

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th June, 2004, except as described below.

In previous years, depreciation was provided to write off the cost of property, plant and equipment over their estimated useful lives using the reducing balance method. With effect from 1st July, 2004, property, plant and equipment is to be depreciated using straight line method. This change in accounting estimates reflects the Group’s best estimates of the remaining useful lives of its property, plant and equipment. The change in depreciation rate has increased the depreciation charge for the period by approximately HK\$80,000.

In the previous year, goodwill arising from acquisition of a subsidiary near the year end was amortised on a straight line basis over a period of 3 years. With effect from 1st July, 2004, goodwill is to be amortised on a straight-line basis over a period of 1 year. This change in accounting estimates reflects the Group’s best estimates of the remaining economic life of the goodwill. The change of amortisation rate has increased the amortisation charge for the period by approximately HK\$3,100,000.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “New HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not yet adopted these New HKFRSs in the financial statements for the six months ended 31st December, 2004.

Except for HKFRS 3 “Business Combinations” which prohibits the amortisation of goodwill and intangible assets with indefinite useful lives and requires then to be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment, the Group does not expect that the issuance of other HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

4. SEGMENT INFORMATION

The Group's primary format for reporting segment information is geographical segments.

Six months ended 31st December, 2004

	Hong Kong <i>HK\$'000</i>	The People's Republic of China other than Hong Kong (the "PRC") <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	<u>27,511</u>	<u>517</u>	<u>28,028</u>
SEGMENT RESULT	<u>(888)</u>	<u>(244)</u>	(1,132)
Other operating income			220
Unallocated corporate expenses			<u>(7,020)</u>
Loss for the period			<u>(7,932)</u>

Six months ended 31st December, 2003

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	<u>34,158</u>	<u>3,833</u>	<u>37,991</u>
SEGMENT RESULT	<u>(732)</u>	<u>(208)</u>	(940)
Other operating income			206
Unallocated corporate expenses			<u>(825)</u>
Loss for the period			<u>(1,559)</u>

5. LOSS FOR THE PERIOD

	Six months ended	
	31.12.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	110	195
and after crediting:		
Bank interest income	90	18
Realised gain on disposals of investments in securities	–	164
Unrealised holding gain on investments in securities	123	–
	<u> </u>	<u> </u>

6. TAXATION

No provision for Hong Kong Profits Tax and PRC enterprise income tax have been made in the financial statements as the Group's operations in both Hong Kong and PRC incurred tax loss for the period.

7. DIVIDEND

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$7,932,000 (six months ended 31st December, 2003: HK\$1,559,000) and on 55,523,633 (six months ended 31st December, 2003: on weighted average of 47,982,872 as restated) shares in issue throughout the period.

The weighted average number of shares for the purpose of basic loss per share for the six months ended 31st December, 2003 had been adjusted for the effect of consolidation of the Company's shares as set out in note 13.

Diluted loss per share has not presented as there is no dilutive potential ordinary shares in issue for both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the current period, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party for the disposal of leasehold land and buildings for a cash consideration of HK\$2,850,000.

10. GOODWILL*HK'000*

COST

At 30th June, 2004 and 31st December, 2004

18,600

AMORTISATION

At 30th June, 2004

6,200

Provided for the period

6,200

At 31st December, 2004

12,400

NET BOOK VALUE

At 31st December, 2004

6,200

At 30th June, 2004

12,400**11. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of 30-60 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	31.12.2004	30.06.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
0-30 days	4,391	7,337
31-60 days	2,025	826
More than 60 days	1,258	23
	<u>7,674</u>	<u>8,186</u>
Deposits and prepayments	189	100
	<u>7,863</u>	<u>8,286</u>

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	31.12.2004 <i>HK\$'000</i>	30.06.2004 <i>HK\$'000</i>
Trade payables		
0-30 days	1,682	3,036
31-60 days	42	99
More than 60 days	44	22
	1,768	3,157
Other payables and accrued charges	498	559
	2,266	3,716

13. Share capital

	Number of shares	Amount <i>HK'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st July, 2003, 30th June, 2004 and 31st December, 2004	<u>1,500,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1st July, 2003	925,472,663	92,547
Issued as consideration for the acquisition of a subsidiary	<u>185,000,000</u>	<u>18,500</u>
At 30th June, 2004 and 1st July, 2004	1,110,472,663	111,047
Share consolidation	<u>(1,054,949,030)</u>	<u>(105,495)</u>
At 31st December, 2004	<u>55,523,633</u>	<u>5,552</u>

At the special general meeting of the Company held on 23rd July 2004, the shareholders approved the following changes in the share capital of the Company (the "Capital Reorganisation"):

- (a) the nominal value of all issued shares of HK\$0.10 each be reduced by HK\$0.095 each by cancelling an equivalent amount of paid-up capital per share so that the nominal value of each such share was reduced from HK\$0.10 to HK\$0.005. The credit arising from such reduction was credited to the contributed surplus account of the Company;
- (b) every 20 issued shares of HK\$0.005 each in the capital of the Company be consolidated into one consolidated share of HK\$0.10;
- (c) the share premium of the Company be cancelled and the credit arising therefrom was credited to the contributed surplus account of the Company; and
- (d) part of the credit transferred to the contributed surplus account of the Company mentioned in (a) and (c) above was used to set off against the deficit of the Company.