247)	—	(4,247)	—		(71,061)	—		(71,061)
Profit (loss) for the year	1,175,238	—	1,175,238	(58,551)	31,144	(27,407)	68,422		1,216,253	45,771		1,262,024
Attributable to:												
Equity holders of the parent	323,490	—	323,490	(54,259)	9,497	(44,762)	68,422		347,150	45,771		392,921
Minority interests	851,748	—	851,748	(4,292)	21,647	17,355	—		869,103	—		869,103
	1,175,238	—	1,175,238	(58,551)	31,144	(27,407)	68,422		1,216,253	45,771		1,262,024
Earnings per share												
Basic	HK$1.63										*(24)*	HK$1.51
Diluted	HK$1.56										*(24)*	HK$1.51

(II) THE UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2

The following is the unaudited pro forma income statement of the Enlarged Hanny Group assuming that the distribution in specie of the GDI Shares by China Strategic and China Strategic Group Reorganization had been completed and all shareholders of the GDI Group other than the Hanny Group had chosen Option 2 under the GDI Offer and the Partial Disposal as well as the Memorex Disposal had been completed as at 1st April, 2004, the beginning of the financial period of the Hanny Group. The unaudited pro forma income statement of the Enlarged Hanny Group was prepared based on the Pro Forma Remaining Hanny Group Financial Information (which was based upon audited consolidated income statement for the year ended 31st March, 2005, as set out in Appendix II of this document after making pro forma adjustments relating to the Memorex Disposal), as set out in the circular of Hanny dated 10th April, 2006, and the audited consolidated income statement of the GDI Group for the year ended 31st December, 2005 extracted from the financial information on the GDI Group (as set out in Appendix III of this document) as adjusted by the Reversal Adjustments so as to conform with the Hanny Group's accounting policies, after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma income statement was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Hanny Group for the year ended 31st March, 2005 or any future period.

(II) THE UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F)= (D)+(E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group for the year ended 31st March, 2005	Pro forma adjustments relating to the distribution in specie of GDI Shares	The Hanny Group after pro forma adjustments	The GDI Group for the year ended 31st December, 2005	Reversal Adjustments	The GDI Group for the year ended 31st December, 2005 after the Reversal Adjustments	Pro forma adjustments relating to the GDI Offer		Pro forma Enlarged Hanny Group before the Partial Disposal	Pro forma adjustments relating to the Partial Disposal		Pro forma Enlarged Hanny Group
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 17*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Revenue	301,436	—	301,436	5,298	—	5,298	—		306,734	—		306,734
Cost of sales	(187,040)	—	(187,040)	(4,457)	—	(4,457)	—		(191,497)	—		(191,497)
Gross profit	114,396	—	114,396	841	—	841	—		115,237	—		115,237
Other operating income	105,079	—	105,079	33,622	(8,599)	25,023	—		130,102	—		130,102
Distribution and selling expenses	(13,080)	—	(13,080)	(1,365)	—	(1,365)	—		(14,445)	—		(14,445)
Administrative expenses	(139,017)	—	(139,017)	(33,802)	—	(33,802)	(31,116)	*(19)*	(203,935)	—		(203,935)
Other operating expenses	(29,712)	—	(29,712)	(23,030)	—	(23,030)	—		(52,742)	—		(52,742)
Realization of negative goodwill arising on acquisition of an additional interest in an associate	2,057	—	2,057	—	—	—	—		2,057	—		2,057
Finance costs	(24,328)	—	(24,328)	—	—	—	(46,920)	*(26)*	(71,248)	—		(71,248)
Share of results of associates	(64,909)	3,061	(61,848)	43,103	—	43,103	—		(18,745)	49,807	*(22)*	31,062
Share of results of an associate — the GDI Group	—	(3,061)	(3,061)	—	—	—	3,061	*(20)*	—	—		—
Impairment loss on goodwill arising on acquisition of an associate	(177,446)	177,446	—	—	—	—	—		—	—		—
Impairment loss on goodwill arising on acquisition of an associate — the GDI Group	—	(177,446)	(177,446)	—	—	—	177,446	*(21)*	—	—		—
Impairment loss on goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	(177,446)	*(21)*	(177,446)	—		(177,446)
Amortization of goodwill arising on acquisition of associates	(28,089)	20,876	(7,213)	—	—	—	—		(7,213)	—		(7,213)
Amortization of goodwill arising on acquisition of an associate — the GDI Group	—	(20,876)	(20,876)	—	—	—	20,876	*(21)*	—	—		—
Amortization of goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	(20,876)	*(21)*	(20,876)	—		(20,876)
Net (loss) gain on disposal of subsidiaries and associates	1,497,101	—	1,497,101	—	—	—	(2,814)	*(19)*	1,494,287	(4,036)	*(23)*	1,490,251
Realization of negative goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	2,461	*(25)*	2,461	—		2,461
Loss on disposal/dilution of interests in associates			—	(2,814)	—	(2,814)	2,814	*(19)*	—	—		—
Allowances for loans and interest receivable	—	—	—	(31,116)	—	(31,116)	31,116	*(19)*	—	—		—
Change in fair value of conversion option of unlisted convertible note	—	—	—	(39,743)	39,743	—	—		—	—		—
Profit (loss) before income tax	1,242,052	—	1,242,052	(54,304)	31,144	(23,160)	(41,398)		1,177,494	45,771		1,223,265
Income tax expense	(66,814)	—	(66,814)	(4,247)	—	(4,247)	—		(71,061)	—		(71,061)
Profit (loss) for the year	1,175,238	—	1,175,238	(58,551)	31,144	(27,407)	(41,398)		1,106,433	45,771		1,152,204
Attributable to:												
Equity holders of the parent	323,490	—	323,490	(54,259)	9,497	(44,762)	(41,398)		237,330	45,771		283,101
Minority interests	851,748	—	851,748	(4,292)	21,647	17,355	—		869,103	—		869,103
	1,175,238	—	1,175,238	(58,551)	31,144	(27,407)	(41,398)		1,106,433	45,771		1,152,204
Earnings per share												
Basic	HK$1.63										*(27)*	HK$1.43
Diluted	HK$1.56										*(27)*	HK$1.43

(III) THE UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED HANNY GROUP

(A) Under Option 1

The following is the unaudited pro forma cash flow statement of the Enlarged Hanny Group assuming that the distribution in specie of the GDI Shares by China Strategic and China Strategic Group Reorganization had been completed and all shareholders of the GDI Group other than the Hanny Group had chosen Option 1 under the GDI Offer and the Partial Disposal as well as the Memorex Disposal had been completed as at 1st April, 2004, the beginning of the financial period of the Hanny Group. The unaudited pro forma cash flow statement of the Enlarged Hanny Group was prepared based on the Pro Forma Remaining Hanny Group Financial Information (which was based upon audited consolidated cash flow statement for the year ended 31st March, 2005, as set out in Appendix II of this document after making pro forma adjustments relating to the Memorex Disposal), as set out in the circular of Hanny dated 10th April, 2006, and the audited consolidated cash flow statement of the GDI Group for the year ended 31st December, 2005 extracted from the financial information on the GDI Group (as set out in Appendix III of this document) as adjusted by the Reversal Adjustments so as to conform with the Hanny Group's accounting policies, after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma cash flow statement was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Hanny Group for the year ended 31st March, 2005 or any future period.

(III) THE UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(A) Under Option 1 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group for the year ended 31st March, 2005	**Pro forma adjustments relating to the distribution in specie of GDI Shares**	**The Hanny Group after pro forma adjustments**	**The GDI Group for the year ended 31st December, 2005**	**Reversal Adjustments**	**The GDI Group for the year ended 31st December, 2005 after the Reversal Adjustments**	**Pro forma adjustments relating to the GDI Offer**	*Notes*	**Pro forma Enlarged Hanny Group before the Partial Disposal**	**Pro forma adjustments relating to the Partial Disposal**	*Notes*	**Pro forma Enlarged Hanny Group**
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 17*	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
OPERATING ACTIVITIES												
Profit (loss) before income tax	1,242,052	—	1,242,052	(54,304)	31,144	(23,160)	68,422	*(18) & (20)*	1,287,314	45,771	*(22) & (23)*	1,333,085
Adjustments for:												
Interest income	(22,141)	—	(22,141)	(29,762)	8,599	(21,163)	—		(43,304)	—		(43,304)
Finance costs	24,328	—	24,328	—	—	—	—		24,328	—		24,328
Share of results of associates	64,909	(3,061)	61,848	(43,103)	—	(43,103)	—		18,745	(49,807)	*(22)*	(31,062)
Share of results of an associate— — the GDI Group	—	3,061	3,061	—	—	—	(3,061)	*(20)*	—	—		—
Realization of negative goodwill arising on acquisition of additional interest in an associate	(2,057)	—	(2,057)	—	—	—	—		(2,057)	—		(2,057)
Amortization of goodwill arising on acquisition of associates	28,089	(20,876)	7,213	—	—	—	—		7,213	—		7,213
Amortization of goodwill arising on acquisition of an associate — the GDI Group	—	20,876	20,876	—	—	—	(20,876)	*(21)*	—	—		—
Amortization of goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	20,876	*(21)*	20,876	—		20,876
Impairment loss on goodwill arising on acquisition of an associate	177,446	(177,446)	—	—	—	—	—		—	—		—
Impairment loss on goodwill arising on acquisition of an associate — the GDI Group	—	177,446	177,446	—	—	—	(177,446)	*(21)*	—	—		—
Impairment loss on goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	177,446	*(21)*	177,446	—		177,446
Net (gain) loss on disposal of subsidiaries and associates	(1,497,101)	—	(1,497,101)	—	—	—	2,814	*(28)*	(1,494,287)	4,036	*(23)*	(1,490,251)
Net unrealized holding gain on other investments/held for trading securities	(17,223)	—	(17,223)	(1,208)	—	(1,208)	—		(18,431)	—		(18,431)
Reversal of allowance for margin loan receivables	(2,387)	—	(2,387)	—	—	—	—		(2,387)	—		(2,387)
Loss on disposal/dilution of interests in associates	—	—	—	2,814	—	2,814	(2,814)	*(28)*	—	—		—
Realization of negative goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	(65,361)	*(18)*	(65,361)	—		(65,361)
Realization of negative goodwill arising on acquisition of an associate	(8)	—	(8)	—	—	—	—		(8)	—		(8)
Amortization of intangible assets	49,838	—	49,838	—	—	—	—		49,838	—		49,838
Allowance for slow moving and obsolete inventories	1,060	—	1,060	—	—	—	—		1,060	—		1,060
Allowances for bad and doubtful debts	22,269	—	22,269	18,575	—	18,575	—		40,844	—		40,844
Depreciation and amortization of property, plant and equipment	8,162	—	8,162	5,865	—	5,865	—		14,027	—		14,027
Allowance for loans receivable	8,338	—	8,338	—	—	—	—		8,338	—		8,338
Allowance for loans and interest receivable	—	—	—	31,116	—	31,116	—		31,116	—		31,116
Loss on disposal of property, plant and equipment	405	—	405	—	—	—	—		405	—		405
Net loss on disposal of investment securities	29,712	—	29,712	716	—	716	—		30,428	—		30,428
Change in fair value of conversion option of unlisted convertible note	—	—	—	39,743	(39,743)	—	—		—	—		—
Operating cash flows before movements in working capital	115,691	—	115,691	(29,548)	—	(29,548)	—		86,143	—		86,143
Decrease (increase) in other asset	37,085	—	37,085	(2,121)	—	(2,121)	—		34,964	—		34,964
Decrease (increase) in inventories	14,001	—	14,001	(96)	—	(96)	—		13,905	—		13,905
Increase in trade and other receivables	1,434,136	—	1,434,136	—	—	—	19,272	*(28)*	1,453,408	—		1,453,408
Increase in other receivables, deposit and prepayments	—	—	—	19,272	—	19,272	(19,272)	*(28)*	—	—		—
Increase in amounts due from associates	—	—	—	(15,164)	—	(15,164)	—		(15,164)	—		(15,164)
Decrease in other investments	13,623	—	13,623	—	—	—	—		13,623	—		13,623
Decrease in margin loan receivables	4,174	—	4,174	—	—	—	—		4,174	—		4,174
(Decrease) increase in trade and other payables	(1,468,366)	—	(1,468,366)	(8,127)	—	(8,127)	—		(1,476,493)	—		(1,476,493)
Decrease in amounts due to associates	—	—	—	(387)	—	(387)	—		(387)	—		(387)
Decrease in margin loan payables	(587)	—	(587)	—	—	—	—		(587)	—		(587)
Decrease in bills payable	(1,295)	—	(1,295)	—	—	—	—		(1,295)	—		(1,295)
Decrease in amounts due to fellow subsidiaries	(20,730)	—	(20,730)	—	—	—	—		(20,730)	—		(20,730)
Decrease in amounts due from fellow subsidiaries	3,526	—	3,526	—	—	—	—		3,526	—		3,526
Cash generated from (used in) operations	131,258	—	131,258	(36,171)	—	(36,171)	—		95,087	—		95,087
Interest and finance charges paid	(5,326)	—	(5,326)	—	—	—	—		(5,326)	—		(5,326)
Overseas tax (paid) refunded	(2,237)	—	(2,237)	245	—	245	—		(1,992)	—		(1,992)
Hong Kong Profits Tax refunded	386	—	386	—	—	—	—		386	—		386
NET CASH FROM (USED IN) OPERATING ACTIVITIES	124,081	—	124,081	(35,926)	—	(35,926)	—		88,155	—		88,155

(III) THE UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(A) Under Option 1 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group for the year ended 31st March, 2005	Pro forma adjustments relating to the distribution in specie of GDI Shares	The Hanny Group after pro forma adjustments	The GDI Group for the year ended 31st December, 2005	Reversal Adjustments	The GDI Group for the year ended 31st December, 2005 after the Reversal Adjustments	Pro forma adjustments relating to the GDI Offer		Pro forma Enlarged Hanny Group before the Partial Disposal	Pro forma adjustments relating to the Partial Disposal		Pro forma Enlarged Hanny Group
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 17*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
INVESTING ACTIVITIES												
Proceeds from disposal of investment securities	150,255	—	150,255	77,547	—	77,547	—		227,802	—		227,802
Amounts repaid by associates	14,256	—	14,256	—	—	—	—		14,256	—		14,256
Repayment of short-term loan receivables from a related company	32,890	—	32,890	—	—	—	—		32,890	—		32,890
Repayment of short-term loan receivables	29,588	—	29,588	—	—	—	—		29,588	—		29,588
Interest received	17,711	—	17,711	8,488	—	8,488	—		26,199	—		26,199
Disposal of subsidiaries	2,110,405	—	2,110,405	—	—	—	—		2,110,405	—		2,110,405
Dividend received from an associate	4,668	—	4,668	2,427	—	2,427	—		7,095	—		7,095
Proceeds from disposal of property, plant and equipment	989	—	989	125	—	125	—		1,114	—		1,114
Proceeds from disposal of an associate	10	—	10	—	—	—	—		10	23,455	*(30)*	23,465
Acquisition of investment securities	(123,348)	—	(123,348)	(78,259)	—	(78,259)	—		(201,607)	—		(201,607)
Acquisition of the GDI Group	—	—	—	—	—	—	(39,618)	*(29)*	(39,618)	—		(39,618)
Increase in short-term loan receivables	(105,755)	—	(105,755)	—	—	—	—		(105,755)	—		(105,755)
Increase in short-term loan receivables from related companies	(89,758)	—	(89,758)	—	—	—	—		(89,758)	—		(89,758)
Acquisition of interest in associates	(44,148)	—	(44,148)	(63,152)	—	(63,152)	—		(107,300)	—		(107,300)
Purchase of subsidiaries (net of cash and cash equivalents	—	—	—	(9,651)	—	(9,651)	—		(9,651)	—		(9,651)
Acquisition of an additional interest in a subsidiary	(37,320)	—	(37,320)	—	—	—	—		(37,320)	—		(37,320)
Deposit for acquisition of a long-term investment	(35,000)	—	(35,000)	—	—	—	—		(35,000)	—		(35,000)
Increase in pledged bank deposits	(20,014)	—	(20,014)	—	—	—	—		(20,014)	—		(20,014)
Purchase of property, plant and equipment	(643)	—	(643)	(331)	—	(331)	—		(974)	—		(974)
Acquisition of unlisted debt security	(12,000)	—	(12,000)	—	—	—	—		(12,000)	—		(12,000)
Repayment from third parties	—	—	—	345,672	—	345,672	—		345,672	—		345,672
Amount advanced to third parties	—	—	—	(285,122)	—	(285,122)	—		(285,122)	—		(285,122)
Payment for acquisition of interest in properties	—	—	—	(8,704)	—	(8,704)	—		(8,704)	—		(8,704)
Decrease in amounts due from former fellow subsidiaries	—	—	—	121,572	—	121,572	—		121,572	—		121,572
NET CASH FROM INVESTING ACTIVITIES	1,892,786	—	1,892,786	110,612	—	110,612	(39,618)		1,963,780	23,455		1,987,235
FINANCING ACTIVITIES												
Bank loans raised	185,633	—	185,633	—	—	—	—		185,633	—		185,633
Proceeds from issue of shares	118,500	—	118,500	—	—	—	—		118,500	—		118,500
Other loans raised	10,000	—	10,000	—	—	—	—		10,000	—		10,000
Repayments of bank loans	(158,557)	—	(158,557)	—	—	—	—		(158,557)	—		(158,557)
Dividends paid	(10,987)	—	(10,987)	—	—	—	—		(10,987)	—		(10,987)
Repayments of obligations under finance lease	(3)	—	(3)	—	—	—	—		(3)	—		(3)
Repayments to a minority shareholder	(10)	—	(10)	—	—	—	—		(10)	—		(10)
Decrease in amounts due to former fellow subsidiaries	—	—	—	(41,964)	—	(41,964)	—		(41,964)	—		(41,964)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	144,576	—	144,576	(41,964)	—	(41,964)	—		102,612	—		102,612
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,161,443	—	2,161,443	32,722	—	32,722	(39,618)		2,154,547	23,455		2,178,002
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	141,094	—	141,094	72,481	—	72,481	(72,481)	*(31)*	141,094	—		141,094
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	178	—	178	(1,709)	—	(1,709)	—		(1,531)	—		(1,531)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	2,302,715	—	2,302,715	103,494	—	103,494	(112,099)		2,294,110	23,455		2,317,565
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS												
Bank balances and cash	2,321,331	—	2,321,331	103,494	—	103,494	(112,099)		2,312,726	23,455		2,336,181
Bank overdrafts	(18,616)	—	(18,616)	—	—	—	—		(18,616)	—		(18,616)
	2,302,715	—	2,302,715	103,494	—	103,494	(112,099)		2,294,110	23,455		2,317,565

(III) THE UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2

The following is the unaudited pro forma cash flow statement of the Enlarged Hanny Group assuming that the distribution in specie of the GDI Shares by China Strategic and China Strategic Group Reorganization had been completed and all shareholders of the GDI Group other than the Hanny Group had chosen Option 2 under the GDI Offer and the Partial Disposal as well as the Memorex Disposal had been completed as at 1st April, 2004, the beginning of the financial period of the Hanny Group. The unaudited pro forma cash flow statement of the Enlarged Hanny Group was prepared based on Pro Forma Remaining Hanny Group Financial Information (which was based upon audited consolidated cash flow statement for the year ended 31st March, 2005, as set out in Appendix II of this document after making pro forma adjustments relating to the Memorex Disposal), as set out in the circular of Hanny dated 10th April, 2006, and the audited consolidated cash flow statement of the GDI Group for the year ended 31st December, 2005 extracted from the financial information on the GDI Group (as set out in Appendix III of this document) as adjusted by the Reversal Adjustments so as to conform with the Hanny Group's accounting policies, after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma cash flow statement was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Hanny Group for the year ended 31st March, 2005 or any future period.

(III) THE UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group for the year ended 31st March, 2005	Pro forma adjustments relating to the distribution in specie of GDI Shares	The Hanny Group after pro forma adjustments	The GDI Group for the year ended 31st December, 2005	Reversal Adjustments	The GDI Group for the year ended 31st December, 2005 after the Reversal Adjustments	Pro forma adjustments relating to the GDI Offer		Pro forma Enlarged Hanny Group before the Partial Disposal	Pro forma adjustments relating to the Partial Disposal		Pro forma Enlarged Hanny Group
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 17*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
OPERATING ACTIVITIES												
Profit (loss) before income tax	1,242,052	—	1,242,052	(54,304)	31,144	(23,160)	(41,398)	*(20), (25) & (26)*	1,177,494	45,771	*(22) & (23)*	1,223,265
Adjustments for:												
Interest income	(22,141)	—	(22,141)	(29,762)	8,599	(21,163)	—		(43,304)	—		(43,304)
Finance costs	24,328	—	24,328	—	—	—	46,920	*(26)*	71,248	—		71,248
Share of results of associates	64,909	(3,061)	61,848	(43,103)	—	(43,103)	—		18,745	(49,807)	*(22)*	(31,062)
Share of results of an associate — the GDI Group	—	3,061	3,061	—	—	—	(3,061)	*(20)*	—	—		—
Realization of negative goodwill arising on acquisition of additional interest in an associate	(2,057)	—	(2,057)	—	—	—	—		(2,057)	—		(2,057)
Amortization of goodwill arising on acquisition of associates	28,089	(20,876)	7,213	—	—	—	—		7,213	—		7,213
Amortization of goodwill arising on acquisition of an associate — the GDI Group	—	20,876	20,876	—	—	—	(20,876)	*(21)*	—	—		—
Amortization of goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	20,876	*(21)*	20,876	—		20,876
Impairment loss on goodwill arising on acquisition of an associate	177,446	(177,446)	—	—	—	—	—		—	—		—
Impairment loss on goodwill arising on acquisition of an associate — the GDI Group	—	177,446	177,446	—	—	—	(177,446)	*(21)*	—	—		—
Impairment loss on goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	177,446	*(21)*	177,446	—		177,446
Net gain (loss) on disposal of subsidiaries and associates	(1,497,101)	—	(1,497,101)	—	—	—	2,814	*(28)*	(1,494,287)	4,036	*(23)*	(1,490,251)
Net unrealized holding gain on other investments/held for trading investments	(17,223)	—	(17,223)	(1,208)	—	(1,208)	—		(18,431)	—		(18,431)
Reversal of allowance for margin loan receivables	(2,387)	—	(2,387)	—	—	—	—		(2,387)	—		(2,387)
Loss on disposal/dilution of interests in associates	—	—	—	2,814	—	2,814	(2,814)	*(28)*	—	—		—
Realization of negative goodwill arising on acquisition of the GDI Group	—	—	—	—	—	—	(2,461)	*(25)*	(2,461)	—		(2,461)
Realization of negative goodwill arising on acquisition of an associate	(8)	—	(8)	—	—	—	—		(8)	—		(8)
Amortization of intangible assets	49,838	—	49,838	—	—	—	—		49,838	—		49,838
Allowance for slow moving and obsolete inventories	1,060	—	1,060	—	—	—	—		1,060	—		1,060
Allowance for bad and doubtful debts	22,269	—	22,269	18,575	—	18,575	—		40,844	—		40,844
Depreciation and amortization of property, plant and equipment	8,162	—	8,162	5,865	—	5,865	—		14,027	—		14,027
Allowance for loans receivable	8,338	—	8,338	—	—	—	—		8,338	—		8,338
Allowance for loans and interest receivable	—	—	—	31,116	—	31,116	—		31,116	—		31,116
Loss on disposal of property, plant and equipment	405	—	405	—	—	—	—		405	—		405
Net loss on disposal of investment securities	29,712	—	29,712	716	—	716	—		30,428	—		30,428
Change in fair value of conversion option of unlisted convertible note	—	—	—	39,743	(39,743)	—	—		—	—		—
Operating cash flows before movements in working capital	115,691	—	115,691	(29,548)	—	(29,548)	—		86,143	—		86,143
Decrease (increase) in other asset	37,085	—	37,085	(2,121)	—	(2,121)	—		34,964	—		34,964
Decrease (increase) in inventories	14,001	—	14,001	(96)	—	(96)	—		13,905	—		13,905
Increase in trade and other receivables	1,434,136	—	1,434,136	—	—	—	19,272	*(28)*	1,453,408	—		1,453,408
Increase in other receivables, deposits and prepayments	—	—	—	19,272	—	19,272	(19,272)	*(28)*	—	—		—
Increase in amounts due from associates	—	—	—	(15,164)	—	(15,164)	—		(15,164)	—		(15,164)
Decrease in other investments	13,623	—	13,623	—	—	—	—		13,623	—		13,623
Decrease in margin loan receivables	4,174	—	4,174	—	—	—	—		4,174	—		4,174
(Decrease) increase in trade and other payables	(1,468,366)	—	(1,468,366)	(8,127)	—	(8,127)	—		(1,476,493)	—		(1,476,493)
Decrease in amounts due to associates	—	—	—	(387)	—	(387)	—		(387)	—		(387)
Decrease in margin loan payables	(587)	—	(587)	—	—	—	—		(587)	—		(587)
Decrease in bills payable	(1,295)	—	(1,295)	—	—	—	—		(1,295)	—		(1,295)
Decrease in amounts due to fellow subsidiaries	(20,730)	—	(20,730)	—	—	—	—		(20,730)	—		(20,730)
Decrease in amounts due from fellow subsidiaries	3,526	—	3,526	—	—	—	—		3,526	—		3,526
Cash generated from (used in) operations	131,258	—	131,258	(36,171)	—	(36,171)	—		95,087	—		95,087
Interest and finance charges paid	(5,326)	—	(5,326)	—	—	—	(18,683)	*(26)*	(24,009)	—		(24,009)
Overseas tax (paid) refunded	(2,237)	—	(2,237)	245	—	245	—		(1,992)	—		(1,992)
Hong Kong Profits Tax refunded	386	—	386	—	—	—	—		386	—		386
NET CASH FROM (USED IN) OPERATING ACTIVITIES	124,081	—	124,081	(35,926)	—	(35,926)	(18,683)		69,472	—		69,472

(III) THE UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2 *(Cont'd)*

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G)		(H) = (C) + (F) + (G)	(I)		(J) = (H) + (I)
	Pro forma Remaining Hanny Group for the year ended 31st March, 2005	Pro forma adjustments relating to the distribution in specie of GDI Shares	The Hanny Group after pro forma adjustments	The GDI Group for the year ended 31st December, 2005	Reversal Adjustment	The GDI Group for the year ended 31st December, 2005 after the Reversal Adjustments	Pro forma adjustments relating to the GDI Offer		Pro forma Enlarged Hanny Group before the Partial Disposal	Pro forma adjustments relating to the Partial Disposal		Pro forma Enlarged Hanny Group
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*	*HK$'000* *Note 17*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
INVESTING ACTIVITIES												
Proceeds from disposal of investment securities	150,255	–	150,255	77,547	–	77,547	–		227,802	–		227,802
Amounts repaid by associates	14,256	–	14,256	–	–	–	–		14,256	–		14,256
Repayment of short-term loan receivables from a related company	32,890	–	32,890	–	–	–	–		32,890	–		32,890
Repayment of short-term loan receivables	29,588	–	29,588	–	–	–	–		29,588	–		29,588
Interest received	17,711	–	17,711	8,488	–	8,488	–		26,199	–		26,199
Disposal of subsidiaries	2,110,405	–	2,110,405	–	–	–	–		2,110,405	–		2,110,405
Dividend received from an associate	4,668	–	4,668	2,427	–	2,427	–		7,095	–		7,095
Proceeds from disposal of property, plant and equipment	989	–	989	125	–	125	–		1,114	–		1,114
Proceeds from disposal of an associate	10	–	10	–	–	–	–		10	23,455	*(30)*	23,465
Acquisition of investment securities	(123,348)	–	(123,348)	(78,259)	–	(78,259)	–		(201,607)	–		(201,607)
Acquisition of the GDI Group	–	–	–	–	–	–	72,481	*(31)*	72,481	–		72,481
Increase in short-term loan receivables	(105,755)	–	(105,755)	–	–	–	–		(105,755)	–		(105,755)
Increase in short-term loan receivables from related companies	(89,758)	–	(89,758)	–	–	–	–		(89,758)	–		(89,758)
Acquisition of interest in associates	(44,148)	–	(44,148)	(63,152)	–	(63,152)	–		(107,300)	–		(107,300)
Purchase of subsidiaries (net of cash and cash equivalents)	–	–	–	(9,651)	–	(9,651)	–		(9,651)	–		(9,651)
Acquisition of an additional interest in a subsidiary	(37,320)	–	(37,320)	–	–	–	–		(37,320)	–		(37,320)
Deposit for acquisition of a long-term investment	(35,000)	–	(35,000)	–	–	–	–		(35,000)	–		(35,000)
Increase in pledged bank deposits	(20,014)	–	(20,014)	–	–	–	–		(20,014)	–		(20,014)
Purchase of property, plant and equipment	(643)	–	(643)	(331)	–	(331)	–		(974)	–		(974)
Acquisition of unlisted debt security	(12,000)	–	(12,000)	–	–	–	–		(12,000)	–		(12,000)
Repayment from third parties	–	–	–	345,672	–	345,672	–		345,672	–		345,672
Amount advanced to third parties	–	–	–	(285,122)	–	(285,122)	–		(285,122)	–		(285,122)
Payment for acquisition of interest in properties	–	–	–	(8,704)	–	(8,704)	–		(8,704)	–		(8,704)
Decrease in amounts due from former fellow subsidiaries	–	–	–	121,572	–	121,572	–		121,572	–		121,572
NET CASH FROM INVESTING ACTIVITIES	1,892,786	–	1,892,786	110,612	–	110,612	72,481		2,075,879	23,455		2,099,334
FINANCING ACTIVITIES												
Bank loans raised	185,633	–	185,633	–	–	–	–		185,633	–		185,633
Proceeds from issue of shares	118,500	–	118,500	–	–	–	–		118,500	–		118,500
Other loans raised	10,000	–	10,000	–	–	–	–		10,000	–		10,000
Repayments of bank loans	(158,557)	–	(158,557)	–	–	–	–		(158,557)	–		(158,557)
Dividends paid	(10,987)	–	(10,987)	–	–	–	–		(10,987)	–		(10,987)
Repayments of obligations under finance lease	(3)	–	(3)	–	–	–	–		(3)	–		(3)
Repayments to a minority shareholder	(10)	–	(10)	–	–	–	–		(10)	–		(10)
Decrease in amounts due to former fellow subsidiaries	–	–	–	(41,964)	–	(41,964)	–		(41,964)	–		(41,964)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	144,576	–	144,576	(41,964)	–	(41,964)	–		102,612	–		102,612
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,161,443	–	2,161,443	32,722	–	32,722	53,798		2,247,963	23,455		2,271,418
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	141,094	–	141,094	72,481	–	72,481	(72,481)	*(31)*	141,094	–		141,094
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	178	–	178	(1,709)	–	(1,709)	–		(1,531)	–		(1,531)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	2,302,715	–	2,302,715	103,494	–	103,494	(18,683)		2,387,526	23,455		2,410,981
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS												
Bank balances and cash	2,321,331	–	2,321,331	103,494	–	103,494	(18,683)		2,406,142	23,455		2,429,597
Bank overdrafts	(18,616)	–	(18,616)	–	–	–	–		(18,616)	–		(18,616)
	2,302,715	–	2,302,715	103,494	–	103,494	(18,683)		2,387,526	23,455		2,410,981

(IV) NOTES ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

(1) For the pro forma balance sheet, the adjustment reflects the distribution of 29.4% interests in the GDI Group of HK$330,043,000 pursuant to the China Strategic Group Reorganization.

For the pro forma income statement and the pro forma cash flow statement, the adjustments reflect the reclassification of the income statement items and cash flow statement items, respectively, relating to the GDI Group pursuant to the China Strategic Group Reorganization.

(2) The adjustments relating to China Strategic Group Reorganization are set out below:

— the transfer of liabilities of approximately HK$199,731,000 from the members of the China Strategic Group to the GDI Group, and transfer of assets of approximately HK$86,822,000 from the GDI Group to the members of the China Strategic Group pursuant to the China Strategic Group Reorganization and transfer agreements entered into between members of the China Strategic Group and the GDI Group dated 19th May, 2006;

— the assignment of intragroup amounts due to the members of the China Strategic Group by the members of the GDI Group to GDI; and

— the assignment of intragroup amounts due to the members of the GDI Group by the members of the China Strategic Group to China Strategic.

(3) The adjustment reflects:

— the reclassification of 29.4% interests in the GDI Group of HK$330,043,000 from interests in associates pursuant to the China Strategic Group Reorganization to interests in subsidiaries;

— the additional investment cost of HK$345,641,000 and HK$838,857,000 for the acquisition of the remaining interests of 70.6% in the GDI Group under Option 1 and Option 2 of the GDI Offer, respectively; and

— the elimination of the investment cost in the GDI Group of HK$675,684,000 and HK$1,168,900,000 under Option 1 and Option 2 of the GDI Offer, respectively.

(4) The adjustment reflects the reclassification of 29.4% interest in the GDI Group of HK$330,043,000 to interests in subsidiaries pursuant to the China Strategic Group Reorganization.

(5) The adjustment reflects the reclassification of the GDI Group's balance sheet items to conform with the Hanny Group's presentation.

(6) The adjustment reflects the cash outflow of HK$112,099,000 paid by the Hanny Group as part of the consideration to acquire the remaining 70.6% interests in the GDI Group under Option 1 of the GDI Offer.

(IV) NOTES ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION *(Cont'd)*

Notes: (Cont'd)

(7) The adjustment reflects:

— the issue of 62,277,529 new Hanny Shares at HK$0.01 each for a consideration of HK$3.75 per Hanny Share (the closing share price of Hanny Shares as at 31st December, 2005) under the Option 1 of the GDI Offer; and

— the elimination of issued share capital of the GDI Group of HK$10,777,000.

(8) The adjustment reflects:

— the elimination of credit balances on pre-acquisition reserves of the GDI Group of HK$1,113,349,000 as at 31st December, 2005;

— the reclassification of goodwill and goodwill included in interests in associates of the GDI Group;

— the recognition of excess of the Hanny Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition", previously known as "negative goodwill") of HK$427,132,000, which would be credited to income statement as at 31st December, 2005, arising from the acquisition of the remaining 70.6% interests in the GDI Group for a total consideration of HK$345,641,000 under Option 1 of the GDI Offer, with the assumption that the fair value of the net assets of the GDI Group is the same as the carrying amount of the net assets less goodwill of HK$9,123,000 and goodwill included in interests in associates of HK$12,187,000 as at 31st December, 2005; and

— the share premium of HK$232,919,000 arising from the new issue of 62,277,529 Hanny Shares at HK$0.01 each for a consideration of HK$3.75 per Hanny Share under Option 1 of the GDI Offer.

(9) The adjustment reflects the Partial Disposal of 15.3% interests in the China Strategic Group of HK$30,822,000 under the Share Sale Agreement.

(10) The adjustment reflects the reclassification of the remaining 14.1% interests in the China Strategic Group of HK$28,247,000 from interests in associates to available-for-sale investments.

(11) The adjustment reflects the sales proceeds of HK$26,055,000 for the Partial Disposal of 15.3% interests in the China Strategic Group under the Share Sale Agreement. The Enlarged Hanny Group had already received a deposit of HK$2,600,000 before the completion of the Partial Disposal and the remaining balance of HK$15,639,000 and HK$7,816,000 would be received upon the completion and within six months after the completion of the Partial Disposal, respectively.

(12) The adjustment reflects the loss on disposal of HK$4,767,000 from the Partial Disposal of 15.3% interests in the China Strategic Group under the Share Sale Agreement.

(IV) NOTES ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION *(Cont'd)*

Notes: (Cont'd)

(13) The adjustment reflects the goodwill of HK$66,084,000 arising from the acquisition of the remaining 70.6% interests in the GDI Group for a total consideration of the issuance of the Hanny Bonds at the estimated fair value of HK$838,857,000 as at 31st December, 2005, being the latest practicable date of assessing the fair value of the Hanny Bonds for the purpose of this unaudited pro forma financial information under Option 2 of the GDI Offer with the assumption that the fair value of the net assets of the GDI Group is the same as the carrying amount of the net assets less goodwill of HK$9,123,000 and goodwill included in interests in associates of HK$12,187,000 as at 31st December, 2005.

(14) The adjustment reflects the elimination of share capital of the GDI Group of HK$10,777,000.

(15) The adjustment reflects:

— the elimination of credit balances on pre-acquisition reserves of the GDI Group of HK$1,113,349,000 as at 31st December, 2005; and

— the reclassification of goodwill and goodwill included in interests in associates of the GDI Group.

(16) The adjustment reflects the issuance of the Hanny Bonds with the estimated fair value for the aggregate principal amount of HK$838,857,000 as at 31st December, 2005 to the shareholders of the GDI Group subject to the GDI Offer under Option 2 of the GDI Offer for the acquisition of the remaining 70.6% interests in the GDI Group. As at 31st December, 2005, the estimated fair value for the debt element and conversion option element of the Hanny Bonds were approximately HK$774,815,000, included in non-current liabilities, and HK$64,042,000, included in reserves, respectively.

(17) As the audited financial information of the GDI Group has been prepared in accordance with new HKFRSs, the unaudited pro forma financial information has been prepared on the basis that the prospective adjustments made to the financial period beginning from 1st January, 2005 in the GDI Group for the year ended 31st December, 2005 are reversed so as to conform with the Hanny Group's accounting policies.

For the pro forma income statements for both Option 1 and Option 2, the net effect on the Reversal Adjustments has reduced the loss of the GDI Group by approximately HK$31,144,000.

For the pro forma cash flow statements for both Option 1 and Option 2, there is no cash flow effect on the Reversal Adjustments.

(IV) NOTES ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION *(Cont'd)*

Notes: (Cont'd)

(18) The adjustment reflects the realization of negative goodwill of HK$653,609,000 to the pro forma income statement for the year ended 31st March, 2005 on a straight-line basis over its estimated useful life of 10 years in accordance with the accounting policies adopted by the Hanny Group with the assumption that the fair value of the net assets of the GDI Group is the same as the carrying amount of the net assets adjusted by goodwill and negative goodwill of HK$90,784,000 and HK$111,041,000 respectively as at 31st December, 2003 extracted from the financial information of the GDI Group set out in Appendix III of this document, after the Reversal Adjustments and adjustments relating to China Strategic Group Reorganization of totaling of HK2,201,082,000.

(19) The adjustment reflects the reclassification of the GDI Group's income statement items to conform with the Hanny Group's presentation.

(20) The adjustment reflects the reversal of share of loss of associates of HK$3,061,000 for the GDI Group.

(21) The adjustment reflects the reclassification of amortization of goodwill arising on acquisition of an associate, the GDI Group, and impairment loss on goodwill arising on acquisition of an associate, the GDI Group, to amortization of goodwill arising on acquisition of the GDI Group and impairment loss of goodwill arising on acquisition of the GDI Group pursuant to the GDI Offer.

(22) The adjustment reflects the reversal of share of loss of associates of HK$49,807,000 for the China Strategic Group.

(23) The adjustment reflects the loss on disposal of HK$4,036,000 from the Partial Disposal of 15.3% interests in China Strategic Group under the Share Sale Agreement.

(24) The calculation of the pro forma basic earnings per Hanny Share for the year ended 31st March, 2005 was based on the pro forma profit attributable to the equity holders of Hanny of HK$392,921,000 under Option 1 and the pro forma weighted average number of Hanny Shares in issue for the year ended 31st March, 2005 of 260,521,648.

The calculation of the pro forma diluted earnings per Hanny Share for the year ended 31st March, 2005 was based on the pro forma profit attributable to the equity holders of Hanny of HK$392,921,000 under Option 1. The pro forma weighted average number of Hanny Shares in issue during the year ended 31st March, 2005 was 260,521,648 Hanny Shares and weighted average of 98,875 Hanny Shares assumed to have been issued at nil consideration on the deemed exercise of all Hanny Shares options outstanding under a share option scheme which had a dilutive effect on the basic earnings per Hanny Share for the year ended 31st March, 2005 as the average market price of the Hanny Share is higher than the option price.

(IV) NOTES ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION *(Cont'd)*

Notes: (Cont'd)

(25) The adjustment reflects the realization of negative goodwill of HK$24,606,000 to the pro forma income statement for the year ended 31st March, 2005 on a straight-line basis over its estimated useful life of 10 years in accordance with the accounting policies adopted by the Hanny Group with the assumption that the fair value of the net assets of the GDI Group is the same as the carrying amount of the net assets adjusted by goodwill and negative goodwill of HK$90,784,000 and HK$111,041,000, respectively, as at 31st December, 2003 extracted from the financial information of the GDI Group set out in Appendix III of this document, after the Reversal Adjustments and adjustments relating to China Strategic Group Reorganization of totaling of HK2,201,082,000.

(26) The adjustment reflects the interest expenses for the Hanny Bonds with aggregate principal amount at estimated fair value of HK$838,857,000 as at 31st December, 2005, being the latest practicable date of assessing the fair value of the Hanny Bonds for the purpose of this unaudited pro forma financial information issued under Option 2 at an effective interest rate of 6.1% and interest expenses of HK$46,920,000 would be charged to income statement for the year ended 31st March, 2005, the date falling on the day immediately preceding the first anniversary of date of issue.

(27) The calculation of the pro forma basic earnings per Hanny Share for the year ended 31st March, 2005 was based on the pro forma profit attributable to the equity holders of Hanny of HK$283,101,000 under Option 2 and the pro forma weighted average number of Hanny Shares in issue for the year ended 31st March, 2005 of 198,244,118.

The calculation of the pro forma diluted earnings per Hanny Share for the year ended 31st March, 2005 was based on the pro forma profit attributable to the equity holders of Hanny of HK$283,101,000 under Option 2. The pro forma weighted average number of Hanny Shares in issue during the year ended 31st March, 2005 was 198,244,118 Hanny Shares and weighted average of 98,875 Hanny Shares assumed to have been issued at nil consideration on the deemed exercise of all Hanny Shares options outstanding under a share option scheme which had a dilutive effect on the basic earnings per Hanny Share for the year ended 31st March, 2005 as the average market price of the Hanny Share is higher than the option price.

(28) The adjustment reflects the reclassification of the GDI Group's cash flow statement items to conform with the Hanny Group's presentation.

(29) The adjustment reflects:

— the cash outflow of HK$112,099,000 paid by the Hanny Group under Option 1 of the GDI Offer for the acquisition of the additional interests of 70.6% in the GDI; and

— the net cash and cash equivalents of HK$72,481,000 of the GDI Group acquired by the Hanny Group as at 1st January, 2005.

(IV) NOTES ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION *(Cont'd)*

Notes: (Cont'd)

(30) The adjustment reflects the cash inflow from the sale proceeds of HK$26,055,000 from the Partial Disposal of 15.3% interests in the China Strategic Group under the Share Sale Agreement. The Enlarged Hanny Group had already received a deposit of HK$2,600,000 before the completion of the Partial Disposal and the remaining balance of HK$15,639,000 and HK$7,816,000 would be received upon the completion and within six months after the completion of the Partial Disposal, respectively.

(31) The adjustment reflects the net cash and cash equivalents amounting to HK$72,481,000 of the GDI Group acquired by the Hanny Group as at 1st January, 2005.

(V) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED HANNY GROUP

(A) Under Option 1

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Hanny Group was prepared based on the Pro Forma Remaining Hanny Group Financial Information as set out in the circular of Hanny dated 10th April, 2006, and the audited consolidated balance sheet of the GDI Group as at 31st December, 2005 extracted from the financial information on the GDI Group (set out in Appendix III of this document), after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma statement of adjusted consolidated net tangible assets was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Hanny Group as at 31st December, 2005 or any future date.

	As at 31st December, 2005 (unaudited)	Pro forma adjustments	Pro forma Enlarged Hanny Group before the Partial Disposal	Pro forma adjustments	Pro forma Enlarged Hanny Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Notes 1&4)	*(Note 2)*	*(Note 5)*	*(Note 3)*	*(Notes 6)*
Net tangible assets	2,243,450	431,386	2,674,836	(4,767)	2,670,069

Notes:

1. Unaudited consolidated net tangible assets of the Pro Forma Remaining Hanny Group as at 31st December, 2005 is calculated as follows:

	HK$'000
Unaudited consolidated net tangible assets of the Pro Forma Remaining Hanny Group as at 31st December, 2005	2,283,052
Less: Intangible assets attributable to the equity holders of the Pro Forma Remaining Hanny Group	(623)
Goodwill included in interests in associates	(38,979)
	2,243,450

(V) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED HANNY GROUP *(Cont'd)*

(A) Under Option 1 *(Cont'd)*

Notes: (Cont'd)

2. The adjustments represent:

	HK$'000
Unaudited pro forma consolidated net assets of the GDI Group as at 31st December, 2005	1,124,126
Existing 29.4% interests in the GDI Group held by the Hanny Group	(330,043)
Goodwill included in interests in associates	(12,187)
Intangible assets of the GDI Group	(9,123)
Other asset of the GDI Group ("Other Asset of GDI") in relation to a land development project in Zhuhai, the PRC, whereby the GDI Group is entitled to an exclusive development right and the right to obtain the land for development	(229,288)
Cash consideration to be paid for the acquisition of additional interests of 70.6% in the GDI Group	(112,099)
	431,386

3. The adjustments represent:

	HK$'000
Net proceeds from the Partial Disposal of 15.3% interests in the China Strategic Group	26,055
Net asset value of 15.3% interest in the China Strategic Group disposed of	(30,822)
	(4,767)

4.

	HK$
Unaudited pro forma consolidated net tangible assets attributable to the equity holders of Hanny per Hanny Share as at 31st December, 2005 based on 226,143,697 Hanny Shares in issue as at 31st December, 2005	9.920

(V) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED HANNY GROUP *(Cont'd)*

(A) Under Option 1 *(Cont'd)*

Notes: (Cont'd)

5.	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of Hanny per Hanny Share before the Partial Disposal but taken into account the issue of 62,277,529 new Hanny Shares on acquisition of the GDI Group as at 31st December, 2005	*HK$* 9.274
6.	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of Hanny per Hanny Share after the Partial Disposal but taken into account the issue of 62,277,529 new Hanny Shares on acquisition of the GDI Group as at 31st December, 2005	*HK$* 9.258

(V) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Hanny Group was prepared based on the Pro Forma Remaining Hanny Group Financial Information as set out in the circular of Hanny dated 10th April, 2006, and the audited consolidated balance sheet of the GDI Group as at 31st December, 2005 extracted from the financial information on the GDI Group (set out in Appendix III of this document), after making pro forma adjustments relating to the distribution in specie of the GDI Shares, the China Strategic Group Reorganization, the GDI Offer and the Partial Disposal.

This unaudited pro forma statement of adjusted consolidated net tangible assets was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Hanny Group as at 31st December, 2005 or any future date.

	As at 31st December, 2005 (unaudited)	**Pro forma adjustments**	**Pro forma Enlarged Hanny Group before the Partial Disposal**	**Pro forma adjustments**	**Pro forma Enlarged Hanny Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Notes 1&4)	*(Note 2)*	*(Note 5)*	*(Note 3)*	*(Notes 6)*
Net tangible assets	2,243,450	(231,330)	2,012,120	(4,767)	2,007,353

(V) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2 *(Cont'd)*

Notes:

1. Unaudited consolidated net tangible assets of the Pro Forma Remaining Hanny Group as at 31st December, 2005 is calculated as follows:

	HK$'000
Unaudited consildated net tangible assets of the Pro Forma Remaining Hanny Group as at 31st December, 2005	2,283,052
Less: Intangible assets attributable to the equity holders of the Pro Forma Remaining Hanny Group	(623)
Goodwill included in interests in associates	(38,979)
	2,243,450

2. The adjustments represent:

	HK$'000
Unaudited pro forma consolidated net assets of the GDI Group as at 31st December, 2005	1,124,126
Existing 29.4% interests in the GDI Group held by the Hanny Group	(330,043)
Goodwill included in interests in associates	(12,187)
Intangible assets of the GDI Group	(9,123)
Other asset of the GDI Group ("Other Asset of GDI") in relation to a land development project in Zhuhai, the PRC, whereby the GDI Group is entitled to an exclusive development right and the right to obtain the land for development	(229,288)
Hanny Bonds to be issued for the acquisition of the additional 70.6% interests in the GDI Group, at the estimated fair value as at 31st December 2005	(774,815)
	(231,330)

(V) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED HANNY GROUP *(Cont'd)*

(B) Under Option 2 *(Cont'd)*

Notes: (Cont'd)

3. The adjustments represent:

	HK$'000
Net proceeds from the Partial Disposal of 15.3% interests in the China Strategic Group	26,055
Net asset value of 15.3% interest in the China Strategic Group disposed of	(30,822)
	(4,767)

4. Unaudited pro forma consolidated net tangible assets attributable to the equity holders of Hanny per Hanny Share as at 31st December, 2005 based on 226,143,697 Hanny Shares in issue as at 31st December, 2005	*HK$* 9.920
5. Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of Hanny per Hanny Share before the Partial Disposal based on 226,143,697 Hanny Shares in issue as at 31st December, 2005	*HK$* 8.898
6. Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of Hanny per Hanny Share after the Partial Disposal based on 226,143,697 Hanny Shares in issue as at 31st December, 2005	*HK$* 8.876

Set out below is the text of the comfort letters received from Deloitte and Somerley, which have been prepared for the purpose of incorporation in this document:

(i) Letter from Deloitte

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF HANNY HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Hanny Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Group Dragon Investments Limited (the "GDI") and its subsidiaries (together with the Group hereinafter collectively referred to as the "Enlarged Group") set out in Appendix IV (the "Unaudited Pro Forma Financial Information") to the composite document dated 26th May, 2006 (the "Document") in connection with the voluntary unconditional securities exchange offer by Somerley Limited on behalf of Well Orient Limited (a wholly-owned subsidiary of the Company) to acquire all the issued shares in GDI other than those shares already owned by Well Orient Limited and parties acting in concert with it (the "Transaction"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purposes only, to provide information about how the Transaction might have affected the financial information presented. The basis of preparation of unaudited pro forma financial information is set out on pages from 258 to 282 of the Document.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31st December, 2005 or any future date; or
- the earnings per share, results and cash flows of the Group for the year ended 31st March, 2005 or any future period.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26th May, 2006

(ii) Letter from Somerley

SOMERLEY LIMITED
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

The Board of Directors
Hanny Holdings Limited
8th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon

26th May, 2006

Dear Sirs,

We refer to the unaudited pro forma financial information (the "Pro Forma Financial Information") of Hanny Holdings Limited ("Hanny") and its subsidiaries and Group Dragon Investments Limited ("GDI") and its subsidiaries contained in Appendix IV on pages 258 to 282 of a composite document (the "Document") dated 26th May, 2006 issued by Well Orient Limited ("Well Orient", a wholly-owned subsidiary of Hanny) and GDI in connection with the voluntary unconditional securities exchange offer made by us on behalf of Well Orient to acquire all the issued shares in GDI other than those already owned by Well Orient and parties acting in concert with it. This letter forms part of the Document.

We have discussed with you the basis upon which the Pro Forma Financial Information have been made. We have also considered the letter dated 26th May, 2006 from Deloitte Touche Tohmatsu relating to the accounting policies and calculations upon which the Pro Forma Financial Information have been made.

On the basis adopted by you and the procedures performed by Deloitte Touche Tohmatsu, we are of the opinion that the Pro Forma Financial Information, for which the directors of Hanny are solely responsible, have been prepared after due and careful consideration.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Deputy Chairman

The following is the text of a valuation report prepared for the purpose of incorporation in this document received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 31st March, 2006 of the Hanny Bonds.

永利行評值顧問有限公司 | RHL Appraisal Ltd
Surveying Practices - Corporate Valuation and Property Consultancy
License No.: C-015672

HONG KONG 香港
Room 1010, Star House
Tsimshatsui, Hong Kong
香港尖沙咀星光行1010室

T +852 2730 6212
F +852 2736 9284
E info@rhl-int.com
W www.rhl-int.com

Date : 26th May, 2006

The Directors
Hanny Holdings Limited

8th Floor,
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon

Dear Sirs,

Valuation of
the Hanny Bond
as at
31st March, 2006

1. INSTRUCTIONS

In accordance with the instructions from **Hanny Holdings Limited** (referred to as "Hanny") for us to value the 2% 5-year convertible bonds of Hanny (the "Hanny Bonds") in relation to the voluntary unconditional securities exchange offer (the "GDI Offer") by Somerley Limited on behalf of Well Orient Limited, a wholly-owned subsidiary of Hanny, for all the shares of Group Dragon Investments Limited ("GDI Shares") where the issue of the one Hanny Bond for every 5 GDI Shares (the "Option 2") is one of the options under the GDI Offer, we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of an estimated fair value of the Hanny Bond.

The relevant date of our valuation is **31st March, 2006** (Date of Valuation).

This letter which forms part of our valuation report explains the basis and methodology of valuation, clarifying assumption and limiting conditions of this valuation.

2. PRINCIPAL TERMS OF THE HANNY BONDS

The principal terms of the Hanny Bonds are set out as follows:

Date of Issue	31st March, 2006
Date of Maturity	30th March, 2011 (being the fifth anniversary from the date of issue)
Face Value and Maturity Value	HK$934,162,935 (being HK$15 X 62,277,529 bonds)
Coupon	Coupon shall be paid to the bondholder(s) at a rate of 2% on the outstanding principal amount of the Hanny Bonds and is payable in arrear on the day immediately preceding each anniversary of the date of issue
Conversion Feature	Between the date of issue and 14 days prior to the date of maturity, each of the Hanny Bonds can be converted into common shares of HK$0.01 each in the share capital of Hanny Holdings Limited (Stock Code : 275) ("Hanny Share") at a price of HK$9 per share
Number of Hanny Shares which can be issued upon full conversion	103,795,881 Hanny Shares

As confirmed by Hanny, save for the conversion feature mentioned above, the holders of the Hanny Bonds do not have the right to put the Hanny Bonds back to the issuer for cash or any other financial assets before date of maturity. Also, the issuer does not have the right to redeem the Hanny Bonds before maturity.

The Hanny Bonds can be segregated into the following components:

i. equity component - the share call option (the "Share Option") to convert the bond into Hanny Share at an exercise price of HK$9 per share during the period from the date of issue to 14 days prior to the date of maturity of the Hanny Bonds; and

ii. liability component - 5-year bond with 2% coupon per annum and repayment of maturity value ie. HK$934,162,935 upon maturity.

3. BASIS OF VALUATION

The valuation is based on the assumption that the Hanny Bond is issued on 31st March, 2006 and all 311,387,646 GDI Shares subject to the GDI Offer have elected to accept under Option 2 of the GDI Offer and accordingly, 62,277,529 bonds are issued with face value of HK$15 each.

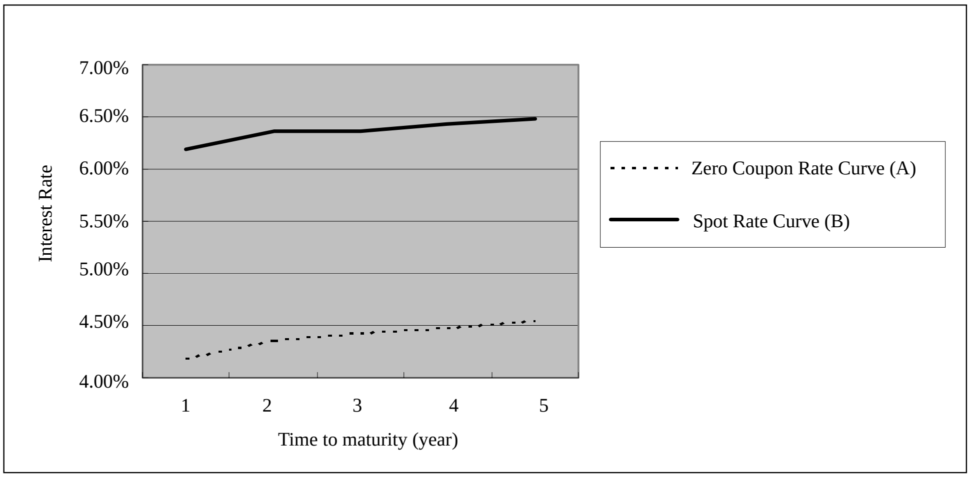
Under HKAS39, our opinion of value of the equity component of the Hanny Bonds is the Fair Value which is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of Fair Value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms and the weak-form of efficient market theory hold. Fair Value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

4. LIABILITY COMPONENT

Build-up of Interest Rates

Fair values of the liability component of the Hanny Bonds is estimated by discounting all future cash flows using relevant spot rates.

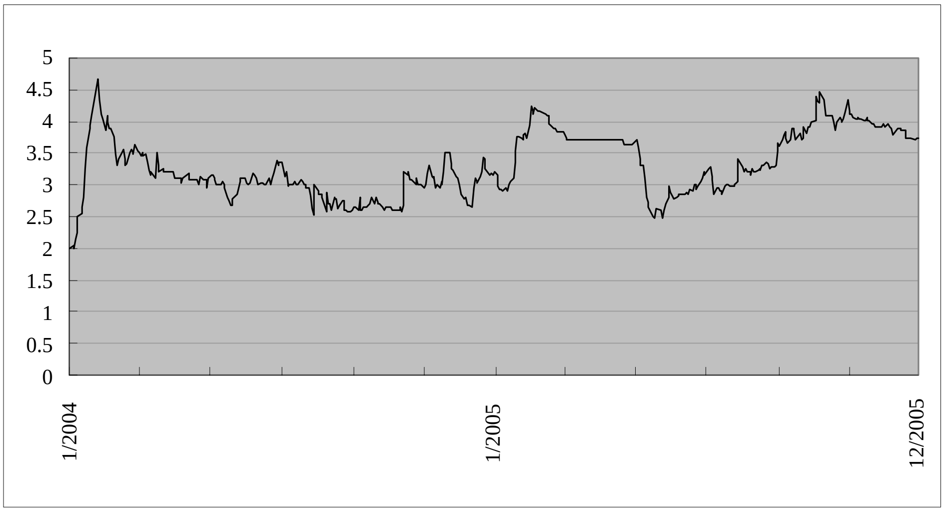
In formulating the relevant spot rates, we have made use of the zero coupon rates stripped from the Hong Kong Sovereign Bonds by reference to the database of Bloomberg. Then a risk premium reflecting the credit risk of the bond which is determined by the management of the Company is added on the zero rates to come up with the relevant spot rates. The zero coupon rate curve ("A") and the spot rate curve ("B") are shown in the following graph:



5. EQUITY COMPONENT

HANNY'S SHARE PRICE MOVEMENT

The daily closing prices of Hanny Shares from year 2004 to 2005 are shown below:



(Source: Bloomberg)

Based upon the share price movement, the respective annualized volatilities of daily return on Hanny Shares were 42.14% and 52.39% for year 2004 and 2005.

VALUATION APPROACH AND METHODOLOGY

In carrying out this valuation exercise, we have reviewed the properties of Share Option as mentioned below and other relevant market information.

The following option pricing models was employed in deriving the fair values of the Share Options:

The Black-Scholes Option Pricing Model

The option model was developed by Fischer Black, Myron Scholes and Robert Merton in 1970's. The model provides a close-form solution to option value based on such parameters as risk free rate, prevailing price of the underlying stock, exercise price, volatility of the underlying share prices and term to maturity.

Black Scholes Formula is shown as follows:

$$\mathbf{C = SN(d_1)\text{-}Xe^{-r(T-t)}N(d_2)}$$

Where:

C	=	Option Value
S	=	Initial market price of the underlying share
N(.)	=	Normal distribution function
d_1	=	$\dfrac{Ln(S/X) + (r + \sigma^2/2)(T)}{\sigma\sqrt{T}}$
d_2	=	$\dfrac{Ln(S/X) + (r - \sigma^2/2)(T)}{\sigma\sqrt{T}}$
X	=	Exercise price
r	=	risk free rate of return
T	=	Time to maturity of the option

In our valuation, the following option properties were adopted:

Date of valuation	Time to maturity	Risk free rate(%)*	Dividend yield	Closing price of Hanny Share as at date of valuation (HK$)	Exercise price (HK$)	Volatility (%)#
31st March, 2006	5 years	4.468%	2.05%	4.88	9.00	47.27

* risk free rate represents the yield to maturity of 5-year Hong Kong Exchange Fund Note. (Source: Hong Kong Monetary Authority).

\# volatility of the underlying share is the average of the annualized volatilities on the daily return of the underlying shares for each of the year 2004 and 2005.

6. LIMITING CONDITIONS

During the course of our valuation, we have reviewed the financial information, management representations and other pertinent data concerning Hanny and the Share Option made available to us. We have assumed the accuracy of, and have relied on, the information and management representations provided in arriving at our opinion of value.

We shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.

No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond that customarily employed by valuers.

Our conclusions assume continuation of prudent management policies over whatever period of time considered to be necessary in order to maintain the character and integrity of the assets valued. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect their market value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

No allowance has been made in our valuation for any charges, debts or amounts owing on the assets valued nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the assets valued are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Neither the whole nor any part of this report and valuation, nor any reference thereto, may be included in any document, circular or statement without our prior written approval. This report is confidential to the client for the specific purpose to which it refers. In accordance with our standard practice, we must state that this report and valuation is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

7. OPINION ON FAIR VALUE

LIABILITY COMPONENT

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that Fair Value of the liability component of the Hanny Bonds as at 31st March, 2006, free from any encumbrances, is HK$757,844,569.

EQUITY COMPONENT

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that Fair Value of the equity component of the Hanny Bonds as at 31st March, 2006, free from any encumbrances, is HK$120,455,120.

TOTAL BOND VALUE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the Fair Value of the Hanny Bonds as at 31st March, 2006, free from any encumbrances, is HK$878,299,689. The per bond value is HK$14.10 at face value of $15.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Simon Pui Lam, Mak	**Tse Wai Leung**
CFA	*MFin BSc MRICS MHKIS RPS(GP)*
Director	*Director*

RHL Appraisal Limited is the corporate valuation and advisory arm of RHL International Group, an established professional service provider in the Asia-Pacific region. Its team of qualified valuers is experienced in the valuation of equity, debt, derivative based instruments and other hybrid financial products, including but not limited to options, fixed rated bonds, zero coupon bonds, convertible bonds and swaps. Clients include both public and private companies requiring valuation for compliance or managerial decision purposes.

Mak Pui Lam, Simon is a Chartered Financial Analyst (CFA) chartered in 2004 and finished graduated studies of Management Science and Engineering in Stanford University. He is responsible for managing the corporate valuation and advisory services in RHL Appraisal Ltd.

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Mr. Tse Wai Leung has on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

Set out below is the text of the comfort letter received from Somerley, which has been prepared for the purpose of incorporation in this document:

SOMERLEY LIMITED
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

The Board of Directors
Hanny Holdings Limited
8th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon

26th May, 2006

Dear Sirs,

We refer to the valuation performed by RHL Appraisal Ltd. (the "Valuation") of the 2% 5-year convertible bonds of Hanny Holdings Limited ("Hanny") to be issued as one of two types consideration being offered under the voluntary unconditional securities exchange offer (the "GDI Offer") made by us on behalf of Well Orient Limited ("Well Orient", a wholly-owned subsidiary of Hanny) to acquire all the issued shares in Group Dragon Investments Limited ("GDI") other than those already owned by Well Orient and parties acting in concert with it. The report on the Valuation is contained in Appendix V on pages 286 to 291 of a composite document dated 26th May, 2006 issued by Well Orient and GDI in connection with the GDI Offer, of which this letter forms part.

We have considered the Valuation and have discussed with RHL Appraisal Ltd. the basis and methodology upon which the Valuation has been made.

Taking into account the basis and methodology of the Valuation adopted by RHL Appraisal Ltd., we are of the opinion that the Valuation, for which RHL Appraisal Ltd. is solely responsible, has been prepared after due and careful consideration.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Deputy Chairman

Set out below is the valuation report received from Norton in connection with the valuation of the property interests of the GDI Group:

Norton Appraisals
Registered Professional Surveyors, Valuers & Property Advisers

Room 3830-32, Sun Hung Kai Centre
30 Harbour Road
Wanchai Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

26th May, 2006

The Directors
Group Dragon Investments Limited
8th Floor, Paul Y. Centre
No. 51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

In accordance with the instruction for us to value the property interests (as more particularly described in the attached Summary of Values) held by Group Dragon Investments Limited (hereinafter referred to as the "GDI") and its subsidiaries (hereinafter together referred to as the "GDI Group") in the People's Republic of China (hereinafter referred to as the "PRC"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interest as at 31st March, 2006 ("the date of valuation").

Our valuations are our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion."

In the course of our valuations, we have assumed that the owners have valid and enforceable title to the property interests which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the land use terms granted to subject to the payment of land use fees and all requisite land premium/purchase consideration payable have been fully settled.

In valuing the property interests, we have adopted Direct Comparison Approach assuming such property interests are capable of being sold in their existing states on a strata-titled basis with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. In valuing the property interest in Group II, the "capital value when completed" represents our opinion of the aggregate selling prices of the development assuming that it would have been completed at the date of valuation.

Our valuations have been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred terms contract, leaseback, management agreement or any similar arrangement which could serve to affect the values of such property interests.

No title search has been made for properties which are located in the PRC. We have relied to a considerable extent on the information provided to us by the GDI Group and the legal opinion of the GDI Group's PRC legal advisers, GFE Law Office (廣東恆益律師事務所) and Shanghai JoinWay Law Firm (上海中匯律師事務所), regarding the title to the property interests in Groups I and II respectively.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the GDI Group, and have accepted advice given to us on such matters as easements, tenures, tenancy details, site and floor areas and other relevant matters. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the document provided to us by the GDI Group and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the GDI Group. We have also been advised by the GDI Group that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

We have inspected the exterior and, where possible the interior of the properties. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In our valuations, we have complied with all the requirements contained in the Codes on Takeovers and Mergers and Share Repurchases issued by The Securities and Futures Commission and the Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition) published by The Hong Kong Institute of Surveyors (“HKIS”).

Unless otherwise stated, all sums stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuations is approximately HK$1 = RMB1.03 which was approximately the prevailing exchange rate as at the date of valuation.

Our summary of values and valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
Norton Appraisals Limited
M. K. Wong
MRICS, MHKIS, RPS (G.P.)
Director

Note: Mr. M. K. Wong is a Registered Professional Surveyor who has more than 13 years’ experience in valuation of properties in Hong Kong and the PRC.

Summary of Values

	Property	Capital value as at 31st March, 2006 *HK$*	Attributable Interest to the GDI Group in percentage	Capital Value Attributable to the GDI Group as at 31st March, 2006 *HK$*
Group I: Property interest held for sale by the GDI Group in the PRC				
1	A development site located at the junction of Zhugang Road and Huangyang Road in the Longshan Industrial District, Doumen District, Zhuhai City, Guangdong Province, the PRC	428,000,000	100%	428,000,000
Group II: Property interest contracted to be acquired by the GDI Group in the PRC				
2	The proposed building located at Nos. 219 and 229 Jiangning Road, Jingan District, Shanghai, the PRC	690,000,000	55.22%	381,018,000
	Total:	1,118,000,000		809,018,000

VALUATION CERTIFICATE

Group I: Property interest held for sale by the GDI Group in the PRC

Property		Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2006
1	A development site located at the junction of Zhugang Road and Huangyang Road in the Longshan Industrial District, Doumen District, Zhuhai City, Guangdong Province, the PRC	The property, known as Longshan China Strategic Industrial Park, comprises a roughly triangular-shaped vacant site with an area of approximately 7,000,000 sq.m. (75,348,000 sq.ft.). As advised by the GDI Group, no development plan for the property is designated. The land use rights of the property are assumed to have been granted for a term of 50 years for industrial use.	The preparation works for site formation and provisions of servicing/utilities for phases 1 and 2 of Stage 1 of the property are in progress and the remaining portions are vacant.	$428,000,000 (100% interest attributable to the GDI Group: $428,000,000)

Notes:

(1) Pursuant to the Co-operation Agreement entered into between 珠海市龍山工業區管理委員會 (Zhuhai City Longshan Industrial District Administration Committee) (hereinafter referred to as "Party A") and Talent Shop Investment Limited, a wholly-owned subsidiary of GDI, (hereinafter referred to as "Party B") on 28th January, 2003, both parties agreed to develop the property, the salient conditions are summarized as follows:

i)	Location	:	Longshan Industrial District		
ii)	Site area	:	7,000,000 sq.m.		
iii)	Use	:	Industrial		
iv)	Terms	:	50 years		
v)	Phasing	:	1st Stage	:	3 phases (each phase 1,000,000 sq.m.)
			2nd Stage	:	To be confirmed
vi)	Building covenant	:	the provisions for site formation and basic facilities should be completed within 5 years		
vii)	Responsibilities	:	Party A	:	responsible for the provisions of the ancillary facilities to the subject site
			Party B	:	responsible for the provisions of the site formation and basic facilities within the subject site and marketing
viii)	Profit sharing	:	1st Stage (3 phases)	:	Party B (100%)
			2nd Stage	:	Party A (20%) Party B (80%)

(2) As confirmed by the GDI Group, the total land premium of the property is approximately RMB136,500,000 of which RMB39,000,000 for phases 1 and 2 have been paid as the date of valuation. As instructed, we have valued the property on the basis that all the land premium and the profit (as stated in note 1 (viii) above) payable to Party A have been fully settled as at the date of valuation.

(3) We have been provided with a legal opinion on the property prepared by the GDI Group's legal adviser, which contains, inter alia, the following information:

i) The said agreement as stated in the Note 1 above is valid and legally binding.

ii) For obtaining the Certificate for State-owned Land Use Rights of the property, Talent Shop Investment Limited should make application and pay the outstanding land premium and other related costs, if any, to the authority/government.

iii) Pursuant to the agreement as stated in Note 1 and subject to the fulfillment of Note 3 ii) above, the land use rights of the property can be freely transferable by way of transfer, mortgage or letting.

(4) We have based on the legal opinion of the GDI Group's legal adviser and prepared our valuation on the following assumptions and basis:

i) Talent Shop Investment Limited is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to government.

ii) The property, whether as a whole or on strata-titled basis, may be disposed of freely to both local and overseas purchasers.

(5) As advised by the GDI Group, the potential tax payable by the GDI Group for the disposal of the property as at the date of valuation is estimated to be HK$85,458,978.

Group II: Property interest contracted to be acquired by the GDI Group in the PRC

Property		Description and tenure	Particulars of occupancy	Capital value when completed as at 31st March, 2006
2	The proposed building located at Nos. 219 and 229 Jiangning Road, Jingan District, Shanghai, the PRC	The property comprises a proposed 24-storey commercial building (the "Proposed Building") of the development known as "香樟花園" erected upon a piece of land with a site area of approximately 5,493.50 sq.m. (59,132 sq.ft.). As provided by GDI, the Proposed Building is designated for serviced apartment use and has a total gross floor area of approximately 37,060.43 sq.m. (398,919 sq.ft.) and the area breakdown is listed as follows:	The property is under construction.	$690,000,000 (55.22% interest attributable to the GDI Group: $381,018,000) (see Note (6) below)

Level	Use	Gross Floor Area *(sq.m.)*
B1 & B2	150 Car parks and plant room	6,380.34
L1 — L3	Commercial	5,608.22
L4	Club house and ancillary facilities	2,228.27
L5 — L24	Serviced apartment	22,843.60
	Total:	37,060.43

Notes:

(1) Pursuant to the Certificate for Real Estate Ownership No. 滬房地靜字(2004)第004245號 dated 21st May, 2004 issued by Shanghai Housing and Land Resources Administration Bureau, the title of the property is vested in 上海久盛投資有限公司 (hereinafter referred to as “Shanghai Jiusheng”) and the salient conditions are listed as follows:

i)	Location	:	Nos. 219 and 229 Jiangning Road
ii)	Site area	:	5,493.50 sq.m.
iii)	Use	:	Office
iv)	Land Use Terms	:	Unspecified
v)	Remarks	:	The total gross floor area of the Proposed Building is 37,060.43 sq.m.

(2) Pursuant to the Sales and Purchase Contract entered into between Shanghai Jiusheng and Manwide Holdings Ltd. on 16th June, 2004, Shanghai Jiusheng agreed to sell and Manwide Holdings Limited agreed to purchase the interest of the property with the provision that Shanghai Jiusheng is responsible for applying for the change of existing use of the property into residential/commercial uses within 150 days from the signing of the contract and all costs incurred for the said application are borne by Shanghai Jiusheng. Further, Shanghai Jiusheng agreed that all the rights and responsibilities of Manwide Holdings Limited as stated in the said contract will be transferred to the Rosedale Luxury Hotel & Suites Limited (hereinafter referred to as “Rosedale Luxury”), a wholly owned subsidiary of Manwide Holdings Ltd., upon the establishment of Rosedale Luxury.

(3) As confirmed by the GDI Group, 55.22% equity interest of Manwide Holdings Ltd. is currently held by the GDI Group.

(4) Pursuant to the Certificate of Construction Permit No. 952EL002D01 dated 14th April, 2004 issued by the Jingan District, Shanghai Construction Committee, the construction works of the development is approved to be commenced.

(5) Pursuant to the area calculation issued by Jingan District Land Survey Office in 1997, the total gross floor area of the Proposed Building is 37,060.43 sq.m..

(6) As instructed, we have valued the property on its completion basis and have assumed that the property has been granted for commercial/residential uses and all the land premium, if any, for such change of use has been fully settled as at the date of valuation.

(7) We have been provided with a legal opinion on the property prepared by the GDI Group’s legal adviser, which contains, inter alia, the following information:

i) Shanghai Jiusheng is duly established and is validly existing under the PRC law.

ii) The land use rights of the property with a site area of 5,493.50 sq.m. have been legally transferred to Shanghai Jiusheng for office use. According to the relevant PRC law, the land use term for office use is 50 years.

iii) Shanghai Jiusheng has obtained the relevant approval for the land use, planning, construction and selling of the property.

iv) Shanghai Jiusheng has the right to transfer and mortgage the property and would pay the supplemental land premium for the change of land use from office to commercial/residential uses, if any.

v) The property is subject to two mortgages in favour of China Construction Bank Beijing Chaoyang Branch and China Mensheng Bank Stock Company Limited respectively.

(8) Pursuant to the supplementary legal opinion prepared by the GDI Group's legal adviser, which contains, inter alia, the following information:

i) Shanghai Jiusheng is currently under litigation in connection to the following parties:

a) 浙江舜建築集團股份有限公司 — as the preferential creditor for the construction fees,

b) China Construction Bank Beijing Chaoyang Branch — as the secondary creditor for the loan amount of RMB170,000,000 plus the interest incurred,

c) China Mensheng Bank Stock Company Limited — as the third creditor for the loan amount of RMB203,600,000 plus the interest incurred,

d) China Construction Bank Jinshan Shihua Branch — as the fourth creditor for the loan amount of RMB40,000,000 plus the interest incurred and

e) Rosedale Luxury — as the fifth creditor.

ii) Upon the final decision of the Peoples' Court for the execution of the Sales and Purchase Contract by Shanghai Jiusheng, Rosedale Luxury is entitled to obtain the title of the property after the settlement of the debt amounts to the preferential creditor, secondary creditor, third creditor and fourth creditor in lieu of Shanghai Jiusheng.

(9) We have based on the legal opinion of the GDI Group's legal adviser and prepared our valuation on the following assumptions and basis:

i) Subject to the completion of the Sales and Purchase Contract as stated in note 2 above, Rosedale Luxury Ltd. is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

ii) The design and construction of the proposed building are in compliance with local planning regulations and have been approved by the relevant authorities.

iii) The property, whether as a whole or on strata-titled basis, may be disposed of freely to both local and overseas purchasers.

(10) As advised by the GDI Group, the potential tax payable by the GDI Group for the disposal of the property as at the date of valuation is estimated to be HK$41,785,900.

CORPORATE INFORMATION

(i) The Offeror was incorporated in Hong Kong with limited liability on 21st August, 2000. The directors of the Offeror are Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard.

(ii) The registered address of the Offeror is 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(iii) Hanny was incorporated in Bermuda with limited liability on 3rd September, 1991. The Hanny Directors are:

Executive Directors:
Dr. Chan Kwok Keung, Charles *(Chairman)*
Dr. Yap, Allan *(Managing Director)*
Mr. Lui Siu Tsuen, Richard *(Deputy Managing Director)*

Independent non-executive Directors:
Mr. Yuen Tin Fan, Francis
Mr. Kwok Ka Lap, Alva
Mr. Wong King Lam, Joseph
Mr. Sin Chi Fai

(iv) The registered address of Hanny is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of Hanny in Hong Kong is 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(v) The principal members of the Offeror's concert group include (i) the Offeror and its directors, namely Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard; (ii) the parent company of the Offeror, Hanny, and its directors, namely Dr. Chan Kwok Keung, Charles (and ITC, a company controlled by him), Dr. Yap, Allan, Mr. Lui Siu Tsuen, Richard, Mr. Yuen Tin Fan, Francis, Mr. Kwok Ka Lap, Alva, Mr. Wong King Lam, Joseph and Mr. Sin Chi Fai; and (iii) Paul Y and its directors, namely, Dr. Chow Ming Kuen, Joseph, Mr. Tom Ko Yuen Lau, Dr. Chan Kwok Keung, Charles, Mr. Kwok Shiu Keung, Ernest and Mr. Chan Shu Kin.

As at the Latest Practicable Date, ITC was interested in approximately 24.28% of the issued shares of Hanny and 27.31% of the issued shares of Paul Y. As at the Latest Practicable Date, Dr. Chan Kwok Keung, Charles was interested in approximately 34.97% of the issued ordinary share capital of ITC. The directors of ITC are Dr. Chan Kwok Keung, Charles, Ms. Chau Mei Wah, Rosanna, Mr. Chan Kwok Hung, Mr. Chan Fut Yan, Mr. Cheung Hon Kit, Mr. Chuck Winston Calptor, Mr. Lee Kit Wah and Mr. Wong Kam Cheong, Stanley.

SHARE CAPITAL

The authorised and issued share capital of Hanny as at the Latest Practicable Date was, and the issued share capital of Hanny if all GDI Qualifying Shareholders accept Option 1 would be, as follows:

Authorised:		*HK$*
20,000,000,000	Hanny Shares	200,000,000
Issued and fully paid:		*HK$*
223,628,412	Hanny Shares as at 31st March, 2005	2,236,284.12
	Hanny Shares issued after 31st March, 2005	
2,515,285	– Hanny Shares issued as scrip dividend at HK$3.367 each	25,152.85
1,109,705	– Hanny Shares issued as scrip dividend at HK$3.735 each	11,097.05
10,000,000	– Hanny Shares issued upon exercise of share options at HK$3.415 each	100,000.00
237,253,402	Hanny Shares as at the Latest Practicable Date	2,372,534.02
62,277,529	Maximum number of Hanny Shares issuable under Option 1	622,775.29
299,530,931		2,995,309.31

Save as disclosed above, no Hanny Shares were issued and repurchased since 31st March, 2005, the date to which the last audited full year financial statements of Hanny were made up.

All Hanny Shares in issue (including the Hanny Shares to be issued under Option 1) rank pari passu in all respects with each other including all rights as regards rights to dividends, voting and return of capital.

On 18th March, 2003, Hanny effected a capital reorganisation involving (i) the consolidation of shares of Hanny on the basis that every 40 issued and unissued shares of HK$0.025 each were consolidated into one share of HK$1.00 each; (ii) the reduction in the par value of the shares of Hanny from HK$1.00 per share to HK$0.01 per share by the cancellation of HK$0.99 of the capital paid up on each share; (iii) the sub-division of the par value of the authorised but unissued shares of Hanny into shares of HK$0.01 each; and the number of authorised but unissued shares was increased accordingly; (iv) the reduction in the authorised share capital of Hanny from HK$650,000,000 to HK$200,000,000 by the cancellation of 45,000,000,000 shares of HK$0.01 each; (v) the cancellation of share premium account of Hanny of approximately HK$1,974.6 million; and (vi) the transfer of the credit arising from the aforesaid capital reorganisation and cancellation of the share premium account of approximately HK$2,133.3 million to the contributed surplus account of Hanny. Details of the aforesaid capital reorganisation were set out in the announcement of Hanny dated 29th January, 2003 and the circular of Hanny dated 21st February, 2003. Save as disclosed above, during the two financial years ended 31st March, 2003 and 2004 and up to the Latest Practicable Date, there was no capital reorganisation implemented by Hanny.

As at the Latest Practicable Date, Hanny had 9,000,000 outstanding options granted entitling the holders thereof to subscribe for up to 9,000,000 Hanny Shares, particulars of which are as follows:

	Number of options
Hanny Directors	7,250,000
Other employees	1,750,000
	9,000,000

Save as disclosed above, Hanny had no other outstanding options, warrants or conversion rights convertible into Hanny Shares as at the Latest Practicable Date.

DISCLOSURE OF INTERESTS

(i) Interests in Hanny

The interests of the Hanny Directors in the shares of Hanny as at the Latest Practicable Date (as shown in the register maintained by Hanny under section 352 of the SFO) are set out below.

(a) Interests in Hanny Shares

Name of Hanny Director	Long position/ short position	Capacity	Nature of interest	Number of Hanny Shares held	Approximate % of the issued share capital of Hanny
Dr. Chan Kwok Keung, Charles (“**Dr. Chan**”) *(Notes 1&2)*	Long position	Beneficial owner	Personal interest	1,600,000	0.67%
	Long position	Interest of controlled corporation	Corporate interest	57,614,948	24.28%
Dr. Yap, Allan *(Note 3)*	Long position	Beneficial owner	Personal interest	1,600,000	0.67%
Mr. Lui Siu Tsuen, Richard	Long position	Beneficial owner	Personal interest	3,350,000	1.41%

Notes:

1. This interest does not include interests in underlying Hanny Shares of equity derivatives of Hanny. This interest needs to be aggregated with those set out in paragraph (b) below to give the total interest of Dr. Chan in Hanny.

2. The 57,614,948 Hanny Shares were held by Famex Investment Limited, an indirect wholly-owned subsidiary of ITC. Dr. Chan is deemed to have a corporate interest in 57,614,948 Hanny Shares by virtue of his interest in ITC.

3. This interest does not include interests in underlying Hanny Shares of equity derivatives of Hanny. This interest needs to be aggregated with those set out in paragraph (b) below to give the total interest of Dr. Yap, Allan in Hanny.

(b) Interests in equity derivatives (as defined in the SFO) of Hanny

Name of Hanny Director	Long position/ short position	Capacity	Nature of interest	Exercisable period	Number of share options	Exercise price per Hanny Share *HK$*	Approximate % of the issued share capital of Hanny
Dr. Chan	Long position	Beneficial owner	Personal interest	8.31.2001 to 8.30.2006	4,000,000	2.9888	1.68%
Dr. Yap, Allan	Long position	Beneficial owner	Personal interest	8.31.2001 to 8.30.2006	3,250,000	2.9888	1.36%

Save as disclosed above, as at the Latest Practicable Date, none of the parties acting in concert with the Offeror owned or controlled any securities in Hanny.

Save as disclosed above, none of the Hanny Directors and directors of the Offeror was interested in any securities of Hanny as at the Latest Practicable Date.

As at the Latest Practicable Date, none of Somerley, Dao Heng Securities, Hercules, Deloitte, RHL and Norton owned or controlled any securities in Hanny.

As at the Latest Practicable Date, no person who owned or controlled securities in Hanny had irrevocably committed to accepting or rejecting the GDI Offer.

As at the Latest Practicable Date, no person who owned or controlled securities in Hanny had any arrangement of the kind as referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or parties acting in concert with it.

(ii) Interests in the shares of the Offeror

The Offeror is a wholly-owned subsidiary of Hanny. Accordingly, the disclosure of interests relating to the Hanny Shares as mentioned above is also applicable to the Offeror.

Save as disclosed in the sub-section headed "Interests in Hanny" above, as at the Latest Practicable Date, none of the parties acting in concert with the Offeror owned or controlled any securities in the Offeror.

As at the Latest Practicable Date, none of the Hanny Directors and directors of the Offeror was interested in any securities of the Offeror.

As at the Latest Practicable Date, none of Somerley, Dao Heng Securities, Hercules, Deloitte, RHL and Norton owned or controlled any securities in the Offeror.

As at the Latest Practicable Date, no person who owned or controlled securities in the Offeror had irrevocably committed to accepting or rejecting the GDI Offer.

As at the Latest Practicable Date, no person who owned or controlled securities in the Offeror had any arrangement of the kind as referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or parties acting in concert with it.

(iii) Interests in GDI Shares

The shareholdings in GDI owned or controlled by the Offeror and parties acting in concert with the Offeror as at the Latest Practicable Date are set out below.

Shareholder	Long position/ short position	Capacity	Nature of interest	Number of GDI Shares held	Number of underlying GDI Shares (equity derivatives of GDI) held	Approximate% of the existing issued share capital of GDI
Calisan Developments Limited ("Calisan") *(Note 1)*	Long position	Beneficial owner	Personal interest	129,409,897	—	29.36%
Great Decision Limited ("GDL") *(Note 1)*	Long position	Interest held by controlled corporation	Corporate interest	129,409,897	—	29.36%
PYI Investments Group Limited (formerly known as Paul Y. — ITC Investments Group Limited) ("PYIIG") *(Note 1)*	Long position	Interest held by controlled corporation	Corporate interest	129,409,897	—	29.36%
Paul Y *(Note 1)*	Long position	Interest held by controlled corporation	Corporate interest	129,409,897	—	29.36%
Well Orient *(Note 2)*	Long position	Beneficial owner	Personal interest	129,409,897	—	29.36%
Powervote Technology Limited *(Note 2)*	Long position	Interest held by controlled corporation	Corporate interest	129,409,897	—	29.36%
Hanny Magnetics (B.V.I.) Limited *(Note 2)*	Long position	Interest held by controlled corporation	Corporate interest	129,409,897	—	29.36%
Hanny *(Note 2)*	Long position	Interest held by controlled corporation	Corporate interest	129,409,897	—	29.36%

Notes:

1. Paul Y owns the entire interest of PYIIG. PYIIG owns the entire interest of GDL which in turn owns the entire interest in Calisan. Accordingly, GDL, PYIIG and Paul Y are deemed to be interested in 129,409,897 GDI Shares which are held by Calisan.

2. Well Orient is wholly-owned by Powervote Technology Limited ("PTL") which is in turn owned by Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics"). Hanny Magnetics is wholly-owned by Hanny. PTL, Hanny Magnetics and Hanny were deemed to be interested in 129,409,897 GDI Shares which were held by Well Orient.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror and parties acting in concert with it (including Hanny) owned or controlled any securities in GDI.

None of the Hanny Directors and the directors of the Offeror are interested in shares of GDI as at the Latest Practicable Date.

As at the Latest Practicable Date, none of Somerley, Dao Heng Securities, Hercules, Deloitte, RHL and Norton owned or controlled any securities in GDI.

As at the Latest Practicable Date, no person who owned or controlled securities in GDI had irrevocably committed to accepting or rejecting the GDI Offer. However, Paul Y announced on 8th May, 2006 that it resolved to declare a special dividend to the shareholders of Paul Y by way of distributing the value derived from its divestment in China Strategic, i.e. the value in GDI Shares, to the shareholders of Paul Y.

As at the Latest Practicable Date, no person who owned or controlled securities in GDI had any arrangement of the kind as referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or parties acting in concert with it.

DEALINGS

(i) Securities in Hanny

On 23rd November, 2004, Hanny entered into a placing and subscription agreement with ITC and Success Securities Limited pursuant to which Success Securities Limited agreed to place, on a best efforts basis, up to 37,000,000 Hanny Shares at HK$3.22 per Hanny Share to not less than six independent placees and ITC would subscribe for such number of new Hanny Shares equivalent to the number of the placing shares of Hanny placed at the same price of HK$3.22 per subscription shares. Completion of the placing took place on 24th November, 2004. Details of the placing were set out in the announcement of Hanny dated 23rd November, 2004.

On 22nd July, 2005, Hanny announced that the Hanny Board resolved to recommend the payment of a final dividend of HK6 cents per Hanny Share for the year ended 31st March, 2005 to the Hanny Shareholders and that the Hanny Shareholders would be given the option to receive Hanny Shares in lieu of cash in respect of part or all of such dividend. ITC elected to receive 816,135 Hanny Shares issued at HK$3.367 each. Such Hanny Shares represent all dividends which ITC were entitled under the script dividend scheme.

An aggregate of 11,000,000 Hanny Shares were acquired on 21st October, 2005 on market by Famex Investment Limited, being a substantial Hanny Shareholder and an indirect wholly-owned subsidiary of ITC. As jointly announced by Hanny and ITC on 15th November, 2005, the Executive criticised the board of directors of ITC for the breach of Rule 21.3 of the Takeovers Code as neither Hanny nor any person acting in concert with it may, except with the consent of the Executive, deal in any securities in Hanny during the GDI Offer period. Each of the Hanny Board and the board of directors of ITC has undertaken to the Executive that they will put in place suitable measures to ensure future compliance with the Takeovers Code in respect of the GDI Offer.

On 16th February, 2006, with the consent of the Executive, each of Dr. Chan, Mr. Yap, Allan and Mr. Lui Siu Tsuen, Richard (being the Hanny Directors who are presumed to be acting in concert with the Offeror in accordance with the Takeovers Code) exercised 1,600,000 share options to subscribe for the same number of Hanny Shares at an exercise price of HK$3.415 each.

On 21st February, 2006, with the consent of the Executive, Mr. Chan Kwok Hung (being a former executive Hanny Director who is presumed to be acting in concert with the Offeror in accordance with the Takeovers Code by virtue of his relationship with Dr. Chan) exercised 1,600,000 share options to subscribe for the same number of Hanny Shares at an exercise price of HK$3.415 each.

Save as disclosed in this sub-section above, none of the parties acting in concert with the Offeror dealt for value in any securities in Hanny during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

Save as disclosed in this sub-section above, none of the Hanny Directors or the directors of the Offeror dealt for value in any securities in Hanny during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

None of Somerley, Dao Heng Securities, Hercules, Deloitte, RHL and Norton dealt for value in any securities in Hanny during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

(ii) Securities in the Offeror

None of the parties acting in concert with the Offeror dealt for value in any securities in the Offeror during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

None of the Hanny Directors or the directors of the Offeror dealt for value in any securities in the Offeror during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

None of Somerley, Dao Heng Securities, Hercules, Deloitte, RHL and Norton dealt for value in any securities in the Offeror during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

(iii) Securities in GDI

Save for the GDI Shares received under the China Strategic Group Reorganisation, none of the Offeror and parties acting in concert with it (including Hanny) dealt for value in any securities in GDI during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

None of the Hanny Directors or the directors of the Offeror dealt for value in any securities in GDI during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

None of Somerley, Dao Heng Securities, Hercules, Deloitte, RHL and Norton dealt for value in any securities in GDI during the period commencing six months prior to the date of the Initial Announcement and ending on the Latest Practicable Date.

(iv) Arrangements in relation to dealings

As at the Latest Practicable Date, no arrangement of the kind as referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror, any person acting in concert with it or any of their respective associates, and any other persons or their associates.

MARKET PRICES

Set out below are the closing prices of the Hanny Shares on the Stock Exchange (i) on the Latest Practicable Date; (ii) on 14th October, 2004, the day preceding the date of the Initial Announcement; (iii) on the Last Trading Day; and (iv) on the last trading day of each of the calendar months during the period commencing six months immediately preceding the date of the Initial Announcement and ending on the Latest Practicable Date:

	HK$		*HK$*
30th April, 2004	3.100	29th April, 2005	3.625
31st May, 2004	3.100	31st May, 2005	2.975
30th June, 2004	3.350	30th June, 2005	3.150
30th July, 2004	3.000	29th July, 2005	3.400
31st August, 2004	2.600	31st August, 2005	3.525
30th September, 2004	2.650	30th September, 2005	4.000
14th October, 2004	2.675	31st October, 2005	4.350
29th October, 2004	3.000	30th November, 2005	3.975
30th November, 2004	3.100	30th December, 2005	3.750
31st December, 2004	3.200	27th January, 2006	4.625
31st January, 2005	3.950	28th February, 2006	4.925
28th February, 2005	3.850	31st March, 2006	4.850
The Last Trading Day	3.700	28th April, 2006	4.750
31st March, 2005	3.700	The Latest Practicable Date	4.075

The highest and lowest closing prices of the Hanny Shares during the period commencing six months immediately preceding the date of the Initial Announcement and ending on the Latest Practicable Date were HK$5.45 per Hanny Share on 10th February, 2006 and HK$2.475 per Hanny Share on 18th May, 2005 and 25th May 2005, respectively.

MATERIAL CHANGE

Hanny announced on 26th January, 2006 that Memorex International Inc. (“MII”) (a non wholly-owned subsidiary of Hanny) and Imation Corp. (an independent third party) entered into a conditional sale and purchase agreement relating to the disposal by MII of its business of the design, development, marketing, distribution and sale of hardware, media and accessories used for the storage of electronic data relating to the brand “Memorex®”. The disposal constitutes a very substantial disposal of Hanny and was completed on 28th April, 2006. After completion of the aforesaid disposal, the Hanny Group has ceased to engage in the aforesaid business and the principal activities of the Hanny Group become trading of securities, property investment and trading and other strategic investments. Details of the disposal were contained in an announcement of Hanny dated 26th January, 2006 and a circular of Hanny dated 10th April, 2006.

On 9th March, 2006, Best Position Limited (an indirect wholly-owned subsidiary of Hanny) and Asset Manage Limited (a wholly-owned subsidiary of Capital Strategic Investment Limited) entered into a conditional sale and purchase agreement relating to the acquisition by Best Position Limited of a 100% interest in Rapid Growth Profits Limited and the shareholders’ loan due from Island Town Limited, a company indirectly wholly-owned by Rapid Growth Profits Limited and holding a property located at the Bank of America Tower in Hong Kong. The property was mortgaged to a bank as security for a loan of approximately HK$93 million before the acquisition. The acquisition was completed on 28th March, 2006. It was originally intended that the consideration for the acquisition of approximately HK$39 million would be funded by internal resources. However, the Hanny Directors considered that financing the consideration by external borrowing represented a better use of funds at the time of completion of that transaction and thus obtained unsecured borrowing of HK$39 million to fund the acquisition. Details of the acquisition were contained in an announcement of Hanny dated 9th March, 2006 and a circular of Hanny dated 27th March, 2006.

During the period from January to May 2006, the Hanny Group repaid bank and other borrowings of approximately HK$355 million and HK$208 million respectively mainly with proceeds from the disposal of Memorex business and internal resources.

On 22nd April, 2006, Hanny, SCL and Success Securities Limited entered into an underwriting agreement relating to the underwriting of the rights issue of SCL. Hanny was interested in approximately 15.43% of SCL as at the Latest Practicable Date. Details of the rights issue were contained in an announcement of Hanny dated 27th April, 2006 and a circular of Hanny dated 17th May, 2006.

On 27th April, 2006, Hanny entered into a subscription agreement with Cheung Tai Hong Holdings Limited ("CTH") in relation to the subscription by Hanny of HK$270 million convertible notes to be issued by CTH. Hanny was interested in approximately 23.33% of CTH as at the Latest Practicable Date. Details of the subscription were contained in an announcement of Hanny dated 28th April, 2006.

Save as disclosed above, the Hanny Directors are not aware of any material change in the financial or trading position or outlook of the Hanny Group since 31st December, 2005 (being the date to which the last published audited consolidated accounts of the Hanny Group were made up) up to and including the Latest Practicable Date.

ARRANGEMENTS IN CONNECTION WITH THE GDI OFFER

(i) As at the Latest Practicable Date, no agreement, arrangement or understanding existed between the Offeror and any other persons for the transfer, charge or pledge of the beneficial interests in GDI Shares acquired by the Offeror under the GDI Offer.

(ii) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between the Offeror or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of GDI which is conditional on or dependent upon the outcome of the GDI Offer or otherwise connected therewith.

(iii) As at the Latest Practicable Date, no agreement or arrangement existed whereby the Offeror is a party thereto which relates to the circumstances in which the Offeror may or may not invoke or seek to invoke a condition to the GDI Offer.

(iv) No emoluments of the Hanny Directors or directors of the Offeror will be affected by the GDI Offer or any other associated transaction.

INDEBTEDNESS

Borrowings

At the close of business on 28th February, 2006, the Hanny Group had outstanding borrowings of approximately HK$873,605,000 comprising secured borrowings of approximately HK$511,585,000 and unsecured borrowings of approximately HK$362,020,000. The secured borrowings of approximately HK$511,585,000 included bank borrowings of approximately HK$271,720,000, other borrowings of approximately HK$200,000,000, trust receipt loans of approximately HK$15,771,000, share margin financing loans of approximately HK$4,884,000 and bank overdrafts of approximately HK$19,210,000. The unsecured borrowings of approximately HK$362,020,000 included unsecured bank borrowings of approximately HK$60,000, unsecured other borrowings of approximately HK$323,046,000, unsecured trust receipt loans of approximately HK$26,266,000, unsecured bills payable of approximately HK$253,000 and unsecured bank overdrafts of approximately HK$12,395,000.

Pledge of assets and guarantees

At the close of business on 28th February, 2006, the secured borrowings are secured by certain of the Hanny Group's assets of approximately HK$1,315,312,000.

At the close of business on 28th February, 2006, the Hanny Group's banking facilities were also secured by personal guarantee given by a director of Hanny, corporate guarantee from Hanny and joint guarantee by Hanny and a director of Hanny amounting to approximately HK$400,000,000, HK$98,473,000 and HK$4,274,000 respectively.

Debt securities

At the close of business on 28th February, 2006, the Hanny Group had no debt securities.

Contingent liabilities

At the close of business on 28th February, 2006, the Hanny Group had no contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, the Hanny Group did not have outstanding at the close of business on 28th February, 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 28th February, 2006.

Subsequent to 28th February, 2006, the Hanny Group had completed a very substantial disposal transaction, whereby the Hanny Group, through its non wholly-owned subsidiary, Memorex International Inc. (the "Vendor"), disposed of the Vendor's entire interest in Hanny Magnetics Europe Limited, Memorex Canada Ltd., Memorex Products Europe Limited, Memorex Products S.A.S., Memorex Products GmbH, Memorex Products (Taiwan) Inc. and Memorex Products, Inc. (the "Disposed Companies") and disposed of the Vendor's trademark license and other assets relating to the marketing and sale of electronic data storage business under the trade name "Memorex®", which include the business of design, development, marketing, distribution and sale of hardware, media and accessories used for the storage of electronic data engaged by the Vendor and the Disposed Companies.

At the close of business on 28th February, 2006, the Disposed Companies had outstanding secured bank borrowings of approximately HK$263,812,000. The secured bank borrowings were secured by certain of the Disposed Companies' assets of approximately HK$345,288,000. The banking facilities of the Disposed Companies were also secured by corporate guarantee from Hanny amounting to approximately HK$2,896,000.

LITIGATION

As at the Latest Practicable Date, none of the members of the Hanny Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Hanny Directors to be pending or threatened against any member of the Hanny Group.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Hanny Group) were entered into by the members of the Hanny Group within the two years preceding the date of the Initial Announcement and are or may be material:

(i) the sale and purchase agreement dated 25th October, 2003 (the "Memorex Agreement") entered into between Hanny and Global Media Limited ("Global Media") relating to the disposal of a 35% interest in Memorex Holdings Limited ("Memorex") for a cash consideration of US$39.9 million (equivalent to approximately HK$311.2 million);

(ii) the call option agreement dated 5th December, 2003 entered into between Hanny and Global Media pursuant to which Global Media obtained an option to purchase an additional 20% interest in Memorex from Hanny, exercisable in whole or in part at any time within 3 years from the date of the Memorex Agreement. The exercise price for the call option is equal to the aggregate of US$26.9 million (equivalent to approximately HK$209.8 million) and the amount which represents 20% of the consolidated retained profits of Memorex;

(iii) the deed of indemnity dated 5th December, 2003 entered into between Hanny and Global Media in relation to certain tax indemnities given by Hanny in favour of Global Media in respect of the disposal under the Memorex Agreement;

(iv) the placing and subscription agreement dated 28th January, 2004 entered into between ITC, Hanny and Success Securities Limited (formerly known as Young Champion Securities Limited) ("Success Securities") relating to the placing and subscription of 21,500,000 Hanny Shares at a price of HK$4.00 per Hanny Share. The aggregate net proceeds from the placing was approximately HK$86 million;

(v) the placing and subscription agreement dated 23rd November, 2004 entered into between ITC, Hanny and Success Securities relating to the placing and subscription of 37,000,000 Hanny Shares at a price of HK$3.22 per Hanny Share. The aggregate net proceeds from the placing was approximately HK$119 million;

(vi) two sale and purchase agreements both dated 31st January, 2005 entered into between TFN Multi-Media Co., Ltd. and each of Pacific Development Co. Ltd. and Pacific Auto Co. Ltd. respectively (both indirect wholly-owned subsidiaries of Hanny) and relating to the disposal of an aggregate of 8.03% interest in Fu Yang Investment Co., Ltd. The aggregate consideration for the disposal was approximately NT$638.6 million (equivalent to approximately HK$156.5 million) and was satisfied as to 25% by two bank demand drafts on 31st January, 2005 and as to the remaining 75% by two post-dated cheques honoured on 4th March, 2005;

(vii) the Share Sale Agreement;

(viii) the subscription agreement dated 20th April, 2005 entered into between Loyal Concept Limited, an indirect wholly-owned subsidiary of Hanny, and Cheung Tai Hong Holdings Limited ("Cheung Tai Hong") in relation to the subscription by cash of HK$450 million convertible note issued by Cheung Tai Hong. The initial conversion price of the convertible note is HK$0.44 per share in Cheung Tai Hong, subject to usual anti-dilution adjustments in certain events including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution and rights issue;

(ix) the underwriting agreement dated 21st April, 2005 entered into between Hanny, SCL and Tai Fook Securities Company Limited in relation to the underwriting of the rights shares of SCL. Pursuant to the underwriting agreement, Hanny agreed to underwrite 320,000,000 rights shares in SCL (representing, at that time, approximately 14.9% of the issued share capital of SCL as enlarged by the rights issue) at a commission of 2% of the aggregate rights shares underwritten;

(x) the subscription agreement dated 21st April, 2005 entered into between Hanny and SCL relating to the subscription of HK$170 million convertible note issued by SCL in cash. The initial conversion price of the convertible note is HK$0.12 per share in SCL, subject to usual anti-dilution adjustments in certain events, including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution and rights issue;

(xi) the loan agreement dated 11th August, 2005 entered into between Hanny and Kingston Finance Limited ("Kingston") pursuant to which Kingston agreed to grant a loan facility of HK$400 million to Hanny;

(xii) a deed of mortgage and assignment dated 11th August, 2005 entered into between Well Orient as the mortgagor and Kingston as mortgagee in relation to the securities of China Strategic;

(xiii) a security assignment dated 11th August, 2005 entered into between Loyal Concept Limited, an indirect wholly-owned subsidiary of Hanny, as the assignor and Kingston as the assignee in relation to the HK$450 million convertible note of Cheung Tai Hong;

(xiv) a deed of mortgage of shares dated 11th August, 2005 entered into between Hanny as the mortgagor and Kingston as mortgagee in relation to the securities in SCL;

(xv) a deed of security assignment dated 11th August, 2005 entered into between Hanny as the assignor and Kingston as assignee in relation to the HK$170 million convertible note of SCL;

(xvi) a subscription agreement dated 18th August, 2005 entered into between Hanny and Wo Kee Hong (Holdings) Limited in respect of the subscription by Hanny of HK$30 million convertible note issued by Wo Kee Hong (Holdings) Limited in cash. The initial conversion price of the convertible note is HK$0.10 per share in Wo Kee Hong (Holdings) Limited, subject to usual anti-dilution adjustments in certain events, including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution and rights issue;

(xvii) a supplemental agreement dated 30th December, 2005 to extend the long stop date of the Share Sale Agreement to 30th April, 2006;

(xviii) a conditional sale and purchase agreement dated 19th January, 2006 entered into between Memorex International Inc. ("MII"), an indirect non wholly-owned subsidiary of Hanny, and Imation Corp. ("Imation") relating to the disposal of MII's business of the design, development, marketing, distribution and sale of hardware, media and accessories used for the storage of electronic data relating to the brand Memorex®. The aggregate cash consideration for the disposal was US$330 million plus adjustments amount and earnout amount calculated in accordance with the terms of the sale and purchase agreement;

(xix) an inducement agreement dated 19th January, 2006 entered into, among others, Imation and Hanny, pursuant to which Hanny has, amongst other things, agreed to guarantee the performance of MII under the conditional sale and purchase agreement as mentioned in (xviii) above;

(xx) a conditional sale and purchase agreement dated 9th March, 2006 entered into between Best Position Limited, an indirect wholly-owned subsidiary of Hanny, and Asset Manage Limited relating to the acquisition of 100% interests in Rapid Growth Profits Limited and the shareholders' loan due from Island Town Limited at a consideration of HK$39,054,194, subject to adjustment;

(xxi) the underwriting agreement dated 22nd April, 2006 entered into between Hanny, SCL and Success Securities in relation to the underwriting of the rights issue of SCL, pursuant to which Hanny agreed to underwrite up to 329,037,330 rights shares in SCL at a price of HK$0.014 per rights share for an underwriting commission of 5% of the aggregate subscription price of the rights shares underwritten by Hanny;

(xxii) the subscription agreement dated 27th April, 2006 entered into between Hanny and Cheung Tai Hong in relation to the subscription of HK$270 million convertible note issued by Cheung Tai Hong in cash. The initial conversion price of the convertible note is HK$0.70 per share in Cheung Tai Hong, subject to the usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalization issue, capital distribution, rights issue and other equity or equity derivatives issue; and

(xxiii) a supplemental agreement dated 28th April, 2006 to further extend the long stop date of the Share Sale Agreement to 30th June, 2006.

SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of GDI was as follows:

Authorised:		*US$*
8,000,000,000	GDI Shares of US$0.01 each	80,000,000.00
Issued and fully paid:		*US$*
440,797,543	GDI Shares of US$0.01 each	4,407,975.43

As at 31st December, 2005, there was 1 share of GDI of US$1.00. To facilitate the China Strategic Group Reorganisation, (i) the authorised share capital of GDI was increased from US$50,000.00 to US$80,000,000.00 and the 1 share of GDI of US$1.00 was sub-divided into 100 GDI Shares of US$0.01 each on 17th May, 2006; and (ii) 440,797,443 GDI Shares of US$0.01 each were allotted and issued on 19th May, 2006. However, the share certificates of GDI will only be posted to the shareholders of GDI who have not accepted the GDI Offer after the Closing Date such that the despatch of the share certificates to the shareholders of GDI could be managed efficiently. Details of the procedures for acceptance of the GDI Offer are set out in Appendix I to this document and the Form of Acceptance.

All GDI Shares in issue rank pari passu in all respects with each other including all rights as regards rights to dividends, voting and return of capital.

As at the Latest Practicable Date, there were no outstanding options, warrants or conversion rights which will affect the GDI Shares.

DISCLOSURE OF INTERESTS

(i) As at the Latest Practicable Date, Ms. Chan Ling, Eva, a director of GDI, was interested in 500 Hanny Shares. Save as aforesaid, none of GDI and its directors was interested in any securities in the Offeror or Hanny as at the Latest Practicable Date.

(ii) As at the Latest Practicable Date, Hanny was interested in 29.4% of the issued share capital of GDI. Dr. Chan, Dr. Yap, Allan and Mr. Lui Siu Tsuen, Richard, directors of GDI, were interested in GDI Shares through their respective interests in Hanny Shares as disclosed under the section headed "Disclosure of interests" in Appendix VII to this document. Save as aforesaid, none of the directors of GDI was interested in any securities in GDI as at the Latest Practicable Date.

(iii) As at the Latest Practicable Date, none of the subsidiaries of GDI, a pension fund of GDI or its subsidiaries, Dao Heng Securities, Hercules, Deloitte, Norton or any other advisers to GDI as specified in class (2) of the definition of associate (excluding exempt principal traders) under the Takeovers Code owned or controlled any securities in GDI, the Offeror or Hanny.

(iv) As at the Latest Practicable Date, no person who owned or controlled securities in GDI, the Offeror or Hanny had any arrangement of the kind as referred to in Note 8 to Rule 22 of the Takeovers Code with GDI or with any person who is an associate of GDI by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(v) As at the Latest Practicable Date, no fund manager (other than exempt fund manager) connected with GDI managed any securities in GDI, the Offeror or Hanny on a discretionary basis.

(vi) As at the Latest Practicable Date, none of the directors of GDI directly held or owned any securities in GDI.

DEALINGS

During the period commencing six months preceding 15th October, 2004, being the commencement date of the GDI Offer period, and ending on the Latest Practicable Date,

(i) none of GDI and its directors dealt for value in any securities in the Offeror or Hanny;

(ii) none of the directors of GDI dealt for value in any securities in GDI;

(iii) none of the subsidiaries of GDI, a pension fund of GDI or its subsidiaries, Dao Heng Securities, Hercules, Deloitte, Norton or any other advisers to GDI as specified in class (2) of the definition of associate (excluding exempt principal traders) under the Takeovers Code dealt for value in any securities in GDI, the Offeror or Hanny;

(iv) no person who had an arrangement of the kind as referred to in Note 8 to Rule 22 of the Takeovers Code with GDI or with any person who is an associate of GDI by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code dealt for value in any securities in GDI, the Offeror or Hanny; and

(v) no fund manager (other than exempt fund manager) connected with GDI dealt for value in any securities in GDI, the Offeror or Hanny which were managed on a discretionary basis.

MATERIAL CHANGE

Save for the subscription of convertible note with principal amount of HK$300 million of Wing On by CEL, a non wholly-owned subsidiary of GDI, as announced on 27th March, 2006, the directors of GDI are not aware of any material change in the financial or trading position and outlook of the GDI Group since 31st December, 2005, being the date which the latest audited consolidated financial statements of the GDI Group were made up.

INDEBTEDNESS

Borrowings

At the close of business on 31st March, 2006, (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document), the GDI Group had outstanding borrowings of approximately HK$2,972,863,000 comprising amounts due to fellow subsidiaries of approximately HK$2,972,304,000, amount due to a related company of approximately HK$556,000 and secured margin loan payable of approximately HK$3,000.

Securities and guarantees

At the close of business on 31st March, 2006, the secured margin loan payable is secured by investment in securities held for trading of approximately HK$3,600,000.

Debt securities

At the close of business on 31st March, 2006, the GDI Group had no debt securities.

Commitment

At the close of business on 31st March, 2006, the GDI Group had commitment of approximately HK$95,654,000 in respect of the acquisition of interest in other assets.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the GDI Group did not have, at the close of business on 31st March, 2006, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees, or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 31st March, 2006.

LITIGATION

As at the Latest Practicable Date, other than the legal proceedings commenced by the GDI Group against a third party in June 2005 in relation to certain property interests of the GDI Group, none of the members of the GDI Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors of GDI to be pending or threatened by or against any member of the GDI Group.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the GDI Group) were entered into by the members of the GDI Group within the two years preceding 15th October, 2004, being the commencement date of the GDI Offer period, which are, or may be material:

(i) an agreement dated 10th June, 2003 entered into between Million Good Limited ("Million Good"), a non wholly-owned subsidiary of GDI, and Wing On, an associated company of GDI, in respect of the provision of loan facility for the amount of HK$25,000,000 by Million Good for working capital of Wing On. The loan was unsecured, bore interest at Hong Kong Dollars prime rate and was repayable within two years from the date of this agreement. A supplemental agreement dated 21st October, 2003 was entered into between Million Good and Wing On in respect of the change of the amount of the loan to HK$100,000,000;

(ii) an agreement dated 30th September, 2003 entered into between Vision Leader Limited, an indirect wholly-owned subsidiary of GDI, and Mr. Chan Chung Chiu, an independent third party, in relation to the sale and purchase of the entire issued share capital of Zhuhai Zhongce Property Investment Limited (formerly known as Talent Shop Investment Limited) for the consideration of HK$190,000,000. Completion of the transaction took place in October 2003;

(iii) an agreement dated 16th December, 2003 and a supplemental agreement dated 2nd January, 2004 entered into between Future Returns Limited ("Future Returns"), a wholly-owned subsidiary of GDI, and Apex in respect of the loan facility for the amount of HK$76,215,406.33. The loan was unsecured, bore interest at 2% over and above Hong Kong Dollars prime rate per annum and was repayable on 2nd January, 2006;

(iv) an agreement dated 16th December, 2003 and a supplemental agreement dated 2nd January, 2004 entered into between Future Returns, a wholly-owned subsidiary of GDI, and Apex in respect of the loan facility for the amount of RMB5,544,065.68. The loan was unsecured, bore interest rate of 6% per annum and was repayable on 2nd January, 2006;

(v) a conditional agreement dated 13th January, 2004 entered into between CEL, a non wholly-owned subsidiary of GDI, and Wing On, an associated company of GDI, in respect of the subscription of convertible note in the amount of HK$155,000,000 attaching with conversion rights to convert the note into shares of Wing On at an initial conversion price of HK$0.02 per share by CEL. Completion of the transaction took place in May 2004;

(vi) a subscription agreement dated 2nd February, 2004 entered into among Grotto Profits Limited ("Grotto Profits"), a wholly-owned subsidiary of GDI, SIIS Treasury Limited and Softbank Investment International (Strategic) Limited ("Softbank") in respect of the subscription of the 5% convertible guarantee note in the amount of HK$3,000,000 attaching conversion rights to convert the note into shares of SIIS Treasury Limited at an initial conversion price of HK$0.10 per share by Grotto Profits. Completion of the transaction took place in February 2004;

(vii) an agreement dated 30th March, 2004 entered into among Group Dragon Limited ("Group Dragon"), an indirect wholly-owned subsidiary of GDI, and Mr. Jonathan H. Lee, Mr. Hu Hsiao Cheng and Mr. Cheng Jian, who are independent third parties, relating to the acquisition of the entire issued share capital of Asso Limited by Group Dragon for a consideration RMB219,000,000, subject to the condition of due diligence results being satisfactory and acceptable to Group Dragon. The condition was not fulfilled on or before the agreed long stop date, i.e. 31st July, 2004, and the agrement was therefore lapsed;

(viii) the sale and purchase agreement dated 16th June, 2004 entered into between Manwide Holdings Limited, a non wholly-owned subsidiary of GDI, and Shanghai Jiu Sheng Investment Company Limited in respect of the acquisition of the interest in the land situated at Nos. 219 and 229, Jiang Ning Road, Jing An District, Shanghai, the PRC and the building being erected thereon which comprises two levels of underground carparks and a 24-storey building for a consideration of RMB450 million;

(ix) two placing and subscription agreements dated 30th November, 2004 entered into among CEL, a non wholly-owned subsidiary of GDI, Wing On, an associated company of GDI, and a placing agent, Deutsche Bank AG, Hong Kong Branch, in relation to the placing of 6,000 million shares of Wing On by the placing agent on behalf of CEL at the price of HK$0.028 per share and the subscription of 6,000 million new shares of Wing On at HK$0.028 per share. The placing agent was entitled to receive a commission equal to 3.6% of the aggregate placing price of the placing shares. The placing and subscription were completed in January 2005;

(x) a placing and subscription agreement dated 4th February, 2005 entered into among CEL, a non wholly-owned subsidiary of GDI, Wing On, an associated company of GDI, and a placing agent, Tai Fook Securities Company Limited, in relation to the placing of 6,400 million shares of Wing On at the price of HK$0.022 and the subscription of 6,400 million new shares of Wing On at HK$0.022 per share. The placing agent was entitled to receive a commission equal to 2.5% of the aggregate placing price of the placing shares. The placing and subscription were completed in February 2005; and

(xi) a conditional subscription agreement dated 23rd March, 2006 (the "Agreement") entered into between CEL, a non wholly-owned subsidiary of GDI, and Wing On, an associated company of GDI, in relation to the subscription by CEL of the HK$300 million 2% convertible exchangeable notes due 2011 of Wing On which entitle the holders thereof to convert the outstanding principal into Wing On shares at the initial conversion price of HK$0.79 per share of Wing On.

ARRANGEMENTS AFFECTING THE DIRECTORS OF GDI

(i) No benefit will be given to any director of GDI as compensation for loss of office or otherwise in connection with the GDI Offer.

(ii) As at the Latest Practicable Date, no agreement or arrangement existed between any director of GDI and any other person which is conditional on or dependent upon the outcome of the GDI Offer or otherwise connected therewith.

(iii) As at the Latest Practicable Date, there was no material contract to which the Offeror is a party in which any director of GDI has a material personal interest.

SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the directors of GDI had entered into any service agreement with any member of the GDI Group or associated companies of GDI which are in force and which are continuous contracts with a notice period of 12 months or more, or which has been entered into or amended within six months prior to 15th October, 2004, being the commencement date of the GDI Offer period, or which are fixed term contracts with more than 12 months to run irrespective of the notice period.

RESPONSIBILITY STATEMENTS

The Hanny Directors and the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information (other than those relating to the GDI Group and the China Strategic Group) contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed herein (other than those relating to the GDI Group and the China Strategic Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement herein misleading.

The directors of GDI and China Strategic jointly and severally accept full responsibility for the accuracy of the information (other than those relating to the Hanny Group and the Offeror) contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed herein (other than those relating to the Hanny Group and the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement herein misleading.

EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this document.

Name	Qualification
Somerley Limited	a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
Hercules Capital Limited	a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity under the SFO
Deloitte Touche Tohmatsu	certified public accountants
RHL Appraisal Ltd.	professional valuers
Norton Appraisals Limited	professional property valuers

Each of Somerley, Dao Heng Securities, Hercules, Deloitte, RHL and Norton has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter or report and references to its name in the form and context in which they respectively appear.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours at the principal place of business of Hanny in Hong Kong at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong; (ii) on the website of Hanny *(www.hanny.com)*; and (iii) the website of the SFC *(www.sfc.hk)* from the date of this document up to and including the Closing Date:

(i) the memorandum of association and bye-laws of Hanny and the memorandum and articles of association of the Offeror;

(ii) the memorandum and articles of association of GDI;

(iii) the accountants' report of Hanny as set out in Appendix II to this document, the annual reports of Hanny for each of the three financial years ended 31st March, 2003, 2004 and 2005 and the interim reports of Hanny for each of the six months ended 30th September, 2004 and 2005;

(iv) the accountants' report on the GDI Group as set out in Appendix III to this document;

(v) the unaudited pro forma financial information of the Hanny Group as set out in Appendix IV to this document;

(vi) the letter from the GDI Board, the text of which is set out on pages 6 to 10 to this document;

(vii) the letter from Somerley, the text of which is set out on pages 11 to 18 of this document;

(viii) the letter of advice from Hercules, the text of which is set out on pages 19 to 54 of this document;

(ix) the comfort letters from Deloitte and Somerley regarding the unaudited pro forma financial information on the Hanny Group, the text of each of which is set out in Appendix IV to this document;

(x) the report from RHL on the estimated value of the Hanny Bonds, the text of which is set out in Appendix V to this document;

(xi) the comfort letter from Somerley regarding the estimated value of the Hanny Bonds, the text of which is set out in Appendix V to this document;

(xii) the valuation report from Norton, the text of which is set out in Appendix VI to this document;

(xiii) the material contracts as referred to in the section headed "Material contracts" in each of Appendices VII and VIII to this document; and

(xiv) the written consents as referred to in the section headed "Experts and consents" in this appendix.

MISCELLANEOUS

In the event of inconsistency, the English texts of this document and the Form of Acceptance shall prevail over the Chinese texts thereof.

閣下如已悉數售出或轉讓名下之群龍股份，應立即將本表格連同此文件送交買主或承讓人或經手買賣或轉讓之持牌證券交易商或註冊證券機構或其他代理商，以便轉交買主或承讓人。

向任何居於香港以外司法權區之人士提出群龍收購建議可能會受有關司法權區之法例影響。倘閣下為香港以外司法權區之市民、居民或國民，則應自行瞭解任何適用法例規定，並加以遵守。閣下如欲接納群龍收購建議，則有責任就此自行全面遵守有關司法權區之法例，包括在該司法權區取得任何可能需要之政府或其他同意、符合任何其他必要正式手續及支付任何到期之轉讓或其他稅項。

本表格應與此文件一併閱覽。

本表格之填寫方法

(i) 閣下如欲接納新百利代表要約人提出收購閣下之群龍股份之群龍收購建議，則閣下應填妥及簽署本表格背頁，並儘快將本表格整份以郵遞或速遞或其他類似派遞方式，或以專人送遞方式送交接收代理人標準証券登記有限公司，地址為香港灣仔皇后大道東28號金鐘滙中心26樓，惟無論如何最遲須於二零零六年六月十六日(星期五)下午四時正(香港時間)(或要約人根據收購守則規定可能公佈之較後日期及時間)送達。此文件附錄一之條文納入並構成本表格之一部分。群龍合資格股東於填寫本表格前，謹請細閱此文件。

(ii) 請在丙欄填寫閣下擬接納方案一代價之群龍股份數目，並在丁欄填寫閣下擬接納方案二代價之群龍股份數目。

(a) 倘閣下於接納表格丁欄填寫之群龍股份數目並非5或5之完整倍數，閣下將被視為選擇：

(i) 將於接納表格丁欄填寫之群龍股份數目下調至5或最接近所填寫數目之5的完整倍數後，就該數目之群龍股份收取方案二代價(而丁欄內之數目亦將被視為已相應減少)；及

(ii) 就其餘群龍股份收取方案一代價(而丙欄內之數目亦將被視為已相應增加)。

(b) 倘閣下於接納表格丙欄及丁欄所填之群龍股份總數超過以閣下名義登記之群龍股份數目，所超過之數目將首先用以扣減丁欄所填數目(而該數目將被視為已相應減少)，而扣減後所餘下之數目將用以扣減丙欄所填數目(而該數目將被視為已相應減少)。

(c) 倘丙欄內之群龍股份數目(經上述條文修改(如適用)後)並非5或5之完整倍數，則計算(i)該數目及(ii) 5或最接近該數目之5的完整倍數之差額，而閣下將就該差額按公式1.8港元 x (差額／5)計算須予支付之款項。

倘本表格並無清楚表明選擇方案一或方案二，則閣下將被視為已根據方案一接納以閣下名下登記之所有群龍股份之群龍收購建議。

(iii) 倘閣下以代名人或其他身分代表他人持有群龍股份，或倘閣下之群龍股份乃透過中央結算系統持有，則閣下應特別參閱此文件附錄一「接納手續」一節所述閣下應考慮之事項。

(iv) 倘本表格並無嚴格根據本表格所載之指示填妥，則要約人保留權利，可在要約人認為本表格已根據有關其認為乃閣下之意向之指示填妥之情況下視本表格為有效。要約人對本段所述決定概不負責。

本表格

致：要約人及新百利

(i) 除該文件及本表格之條款另有所指外，本人／吾等簽立本表格(不論有關表格是否已註明日期，而有關表格對本人／吾等之繼承人及承讓人均具約束力)，即構成：

(a) 本人／吾等按本表格所載之代價及根據此文件及本表格所述之條款(包括「本表格之填寫方法」一節所載之條款)，就本表格所列明之群龍股份數目(可按本表格之條款更改)(或倘並無列明數目或列明超過本人／吾等登記持有之數目，則就所有本人／吾等登記持有之群龍股份數目)，不可撤回地接納此文件所載新百利代表要約人提出之群龍收購建議；

(b) 本人／吾等不可撤回地指示及授權接收代理人，在群龍收購建議之條款及條件規限下，憑本人／吾等正式簽署之本表格與本人／吾等將獲發並因接納群龍收購建議而提交之群龍股份有關之群龍股份股票就向要約人及／或其代理人發出；

(c) 本人／吾等不可撤回地指示及授權要約人及／或新百利或彼等各自之代理人，向本人／吾等發出本人／吾等根據方案一應得並以本人／吾等為抬頭人發出現金代價之相關銀行匯票／支票及以本人／吾等名義發出之股份股票；**及／或**根據方案二之條款應得本人／吾等名義發出之錦興債券之債券票據，並在各情況下寄往下列人士(或倘並無於下文列明姓名及／或地址，則按股東名冊所示之地址寄予名列首位之轉讓人)，郵誤風險概由本人／吾等承擔：

(倘應收取相關銀行匯票／支票及股票及／或錦興債券票據之人士並非登記股東或名列首位之聯名登記股東，則請在本欄填寫應收取銀行匯票**及／或**要約人股票人士之姓名及地址。)

姓名：(請用正楷填寫) ____________________

地址：____________________

(d) 本人／吾等不可撤回地指示及授權要約人及／或新百利或彼等各自之代理人，以要約人名義登記本人／吾等之群龍股份，並將有關群龍股份之股票送交要約人；

(e) 本人／吾等不可撤回地指示及授權要約人及／或新百利之任何董事或彼等任何一者可能指示之人士，代表本人／吾等填妥、修訂及簽立有關本人／吾等就接納群龍收購建議提交之任何文件，包括(但不限於)在本表格填上日期及根據上文「本表格之填寫方法」一節正式填妥本表格，或倘本人／吾等或任何其他人士已填上日期，則刪去該日期，並另行填上日期，以及採取任何其他可能屬必要或權宜之行動，藉此將本人／吾等之群龍股份轉歸要約人或其可能指示之人士所有；

(f) 本人／吾等承諾在必要或適當時進一步簽立文件及採取其他行動及事項，以進一步確保本人／吾等就接納群龍收購建議而轉讓予要約人或其可能指示之人士之群龍股份不附帶任何留置權、押記、產權負擔、優先購買權及任何性質之任何其他第三者權利，並會附帶彼等所附帶之一切權利及群龍股份發行當日後宣派、作出或派付之其他分派(如有)；

(g) 本人／吾等同意本人／吾等根據群龍收購建議應支付之代價，將根據群龍收購建議之條款全數支付，該款項不附帶任何留置權、抵銷權、反索償或其他要約人可或聲稱可向本人／吾等行使之類似權利；及

(h) 本人／吾等同意追認由要約人及／或新百利及／或接收代理人或彼等各自之代理人或其／彼等可能指示之人士在行使本表格所載之任何授權時所採取或進行之各項及一切行動或事項。

(ii) 在得到執行理事同意下，倘群龍收購建議被撤銷或倘吾等撤銷吾等之接納(倘吾等獲撤銷之權利)，則上文第(i)段所載之一切指示、授權及承諾將告終止，而在該情況下，本人／吾等授權及要求閣下將妥為註銷之本表格，以郵遞方式寄予上列人士，或倘並無列明姓名及地址，則按股東名冊所示之地址寄予本人或吾等中名列首位者(倘屬聯名登記股東)，郵誤風險概由本人／吾等承擔。

(iii) 本人／吾等明白，概不會就任何接納表格及／或任何其他文件獲發收據。

(iv) 本人／吾等謹此向閣下保證及聲明，本人／吾等為本表格所列明群龍股份數目之登記持有人，而本人／吾等有全面權利、權力及授權透過接納群龍收購建議向要約人出售及轉讓該等群龍股份之所有權及擁有權，而不附帶任何留置權、押記、產權負擔、優先購買權及任何性質之任何其他第三者權利，並會附帶彼等所附帶之一切權利(包括全數收取於群龍股份發行當日後宣派、作出或派付之分派(如有)之權利)，惟受群龍收購建議之條款所規限。

(v) 本人／吾等確認，除此文件及本表格明文規定者外，於本表格所作出之一切接納、指示、授權及承諾均為無條件及不可撤回。

個人資料

個人資料收集聲明

本個人資料收集聲明旨在向群龍合資格股東(作為資料當事人)說明要約人及新百利就個人資料及香港個人資料(私隱)條例(「該條例」)而制訂之政策及慣例。

(i) 收集閣下個人資料之原因

股東須就群龍收購建議向要約人及／或新百利提供有關彼等之最新準確個人資料。倘未能向要約人及／或新百利提供所需資料，則可能會導致要約人及／或新百利延誤或未能執行有關群龍收購建議之手續。群龍合資格股東所提供資料如有任何不確，則必須即時知會要約人及新百利。

(ii) 用途

閣下之個人資料可以任何方式被採用、持有及／或保存，以作下列用途：

- 處理閣下對群龍收購建議之接納及核實是否遵守本表格及此文件所載條款及申請手續；
- 核實或協助核實簽名或作任何其他資料核實或交換；
- 確立群龍股東獲取利益之權利；
- 發佈要約人及／或新百利之通訊；
- 遵照法例、規則或規例之規定作出披露(不論屬法定或其他披露)；
- 披露有關資料以便作權利索償；
- 以便符合香港及其他地區之所有適用法例及規例；及
- 與上述有關之任何其他附帶或相關目的及／或令要約人及／或新百利或彼等自委任之任何代理人執行有關群龍收購建議之手續、與監管機構聯繫及／或群龍合資格股東可能不時同意之任何其他目的。

(iii) 轉交個人資料

要約人及／或新百利會將閣下之資料保密，惟要約人及／或新百利可能會作出彼等認為必要之查詢以確定個人資料之準確性，以便資料可用作上述任何用途，尤其，彼等可能會將閣下之個人資料向下列任何或所有人士及實體披露、自彼等取得有關資料或將有關資料轉交予彼等(不論於香港或外地)：

- 要約人或任何彼等所委任之代理人，例如財務顧問、收款銀行及過戶登記處；
- 任何向群龍及／或要約人及／或新百利提供與其業務運作有關之行政、電訊、電腦、付款或其他服務之代理人、承包商或第三者服務供應商；
- 聯交所、證監會及任何其他監管或政府機構；及
- 與閣下有或擬有業務往來之任何其他人士或機構，例如閣下之銀行、律師、會計師或股票經紀等。

閣下簽署本表格首頁即表示同意上述各項。

(iv) 獲取及更正個人資料

該條例賦予群龍合資格股東權利以確定要約人及／或新百利是否持有其個人資料，並有權索取有關資料之副本及更正任何不確之個人資料。

根據該條例，要約人及／或新百利有權就處理任何查閱資料之要求收取合理費用。所有關於獲取或更正個人資料或關於資料之政策及慣例或所持資料類別之要求，應向要約人及／或新百利提出。

閣下簽署本表格首頁即表示同意上述各項。

If you have sold or transferred all your GDI Shares, you should at once hand this form and the Document to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The making of the GDI Offer to certain persons resident in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. If you are a citizen or resident or national of a jurisdiction outside Hong Kong, you should inform yourself about and observe any applicable legal requirements. It is your responsibility if you wish to accept the GDI Offer to satisfy yourself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.

This form should be read in conjunction with the Document.

HOW TO COMPLETE THIS FORM

(i) To accept the GDI Offer made by Somerley on behalf of the Offeror to acquire your GDI Shares, you should complete and sign this form overleaf and forward this entire form by post, by express mail or other similar courier services, or by hand to the Receiving Agent, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. (Hong Kong time) on Friday, 16th June, 2006 (or such later time and/or date as the Offeror may announce in accordance with the requirements of the Takeovers Code). The provisions of Appendix I to the Document form part of this form. GDI Qualifying Shareholders should read the Document before completing this form.

(ii) Insert in Box C the total number of GDI Shares in respect of which you wish to receive Option 1 consideration. Insert in Box D the total number of GDI Shares in respect of which you wish to receive Option 2 consideration.

(a) If the number of GDI Shares you insert in Box D is not 5 or an integral multiple of 5, you will be deemed to have elected:—

(i) to receive Option 2 consideration in respect of the number of GDI Shares inserted in Box D rounded down to 5 or the integral multiple of 5 nearest to the number you insert (and the number in the Box D will be deemed to be reduced accordingly); and

(ii) to receive Option 1 consideration in respect of the remainder of the GDI Shares (and the number in Box C will be deemed to be increased accordingly).

(b) If the aggregate number of GDI Shares you insert in Box C and Box D exceeds the number of GDI Shares registered in your name, the excess will first be deducted from the number inserted in Box D (which will be deemed to be reduced accordingly) and any excess remaining after that deduction will then be deducted from the number in Box C (which will be deemed to be reduced accordingly).

(c) If the number of GDI Shares in Box C (after alteration as a result of the provisions above, if applicable) is not 5 or an integral multiple of 5, then the difference between (i) that number and (ii) 5 or the integral multiple of 5 nearest to that number will be calculated and you will be paid in respect of the difference an amount calculated by applying the formula HK$1.8 x (the difference/ 5).

If you do not indicate clearly your choice of Option 1 or Option 2 on this form, you will be deemed to have accepted the GDI Offer under Option 1 in respect of all the GDI Shares registered in your name.

(iii) If you are holding the GDI Shares on behalf of another person as nominee or otherwise or if your GDI Shares are held through CCASS, you should refer to the section headed "Procedure for acceptance" in Appendix I to the Document in particular as to the matters which you should consider.

(iv) If this form is not completed strictly in accordance with the instructions set out herein, the Offeror reserves the right to treat this form as valid to the extent that it deems this form to have been completed in accordance with such instructions as may appear to the Offeror to be your intentions. The Offeror accepts no liability for its determination under this paragraph.

THIS FORM

To: The Offeror and Somerley

(i) My/Our execution of this form (whether or not such form is dated and which shall be binding on my/our successors and assigns) shall constitute subject to the terms of the Document and this form:

(a) my/our irrevocable acceptance of the GDI Offer, made by Somerley on behalf of the Offeror as contained in the Document, for the consideration set out on this form and on and subject to the terms therein and herein mentioned (including the terms set out under the section headed "How to complete this form" above), in respect of the number of GDI Shares specified in this form subject to alterations in accordance with the terms of this form or if no such number is specified, or a greater number is specified than I/we am/are registered as the holders of, in respect of all such GDI Shares of which I/we am/are registered as the holder(s);

(b) my/our irrevocable instruction and authority to the Receiving Agent that the GDI Share certificate to be issued to me/us in respect of my/our GDI Shares tendered for acceptance under the GDI Offer be issued to the Offeror and/or its agent(s) in accordance with and against surrender of this form which has been duly signed by me/us subject to the terms and conditions of the GDI Offer;

(c) my/our irrevocable instruction and authority to the Offeror and/or Somerley or their respective agent(s) to send the relevant banker's draft/cheque in my/our favour for the cash consideration, and share certificate(s) issued in my/our name for the Shares, to which I/we shall have become entitled under Option 1; **AND/OR** bond certificate(s) issued in my/our name for the Hanny Bonds to which I/we shall have become entitled under Option 2, in each case by post at my/our risk to the person(s) named below or, if no name(s) and/or address is/are stated below, to the first-named transferor at the address shown in the register of members of GDI:

(Insert here the name and address of the person to whom the relevant banker's draft/cheque and share certificate(s) **AND/OR** Hanny Bond certificate(s) is/are to be sent if different from the registered shareholder or the first-named of the joint registered shareholders.)

Name: (in block capitals) ____________________

Address: ____________________

(d) my/our irrevocable instruction and authority to the Offeror and/or Somerley or their respective agent(s) to register my GDI Shares in the name of the Offeror and to deliver the share certificate(s) in respect of my/our GDI Shares to the Offeror;

(e) my/our irrevocable instruction and authority to any director of the Offeror and/or Somerley or such person or persons as either of them may direct to complete, amend and execute any document on my/our behalf including but without limitation to insert a date in this form and to duly complete this form in accordance with the section headed "How to complete this form" above or, if I/we or any other person shall have inserted a date, to delete such date and insert another date and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror or such person or persons as it may direct my/our GDI Shares tendered for acceptance of the GDI Offer;

(f) my/our undertaking to execute such further documents and to do such acts and things by way of further assurance as may be necessary or desirable to transfer my/our GDI Shares tendered for acceptance of the GDI Offer to the Offeror or such person or persons as it may direct free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them and other distributions, if any, declared, made or paid after the date of the issue of the GDI Shares;

(g) my/our agreement that the settlement of the consideration to which I/we will be entitled under the GDI Offer will be implemented in full in accordance with the terms of the GDI Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against me/us; and

(h) my/our agreement to ratify each and every act or thing done or effected by the Offeror and/or Somerley and/or the Receiving Agent or their respective agent(s) or such person or persons as it/they may direct on the exercise of any of the authorities contained herein.

(ii) In the event the GDI Offer is withdrawn or if we withdraw our acceptance (when we are given the right to do so), in both cases with the consent of the Executive, all instructions, authorisations and undertakings contained in paragraph (i) above shall cease and in which event, I/we authorise and request you to return to me/us this form duly cancelled, by post at my/our risk to the person named above or, if no name and address is stated, to me or the first-named of us (in the case of joint registered shareholders) at the address shown in the register of members of GDI.

(iii) I/We understand that no acknowledgement of receipt of this form and/or any other documents will be given.

(iv) I/We hereby warrant and represent to you that, I am/we are the registered shareholder(s) of the number of GDI Shares specified in this form and I/we have the full right, power and authority to sell and pass the title and ownership of such GDI Shares to the Offeror by way of acceptance of the GDI Offer free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them and distributions, if any, declared, made or paid after the date of the issue of the GDI Shares.

(v) I/We acknowledge that, save as expressly provided in the Document and in this form, all the acceptance, instructions, authorities and undertaking hereby given shall be unconditional and irrevocable.

PERSONAL DATA

Personal information collection statement

This personal information collection statement informs the GDI Qualifying Shareholders, as the data subject, of the policies and practices of the Offeror and Somerley in relation to personal data and the Personal Data (Privacy) Ordinance of Hong Kong (the "Ordinance").

(i) Reasons for the collection of your personal data

It is necessary for the GDI Qualifying Shareholders to supply their latest correct personal data to the Offeror and/or Somerley in relation to the GDI Offer. Failure to supply the requested data may result in delay or inability of the Offeror and/or Somerley to implement procedures relating to the GDI Offer. It is important that the GDI Qualifying Shareholders inform the Offeror and Somerley immediately of any inaccuracies in the data supplied.

(ii) Purposes

Your personal data may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your acceptance of the GDI Offer and verification of compliance with the terms and application procedures set out in this form and the Document;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of the GDI Shareholders;
- distributing communications from the Offeror and/or Somerley;
- making disclosures as required by laws, rules or regulations (whether statutory or otherwise);
- disclosing relevant information to facilitate claims on entitlements;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere; and
- any other incidental or associated purposes relating to the above and/or to enable the Offeror and/or Somerley or any of their respective appointed agents to implement procedures relating to the GDI Offer, liaise with regulators and/or any other purposes to which the GDI Qualifying Shareholders may from time to time agree.

(iii) Transfer of personal data

Personal data held by the Offeror and/or Somerley relating to you will be kept confidential but the Offeror and/or Somerley may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) your personal data to, from or with any and all of the following persons and entities:

- the Offeror or any of their appointed agents such as financial advisers, receiving bankers and registrars;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to GDI and/or the Offeror and/or Somerley in connection with the operation of their business;
- the Stock Exchange, the SFC and any other regulatory or government bodies; and
- any other persons or institutions with which you have or propose to have dealings, such as your bankers, solicitors, accountants or stockbrokers, etc.

By signing on the first page of this form, you agree to all of the above.

(iv) Access to and correction of personal data

The Ordinance provides the GDI Qualifying Shareholders with rights to ascertain whether the Offeror and/or Somerley hold their personal data, to obtain a copy of such data, and to correct any personal data that is inaccurate.

In accordance with the Ordinance, the Offeror and/or Somerley have the right to charge a reasonable fee for the processing of any data access requests. All requests for access to or correction of personal data or for information regarding policies and practices and kinds of data held should be addressed to the Offeror and/or Somerley.

By signing on the first page of this form, you agree to all of the above.

THIS FORM IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt as to any aspect of this form, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.
本表格乃重要文件，請即辦理。閣下如對本表格任何方面有任何疑問，應諮詢持牌證券交易商或註冊證券機構、銀行經理、律師、專業會計師或其他專業顧問。

Unless the context otherwise requires, terms used herein shall have the same meanings as defined in the composite offer and response document dated 26th May, 2006 issued by the Offeror and GDI (the "**Document**").
除非文義另有所指，本表格所使用詞彙與日期為二零零六年五月二十六日要約人及群龍刊發之綜合收購建議及回應文件（「**此文件**」）所界定者具相同涵義。

GROUP DRAGON INVESTMENTS LIMITED
群 龍 投 資 有 限 公 司 *

(incorporated in the British Virgin Islands with limited liability)
(於英屬處女群島註冊成立的有限公司)

BOX A 甲欄	NAME(S) AND ADDRESS OF REGISTERED SHAREHOLDER(S) AS AT 19TH MAY, 2006 於二零零六年五月十九日已登記股東之姓名及地址

BOX B 乙欄	REGISTERED HOLDING OF GDI SHARES OF US$0.01 EACH AT THE RECORD DATE ON 19TH MAY, 2006 於記錄日期二零零六年五月十九日登記持有每股面值0.01美元之群龍股份數量

FORM OF ACCEPTANCE AND TRANSFER OF SHARES OF US$0.01 EACH IN THE ISSUED SHARE CAPITAL OF GROUP DRAGON INVESTMENTS LIMITED
群龍投資有限公司 已發行股本中每股面值0.01美元股份之 接納及過戶表格

To be completed in all respects (Please refer to "How to complete this form" on page 2)
每項均須填寫（請參閱第2頁「本表格之填寫方法」）

Receiving Agent: Standard Registrars Limited 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
接收代理人：標準証券登記有限公司 香港灣仔皇后大道東28號金鐘滙中心26樓

FOR THE CONSIDERATION stated below the "Transferor(s)" named below hereby transfer(s) to the "Transferee" named below the GDI Share(s) of US$0.01 each in the issued share capital of GDI specified below subject to the terms contained herein and in the accompanying Document dated 26th May, 2006.
下列「轉讓人」現根據本表格及隨附於二零零六年五月二十六日刊發之此文件所載的條款，按下述代價將下文所列明群龍已發行股本中每股面值0.01美元之股份（「群龍股份」）轉讓予下列「承讓人」。

Number of GDI Shares tendered under **Option 1**# 根據方案一提交之群龍股份數目	BOX C 丙欄	FIGURES **數目**	WORDS **大寫**
Number of GDI Shares tendered under **Option 2**# 根據方案二提交之群龍股份數目	BOX D 丁欄	FIGURES **數目**	WORDS **大寫**
CONSIDERATION **代價**		**Option 1:** one (1) new share ("Share") in Hanny Holdings Limited plus HK$1.8 in cash for every five (5) GDI Shares **方案一：**每五(5)股群龍股份換取一(1)股錦興集團有限公司新股份（「股份」）加1.8港元現金 **Option 2:** one (1) Hanny Bond for every five (5) GDI Shares **方案二：**每五(5)股群龍股份換取一(1)份錦興債券	
TRANSFEREE **承讓人**		Name 名稱 : Correspondence address 通訊地址 : Occupation 職業 :	**Well Orient Limited 威倫有限公司** 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong 香港觀塘鴻圖道51號保華企業中心8樓 Corporation 法人團體

The number inserted must be 5 or integral multiples thereof. No fraction of a Share or a Hanny Bond will be issued.
所填數目必須為5或其完整倍數。將不會發行少於一股股份或一份錦興債券之零碎部份。

If any of the following applies, please enter "YES" into the box below :
倘下列任何一項適用，則必須於下欄填寫「是」：

(i) I/We received the Document or this form in the United States or I/we will send this form from the United States or use U.S. jurisdictional means to deliver this form;
本人／吾等已於美國接獲此文件或本表格或本人／吾等已自美國寄發本表格或採用美國法管轄內的方式遞交本表格；
(ii) I/We was/were in the United States when this form was delivered or at the time of accepting the GDI Offer;
本人／吾等於送達接納本表格或於接納群龍收購建議時身在美國；
(iii) I/We am/are a U.S. person(s) as defined in Regulation S of the U.S. Securities Act of 1933; or
本人／吾等為1933年《證券法》S條例所定義的美籍人士；或
(iv) I/We am/are an agent or fiduciary acting on a non-discretionary basis for a principal in the United States.
本人／吾等乃為美國的主事人按非酌情基準行事的代理人或受信人。

← Enter "Yes" or "No" 請填上「是」或「否」

IMPORTANT: IF NONE OF THE ABOVE APPLY, YOU MUST ENTER "NO" IN THE BOX.
重要：倘上列各項均不適用，則閣下必須於欄內填上「否」。

Signed by the Transferor(s) in the presence of:
轉讓人在下列見證人見證下簽署：
SIGNATURE OF WITNESS 見證人簽署

← All joint holders must sign here
所有聯名持有人均須簽署本欄

Name of witness 見證人姓名

Address of witness 見證人地址

Signature(s) of Transferor(s) 轉讓人簽署

Occupation of witness 見證人職業

Company chop, if applicable 公司印鑑（如適用）

DO NOT COMPLETE 請勿填寫本欄

Signed by the Transferee in the presence of:
承讓人在下列見證人見證下簽署：
SIGNATURE OF WITNESS 見證人簽署

Name of witness見證人姓名

Address of witness見證人地址

Occupation of witness見證人職業

PLEASE DO NOT DATE
請勿註明日期

For and on behalf of 代表
Well Orient Limited 威倫有限公司

Signature of Transferee or its duly authorised agent
承讓人或其正式授權代理人簽署

This transfer is dated ______
轉讓日期：______ 年 ______ 月 ______ 日

* *For identification purpose only 僅供識別*