SHENZHEN HIGH-TECH HOLDINGS LIMITED

深圳科技控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 106)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH JUNE 2006

INTERIM RESULT

The board of directors (the "Board") of Shenzhen High-Tech Holdings Limited (the "Company") would like to present the unaudited consolidated result of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2006 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30th June, (Unaudited) 2006 HK$'000	2005 HK$'000
Continuing operations			
Turnover		**8,411**	12,587
Cost of sales and services		**(2,289)**	(7,698)
Allowance for properties held for sale		**(33,962)**	–
Gross (loss) profit		**(27,840)**	4,889
Other income		**2,405**	794
Selling and distribution costs		**(8,909)**	(1,913)
Administrative expenses		**(15,133)**	(15,995)
Share of results of associates		**(24,709)**	(348)
Share of results of jointly controlled entities		**(72)**	(2,435)
Loss before taxation	4	**(74,258)**	(15,008)
Taxation	5	**(23)**	(112)
Loss for the period from continuing operations		**(74,281)**	(15,120)
Discontinuing operations			
Loss for the period from discontinuing operations	6	**(584)**	(92)
Loss for the period		**(74,865)**	(15,212)
Attributable to:			
Equity holders of the Company		**(74,865)**	(15,095)
Minority interests		**–**	(117)
		(74,865)	(15,212)
Loss per share – Basic	7		
From continuing and discontinuing operations		**(HK0.494 cent)**	(HK0.105 cent)
From continuing operations		**(HK0.490 cent)**	(HK0.105 cent)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June, 2006 (Unaudited) HK$'000	31st December, 2005 (Audited) HK$'000
Non-current assets			
Investment properties	8	**115,000**	115,000
Property, plant and equipment	9	**27,221**	35,057
Prepaid lease payments		**3,950**	4,000
Interests in associates		**93,257**	117,966
Interests in jointly controlled entities		**13,012**	13,084
Investments in securities	10	**4,808**	4,808
Deferred tax assets		**–**	5,731
		257,248	295,646
Current assets			
Properties held for sale	11	**264,000**	297,962
Inventories		**70**	76,707
Trade receivables	12	**–**	84,259
Other receivables		**2,569**	25,805
Prepaid lease payments		**100**	100
Amounts due from associates		**21,816**	22,716
Amount due from a jointly controlled entity		**11,962**	4,166
Loan to a jointly controlled entity		**16,175**	15,610
Investments held for trading		**218**	208
Bank balances, deposits and cash		**165,623**	122,693
		482,533	650,226
Assets classified as held for sale	6	**183,267**	–
		665,800	650,226
Current liabilities			
Trade payables	13	**–**	52,002
Other payables, deposits received and accrued charges		**54,574**	106,279
Taxation payable		**2,484**	5,618
		57,058	163,899
Liabilities associated with assets classified as held for sale	6	**75,208**	–
		132,266	163,899
Net current assets		**533,534**	486,327
Net assets		**790,782**	781,973
Capital and reserves			
Share capital		**172,233**	143,533
Reserves		**618,549**	638,440
Total equity		**790,782**	781,973

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Independent Review

The interim results for the six months ended 30th June, 2006 are unaudited, but have been reviewed in accordance with the Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by Deloitte Touche Tohmatsu, whose independent review report is included in the interim report.

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for investment properties and investments in securities, which are measured at fair values.

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

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1st January, 2005 or 1st January, 2006. The adoption of these new HKFRSs had no material effect on how the results for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" [2]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st March, 2006.
[3] Effective for annual periods beginning on or after 1st May, 2006.
[4] Effective for annual periods beginning on or after 1st June, 2006.

3. Segment information

Business segments

For management purpose, the Group is organised into two main operating divisions as follows:

– High-tech computers and servers manufacturing and related business

– Property investment, development and trading

On 29th May, 2006, the Group has signed an agreement to dispose of the high-tech computers and servers manufacturing and related business.

For the six months ended 30th June, 2006:

	Unaudited						
	Continuing operations				Discontinuing operations		
	Property investment, development and trading HK$'000	Others* HK$'000	Elimination HK$'000	Total HK$'000	High-tech computers and servers manufacturing and related business HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER							
External sales	7,655	756	–	8,411	121,101		129,512
Inter-segment sales	–	1,562	(1,562)	–	–		–
Total	7,655	2,318	(1,562)	8,411	121,101		129,512
SEGMENT RESULTS	(41,261)	(245)	(1,562)	(43,068)	(226)	(39)	(43,333)
Unallocated other income				2,218	76		2,294
Unallocated corporate expenses				(8,627)	–		(8,627)
Finance costs	–	–	–	–	(39)	39	–
Share of results of associates	(27,886)	3,177	–	(24,709)	–		(24,709)
Share of results of jointly controlled entities	–	(72)	–	(72)	–		(72)
Loss before taxation				(74,258)	(189)		(74,447)
Taxation				(23)	(395)		(418)
Loss for the period				(74,281)	(584)		(74,865)

For the six months ended 30th June, 2005:

	Unaudited						
	Continuing operations				Discontinuing operations		
	Property investment, development and trading HK$'000	Others* HK$'000	Elimination HK$'000	Total HK$'000	High-tech computers and servers manufacturing and related business HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER							
External sales	6,457	6,130	–	12,587	108,637		121,224
Inter-segment sales	–	859	(859)	–	–		–
Total	6,457	6,989	(859)	12,587	108,637		121,224
SEGMENT RESULTS	2,276	(2,277)	(859)	(860)	56	(160)	(964)
Unallocated other income				557	83		640
Unallocated corporate expenses				(11,922)	–		(11,922)
Finance costs	–	–	–	–	(179)	160	(19)
Share of results of associates	(1,963)	1,615	–	(348)	–		(348)
Share of results of jointly controlled entities	–	(2,435)	–	(2,435)	–		(2,435)
Loss before taxation				(15,008)	(40)		(15,048)
Taxation				(112)	(52)		(164)
Loss for the period				(15,120)	(92)		(15,212)

* Included in others are the sales of digital cameras which were previously part of the high-tech computers and servers manufacturing and related business segment.

Note: Inter-segment sales are charged at prevailing market prices.

4. Loss before taxation

	For the six months ended 30th June, (Unaudited)					
	Continuing operations		Discontinuing operations		Consolidated	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Loss before taxation has been arrived at after charging:						
Allowance for bad and doubtful debts	–	766	–	–	–	766
Allowance for inventories	196	1,636	–	–	196	1,636
Allowance for amounts due from associates	2,942	–	–	–	2,942	–
Amortisation of prepaid lease payments	50	50	–	–	50	50
Depreciation of property, plant and equipment	1,194	1,317	1,207	1,044	2,401	2,361
Decrease in net realisable value of properties held for sale	33,962	–	–	–	33,962	–
Net unrealized holding losses on investments held for trading	–	661	–	–	–	661
and after crediting:						
Gross rental income	4,563	3,749	–	–	4,563	3,749
Less: Outgoings	(1,522)	(1,187)	–	–	(1,522)	(1,187)
Net rental income	3,041	2,562	–	–	3,041	2,562
Bank interest income	1,724	557	76	83	1,800	640
Loan interest income	565	368	–	–	565	368
Increase in fair value of investments held for trading	10	–	–	–	10	–

5. **Taxation**

	For the six months ended 30th June, (Unaudited)					
	Continuing operations		Discontinuing operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
The taxation charge comprises:						
The Company and subsidiaries:						
People's Republic of China (the "PRC") Enterprise Income Tax in current period	**23**	112	**395**	52	**418**	164

No provision for Hong Kong Profits Tax has been provided as the Group has no assessable profit arising in Hong Kong for the periods. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

No deferred tax asset has been recognised relating to tax losses and other deductible temporary differences of some subsidiaries as the recoverability of these potential deferred tax assets is uncertain.

6. **Discontinuing operations**

On 29th May, 2006, the Group has entered into the agreement with 天津曙光計算機產業有限公司(Tianjin Dawning Computer Industry Company Limited), to dispose of 100% interest in 北京曙光天演信息技術有限公司 (Beijing Dawning Tianyan Information Technology Company Limited), 曙光信息產業（北京）有限公司 (Dawning Information Industry (Beijing) Limited) and 62.5% of its 100% interest in 北京曙光創新科技有限公司 (Beijing Dawning Novotech Co., Ltd.), which operate in high-tech computers and servers manufacturing and related business, for an aggregate consideration of RMB95,000,000 (equivalent to HK$91,346,000). 北京曙光創新科技有限公司 (Beijing Dawning Novotech Co., Ltd.) will become a 20.6% associate upon completion of the disposal. As at 30th June, 2006, the disposal has not been completed. The assets and liabilities attributable to the production line, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet.

北京曙光天演信息技術有限公司 (Beijing Dawning Tianyan Information Technology Company Limited) and 北京曙光創新科技有限公司 (Beijing Dawning Novotech Co., Ltd.) have amounts due to the continuing operations group of approximately HK$23,414,000 which are eliminated in the condensed consolidated balance sheet. The continuing operations group will recognise these amounts as an amount due from a third party upon the disposal of 北京曙光天演信息技術有限公司 (Beijing Dawning Tianyan Information Technology Company Limited) and an amount due from an associate upon the disposal of 北京曙光創新科技有限公司 (Beijing Dawning Novotech Co., Ltd.).

	For the six months ended 30th June, (Unaudited)	
	2006	2005
	HK$'000	*HK$'000*
Turnover	**121,101**	108,637
Cost of sales	**(92,091)**	(87,997)
Gross profit	**29,010**	20,640
Other income	**983**	423
Selling and distribution costs	**(19,266)**	(14,730)
Administrative expenses	**(10,877)**	(6,194)
Finance costs	**(39)**	(179)
Loss before taxation	**(189)**	(40)
Taxation	**(395)**	(52)
Loss for the period	**(584)**	(92)

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	30th June, 2006 (Unaudited)
	HK$'000
Property, plant and equipment	6,817
Deferred tax assets	5,731
Inventories	104,294
Trade receivables	37,978
Other receivables	18,207
Bank balances, deposits and cash	10,240
Total assets classified as held for sale	183,267
Trade payables	35,943
Other payables, deposits received and accruals	36,712
Tax payable	2,553
	75,208
	108,059
Amount due to the continuing operations group eliminated on consolidation	23,414
Net assets of the disposal group	84,645

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities as at disposal date and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

The discontinuing operations used approximately HK$32,005,000 (1.1.2005 to 30.6.2005: HK$12,585,000) of the Group's net operating cash flows and used HK$664,000 (1.1.2005 to 30.6.2005: HK$1,648,000) in respect of investing activities.

7. **Loss per share**

From continuing and discontinuing operations

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30th June, (Unaudited)	
	2006	2005
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic loss per share	**(74,865)**	(15,095)

	For the six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
Number of shares		
Weighted average number of ordinary share for the purpose of basic loss per share	**15,161,984,788**	14,353,310,755

From continuing operations

The calculation of the basic loss per share from the continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30th June (Unaudited)	
	2006	2005
	HK$'000	*HK$'000*
Loss for the period attributable to equity holders of the Company	**(74,865)**	(15,095)
Less: (Loss) profit for the period from discontinuing operations, net of minority interests	**(584)**	25
Loss for the purpose of basic loss per share from continuing operations	**(74,281)**	(15,120)

From discontinuing operations

Basic loss per share for discontinuing operations is HK0.004 cent per share (1.1.2005 to 30.6.2005: HK0.001 cent), based on the loss for the period from discontinuing operations of HK$584,000 (1.1.2005 to 30.6.2005: HK$92,000).

The computation of the diluted loss per share for the six months ended 30th June, 2006 and 30th June, 2005 did not assume the exercise of the outstanding share options as its exercise would result in a decrease in the loss per share for both periods.

8. **Investment properties**

The investment properties were valued at their open market value as at 30th June, 2006 by Messrs. Savills (Hong Kong) Limited, an independent firm of qualified professional valuers.

9. **Property, plant and equipment**

During the period, the Group spent approximately HK$1,875,000 (1.1.2005 to 30.6.2005: HK$1,989,000) on acquisitions of property, plant and equipment.

10. **Investments in Securities**

The amount represents unlisted debt securities in the PRC. The effective interest rate of the investment in securities is 5.25% per annum. The directors consider that the carrying amount of the investments in securities approximate its fair value.

11. **Properties held for sale**

An allowance of HK$33,962,000 was made for properties held for sale at 30th June, 2006 which was charged to the cost of sales and services in the condensed consolidated income statement.

12. **Trade receivables**

A defined credit policy is maintained within the Group. The general credit terms range from one to three months, except for certain well-established customers, where the terms are further extended to a maximum of one year. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

The aged analysis of trade receivables at the balance sheet date, based on invoice date, net of allowances, is as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK$'000	*HK$'000*
Within 30 days	–	50,657
31 to 90 days	–	10,352
91 to 180 days	–	12,174
181 to 365 days	–	6,689
Over 365 days	–	4,387
	–	84,259

13. **Trade payables**

The aged analysis of trade payables at the balance sheet date, based on the invoice date, is as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK$'000	*HK$'000*
Within 30 days	–	33,602
31 to 90 days	–	10,152
91 to 180 days	–	5,867
181 to 365 days	–	1,251
Over 365 days	–	1,130
	–	52,002

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT

The turnover of the continuing operations of the Group for the six months ended 30th June, 2006 amounted to approximately HK$8,411,000, representing a decrease of approximately 33.2% compared to approximately HK$12,587,000 recorded in the corresponding period last year; while the turnover of the discontinuing operations of the Group for the six months ended 30th June, 2006 amounted to approximately HK$121,101,000, representing an increase of approximately 11.4% compared to approximately HK$108,637,000 recorded in the corresponding period last year.

For the six months ended 30th June, 2006, the continuing operations contributed to the Group a gross loss of approximately HK$27,840,000 (corresponding period in 2005: a gross profit of approximately HK$4,889,000). The gross loss of continuing operations in the first half of this year was mainly due to the provision by the Group of allowance of approximately HK$33,962,000 for the properties held for sale as a result of the austerity control in the PRC. For the six months ended 30th June, 2006, the gross profit of discontinuing operations amounted to approximately HK$29,010,000, as compared with approximately HK$20,640,000 in the corresponding period last year.

During the period under review, the Company's consolidated loss before minority interests was approximately HK$74,865,000 (corresponding period in 2005: loss of approximately HK$15,212,000), comprising the loss attributable to the continuing operations of approximately HK$74,281,000 and the loss attributable to the discontinuing operations of approximately HK$584,000 (corresponding period in 2005: loss of continuing operation of approximately HK$15,120,000 and loss of discontinuing operations of approximately HK$92,000).

Consequent on the change of operating strategy in respect of the property business in the PRC by the Group, it is anticipated that the selling and distribution expenses will be greatly reduced in the second half of this year. Meanwhile, the Company has critically provided of allowance for the properties held for sale in the PRC according to the austerity control measure for the time being. It is expected that there will be a slim chance for the Group to provide further allowance for the properties held for sale in the second half of this year.

BUSINESS REVIEW AND PROSPECTS

Property Business

The major property projects currently invested by the Group include Shun Jing Yuan in Beijing, a high-end residential apartment project, and Dawning Tower in Shenzhen, a property for industrial and commercial uses.

Located in Chaoyang District, Beijing, Shun Jing Yuan is a European-style luxury residential apartment project with large unit design, targeting at high-end customers. The regulating and administering polices by the State over high-end residences have an impact on Shun Jing Yuan project. Under these unfavorable conditions, the Group focused on the fundamental works of the current projects and imposed strict requirements on the particulars and improved it continuously, pending for the reversal of market conditions. Meanwhile, the Group also adjusted its sales agents and strategies to achieve the best economic efficiency.

During the first half of 2006, the Group made certain adjustments and integrations to the operation and management of Dawning Tower in Shenzhen regarding three aspects: (1) to maximize the potential for maintaining high occupation rate; (2) while negotiating on new leases, to appropriately increase rental with reference to the market rates to increase income; and (3) to reinforce internal management, reduce the expenses from workforce and overheads, further improve the regulation and management level as well as to enhance the economic efficiency. Accordingly, the Group realized approximately HK$7,655,000 of rental income and management fee for the first half year, representing an increase of 19% over the corresponding period of previous year.

The Group will continue to enhance the management quality of Dawning Tower and maintain a good cooperation relationship with customers in order to upkeep the prestigious status of Dawning Tower among commercial buildings and to ensure a high-level rental income from the building. It is expected that Dawning Tower's occupation rate will reach 100% in the second half of the year, generating a steady rental income. The Company, however, will continue to increase income and control expenses in anticipation of further improving the revenue from Dawning Tower.

Manufacturing of High-tech Computers and Servers and Related Business

Dawning

On 29th May, 2006, China Dawning Information Industry Group Limited, Dawning Information Industry (Shenzhen) Limited and Shenke High-Tech Industrial (Shenzhen) Limited which are three wholly-owned subsidiaries of the Company as transferor entered into an equity transfer agreement with Tianjin Dawning Computer Industry Limited as transferee, pursuant to which the transferor agreed to dispose of their entire interests in Beijing Dawning Tianyan Information Technology Company Limited and Dawning Information Industry (Beijing) Limited and 62.5% interest in Beijing Dawning Novotech Co., Ltd. (the "Disposed Companies") (the "Disposal") for a total consideration of RMB95,000,000 (equivalent to approximately HK$91,346,154). The Group's disposal of the relevant interests is in consideration of that (i) the Company has yet to reach any agreement regarding the technical support and the ownership for future development of new model high-tech computers and servers with Chinese Academy of Sciences which provided technical support to the transferor for the development of high-tech computers and servers in the past; and (ii) the Company also expected that substantial costs would be incurred in the future development of the high-tech computers and server market which is fast moving with a short product life cycle and capital intensive and the prospect of newly developed products is not certain enough to sustain such investment, and the Company has decided to streamline its business and redeploy its resources in the development of new projects with certain and better growth potential and lower risk and to implement the Disposal accordingly. Details of the Disposal are set out in the circular (the "Circular") to all shareholders of the Company dated 30th June, 2006.

As at 30th May, 2006, the Group received RMB28,500,000 (equivalent to approximately HK$27,403,846) in respect of the Disposal, representing 30% of the total consideration, with the remaining balance to be paid to the transferor by the transferee under the conditions as specified in the section headed "Conditions" in the Circular. The Disposal was approved by our shareholders at the special general meeting held on 26th July, 2006. On 11th August, 2006, the Group received the second installment of the consideration of RMB38,000,000 (equivalent to approximately HK$36,538,461), representing 40% of the total consideration, under the terms specified in the Equity Transfer Agreement.

From January to June of this year, the total aggregate sales of Disposed Companies increased from approximately HK$108,637,000 of the same period last year to approximately HK$121,101,000, representing an increase of 11.4%. In the first half of this year, loss after taxation was approximately HK$584,000, representing an increase of loss of approximately HK$492,000, as compared with a loss of approximately HK$92,000 of the same period last year.

Jingke Information

Wu Han Jingke Information Industry Co., Ltd. ("Jingke Information") is mainly engaged in the manufacturing of quartz oscillators (semi-finished products) used in the production of various electronic products, resonators (final products), SMD and related devices. The operating results of Jingke Information had started to improve in the second half of last year and continued to improve in the first half of this year, with its output and sales recorded historic highs. From January to June 2006, the number of quartz resonators produced (with various models) was up to approximately 13,230,000 units, the number of quartz sold (with various models) was up to approximately 13,540,000 units. Sales revenue in the first half of the year was approximately HK$11,160,000, representing an increase of approximately 72% over the corresponding period of last year.

In light of the changes in market conditions, Jingke Information adjusted its product mix in the first half of the year by endeavoring to solicit orders of small tolerance and higher added value and outsourcing those orders with basic requirements in order to make maximum use of its core competences in production. The company arranged an ISO9001 quality management system assessment in the first half of the year on rectifying and preventive measures for continuous product improvement, and also organized for general staff of the company to learn how to effectively reinforce the control over various production processes. The company puts great emphasis on the structure and training of human resource, arranging and focusing staff training programs on quality management to improve the quality of the staff as a whole.

The operating growth of Jingke Information is still at a lower level while the company is still facing some difficulties in its development. Firstly, the growth pace of its productivity of final products and semi-finished products is constrained by the bottlenecks existed in its manufacturing facilities; secondly, as regarding the product mix, the productivity of finished products and SMD lines are not high enough to bring about economy of scale and the design and production capacity of semi-finished products are insufficient, thereby affecting the continuity of production processes; thirdly, the cash flow in operating activities of the company is limited by a tight working capital position and increases in the price for equipment renovation and the price of raw materials.

In the second half of the year, Jingke Information will make further efforts on optimizing its market and product positioning and streamlining the structure of customers to maintain a sustainable profitability of the company. Meanwhile, the company will put emphasis persistently on internal management, continue to improve internal adjustments, fulfill the related demands of its quality management system, strengthen personnel training and enhance scientific management. Currently, the sales of Jingke Information is satisfactory. The critical factors impeding its development are the inherent issues of equipment bottlenecks and product mix. In order to resolve the problem of equipment renovation, Jingke Information needs to spare its financial resources steadily for this purpose.

Yunnan Green-Land

Yunnan Green-Land Biological and Science Company Limited ("Yunnan Green-Land") is a company in which the Group has 20% equity interests. It is mainly engaged in the sale, design and project contracting of horticultural plants, and is one of the few companies possessing class 1 qualifications in garden engineering in the PRC. During the first half of 2006, Yunnan Green-Land undertook certain major projects in respect of construction, acceptance inspection and receivables collection. In the mean-time, the company adjusted its strategies to shut down certain branches with unsatisfactory operating results. Also, as initial public offering of shares are restarted in the PRC's stock markets, Yunnan Green-Land has geared up its pace to seek a domestic listing status and now is endeavoring to submit supplementary documents for this purpose so as to identify more opportunities for the development of its business.

During the second half of 2006, Yunnan Green-Land will focus on seeking for a listing status by an issuance of new shares. Since the policies concerning new issues in the PRC change from time to time, the pace for initial public offering of shares is unforeseeable and the domestic stock market is not that stable, the success of the issue and listing of new shares of Yunnan Green-Land is still a matter of uncertainty. The Group will closely follow up the case and offer appropriate assistance when necessary.

Treasury Management

In respect of financial resources management, the Group diversified its investment portfolio to accommodate more current assets with higher liquidity, including securities, in order to enhance the return of current assets. Meanwhile, the Group also formulated an aggressive and yet prudent financial resources management policy, with an aim of continuously identifying appropriate investment objectives within a reasonable risk level.

Currently, the Group has sufficient cash in hand and will make active efforts to identify new investment projects. The Group has not yet identified any particular industry as the target; however, it is making a preliminary research on a number of industries through extensive studies of the soundness of return on investment, management standard and risk avoidance as its fundamental conditions for new projects selection. Newly solicited business may be carried out steadily by the following means: (1) undertaking projects with stable returns in the basis industries, i.e. projects characterized by stable cash inflows and simple management mechanisms, which may act as a mainstay of the Company; (2) undertaking real estate projects, as the Group has accumulated certain experience in the properties industry and may proceed with such projects on the basis of its comprehensive analysis of the prospects, feasibility and risk factors on various modes of development, such as residential and commercial real estate, first hand land development and hotel properties; and (3) to acquire equity interests in certain companies which may be listed in one or two years and assist them to be listed.

During the past few years, the Company has made active efforts to reduce its operating losses by consolidating businesses with unsatisfactory operating results, and to cut its expenditure by streamlining the human resources structures of the Group. In parallel, the Group has also made provisions or impairment loss for assets of unsatisfactory quality. In view of this, the management believes that the Company is well positioned to resume its profitability, and expects that the operating results of the Company will be improved during the second half of 2006, thus laying a solid foundation for turning the operating results from loss to profit.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has abundant working capital and is financially strong. The Group's total cash and bank deposits were maintained at a level of approximately HK$165,623,000 as at 30th June, 2006 (31st December, 2005: approximately HK$122,693,000). During the period, cash and bank deposits of approximately HK$10,240,000 was reclassified as "assets classified as held for sale" pursuant to a very substantial disposal (the "Disposal") as set out in a circular to the shareholders of the Company dated 30th June, 2006. The Group exercised strict credit control on accounts receivable to ensure the adequacy of the working capital. As at 30th June, 2006, the Group had no outstanding accounts receivable (31st December, 2005: approximately HK$84,259,000). The decrease in accounts receivable was mainly attributable to the reclassification of an amount of approximately HK$37,978,000 as "assets classified as held for sale" according to the Disposal. Having accounted for the "assets classified as held for sale" of approximately HK$183,267,000 and "liabilities associated with assets classified as held for sale" of approximately HK$75,208,000, the current ratio as at 30th June, 2006 was 5.03 while it stood at 3.97 for the year end of 2005. As at 30th June, 2006 and 31st December, 2005, the Group did not raise any bank loan. As at 30th June, 2006 and 31st December, 2005, the Group's gearing ratio (on the basis of total borrowings divided by shareholders' equity) was zero.

Placing of New Shares and Use of Proceeds

Pursuant to the Placing Agreement on 21st April, 2006, the Company issued 2,870,000,000 new ordinary shares in aggregate with a par value of HK$0.01 each to not less than six independent third parties at a price of HK$0.03 per share. The net proceeds from the share offer after deducting related expenses was approximately HK$84,000,000. Further details of the placing of shares were set out in the announcement dated 21st April, 2006.

Except for the below-mentioned, the Company has applied the proceeds from the placing of new shares into intended purposes:

(i) An amount of approximately HK$30,000,000 was intended to be used for the business operation of the Group's "Dawning" branded servers. The HK$30,000,000, remaining unused, has been reserved for other investment purposes due to the fact that the shareholders of the Company passed a resolution and approved the Disposal at a special general meeting held on 26th July, 2006; and

(ii) An amount of approximately HK$10,000,000 was intended to be used to finance the capital investment in the production facilities and equipment of Jingke Information. Such amount, remaining unused, has been reserved for the intended purpose.

Pledge of Assets

As at 30th June, 2006, the Group had no pledge of assets and bank deposits for the purpose of obtaining general banking facilities or short term bank borrowings.

Employees' Remuneration and Benefits

The Group had about 700 employees, including managerial, executive and technical staff and production labours in China and Hong Kong as at 30th June, 2006 (31st December, 2005: about 700). The level of remuneration, promotion and the magnitude of remuneration adjustment are determined according to their job duties, working performance and professional experience. All staff and executive directors in Hong Kong office have participated in the mandatory provident fund scheme. Other employees' benefits include the granting of share options by the Board of the Group.

Foreign Exchange and Currency Risk

All income and funds applied to the purchases of raw materials, spare parts and equipment and the payments of salaries were dominated in Hong Kong dollars and Renminbi; therefore, it was not necessary to use any financial instruments for hedging purpose, and the Group's exposure to the fluctuation of exchange rates was minimal. During the period under review, the Group has not engaged in any hedging activity. As at 30th June, 2006, cash in hand and bank balances of the Group were mainly denominated in Hong Kong dollars, US dollars and Renminbi.

Very Substantial Disposal, Substantial Acquisition and Disposal

On 29th May, 2006, three wholly-owned subsidiaries of the Group (as transferor) and Tianjin Dawning Computer Industry Company Limited (as transferee) entered into an equity transfer agreement, in which, the transferor agreed to dispose of the entire interests in Beijing Dawning Tianyan Information Technology Company Limited and Dawning Information Industry (Beijing) Limited and 62.5% interest in Beijing Dawning Novotech Co., Ltd. to the transferee at a total consideration of RMB95,000,000 (equivalent to approximately HK$91,346,154). Further details of the very substantial disposal were set out in the circular to the shareholders of the Company dated 30th June, 2006.

Save as disclosed above, the Group had not participated in any substantial acquisition and disposal during the period under review.

Contingent Liabilities

As at 26th January, 2005, the Company provided a guarantee to a bank in the PRC to secure a loan facility of RMB8,000,000 (equivalent to approximately HK$7,547,000) granted by the bank to a jointly controlled entity of the Group (31st December, 2005: RMB8,000,000 (equivalent to approximately HK$7,547,000)). The bank facility was fully repaid on 25th January, 2006 by the jointly controlled entity. Save as disclosed above, the Group had no other material contingent liability as at the balance sheet date.

OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: nil).

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rule") as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiries of all directors of the Company, it is confirmed that all directors have complied with the required standards as set out in the Model Code during the six months ended 30th June, 2006.

Corporate Governance

The Directors are of the opinion that the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2006, with deviations from the Code Provision A.4.1 of the Code in respect of the service term of directors.

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all Directors of the Company (executive and non-executive) are subject to the retirement provisions under Bye-law 87 of the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Audit Committee

The Audit Committee of the Company comprises three independent non-executive directors, including Mr. Liu Sing Piu, Chris, Mr. Lee Kuo Ching, Stewart, and Miss Chong Kally. The principal duties of the Audit Committee include the review of the Company's financial reporting procedure, internal controls and results of the Group. The unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee and Deloitte Touche Tohmatsu, the external auditors of the Company.

Disclosure of Information on the Stock Exchange's Website

The 2006 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the website of the Stock Exchange in due course.

By order of the Board
Wong Chung Tak
Chairman

Hong Kong, 11th September, 2006

As at the date of this announcement, the executive directors of the Company are Mr. Wong Chung Tak and Mr. Tse Kam Fai; the non-executive director is Mr. Wong Ngo, Derick; and the independent non-executive directors are Mr. Lee Kuo Ching, Stewart, Mr. Liu Sing Piu, Chris, and Miss Chong Kally.