

NOTES TO THE INTERIM FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED 31ST DECEMBER 2004

1. Background of the Company

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are investment holding and design, supply and integration of automation and control systems.

2. Basis of preparation and principal accounting policies

The unaudited 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 ("the Listing Rules") and with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited 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.

3. Turnover and other revenue

The Group's turnover represented revenue generated from two main categories: automation products and project and technical services and is stated after deducting PRC value-added tax and city and county maintenance tax.

	For the 6 months ended	
	31st December,	
	2004	2003
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover		
Sales of automation products	97,194	194,863
Fees for project and technical services	2,299	2,420
Total turnover	99,493	197,283
Other revenue		
Reversal of warranty provision	5	–
Interest income	506	71
Sundry income	10	472
	521	543
Total revenue	100,014	197,826

4. Segment information

Business segments

	For the 6 months ended 31st December,					
	Automation products		Project and technical services		Consolidated	
	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	97,194	195,170	2,299	2,420	99,493	197,590
SEGMENT RESULT	17,025	25,477	37	526	17,062	26,003
Sundry Income					521	236
Unallocated expenses					(13,057)	(11,672)
Profit from operations					4,526	14,567
Finance costs					(4,592)	(144)
(Loss)/profit before taxation					(66)	14,423
Income tax					(1,220)	(2,981)
(Loss)/profit after taxation					(1,286)	11,442
OTHER INFORMATION						
Amortisation of deferred software development costs	2,300	2,473	–	–	2,300	2,473

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	For the 6 months ended 31st December,	
	2004	2003
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from external customers		
PRC (including Hong Kong and Macau)	99,493	67,818
Malaysia	–	27,493
Korea	–	101,972
	99,493	197,283

All segment assets and capital expenditures are in the PRC (including Hong Kong).

5. Staff costs

	For the 6 months ended 31st December,	
	2004	2003
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Salaries and allowances	4,103	3,942
Contributions to defined contribution plans	194	263
	4,297	4,205

6. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	For the 6 months ended 31st December,	
	2004	2003
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Interest on bank borrowings and loans repayable within 5 years	3,910	1,261
Interest on other borrowings wholly repayable after 5 years	682	144

7. Income tax

Income tax consists of:

	For the 6 months ended 31st December,	
	2004	2003
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Current taxation		
– PRC enterprise income tax	(339)	634
– Hong Kong profits tax	1,559	2,347
	1,220	2,981

7. Income tax (continued)

a) Overseas income tax

The Company was incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2020. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income taxes.

b) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits earned by a subsidiary operating in Hong Kong during the period.

c) PRC enterprise income tax

Taxation arising in the PRC is calculated at the rates prevailing in the PRC.

Techwayson Industrial Limited, being a High-Tech enterprise and a wholly-owned subsidiary of the Company established and operated in a special economic zone of the PRC, is normally subject to the PRC enterprise income tax at a rate of 15%. However, it is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction in the tax rate for the next six years.

The tax exemption period expired on 31st December, 2000 and thereafter, Techwayson Industrial Limited is subject to the PRC enterprise income tax at 7.5% for 3 years until 31st December, 2003, and another 3 years until 31st December, 2006 provided it continues to qualify as a High-Tech enterprise.

The Group did not have material unprovided deferred taxation at 31st December, 2004 (30th June, 2004: Nil).

8. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 31st December, 2004 is based on the consolidated loss attributable to shareholders of RMB1,286,000 (2003: earnings of RMB11,442,000) and the weighted average number of 350,000,000 shares (2003: 350,000,000 shares) in issued during the period.

Diluted (loss)/earnings per share was not presented because there were no dilutive potential ordinary shares in issue during the six months ended 31st December, 2004 and 2003.

9. Dividend

The directors do not recommend the payment of a dividend for the six months ended 31st December, 2004 (2003: Nil).

10. Capital expenditure

	For the 6 months ended 31st December, 2004		
	Property, plant and equipment (Unaudited)	Property under development (Unaudited)	Deferred Software development costs (Unaudited)
	RMB'000	RMB'000	RMB'000
Net book value at 1st July, 2004	4,909	68,291	9,200
Additions	245	-	-
Disposals	(378)	-	-
Depreciation/amortisation	(739)	-	(2,300)
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Net book value at 31st December, 2004	4,037	68,291	6,900

The property under development is located in the PRC with a lease period of 50 years.

11. Inventories

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	RMB'000	RMB'000
Raw materials	4,253	5,624
Work in progress	584	2,430
Merchandises	346	306
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	5,183	8,360

12. Prepayment, deposits and other current assets

	The Group	
	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	RMB'000	RMB'000
Purchase deposits	55,290	2,621
Prepayment	32	258
Utility and rental deposits	145	464
Other receivables	1,667	115,385
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	57,134	118,728

13. Pledged time deposits

As at 31st December, 2004, no fixed deposit (30th June, 2004: RMB6,872,000) had been pledged to banks under lien to secure banking facilities granted to the Group.

14. Trade receivables and bills receivables

Trade receivables and bills receivables consisted of:

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Trade receivables	20,860	82,827
Retention monies receivable *	3,220	3,522
	24,080	86,349
Bills receivables	14,655	1,123

* *Retention monies are receivable upon expiry of the product warranty period, ranging from one to three years after completion of the contract.*

Customers are normally required to settle the debts within one month upon issue of invoices, except for certain well established customers whose terms are extended to two to three months.

Ageing analysis of trade receivables and bills receivables is as follows:

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
0 to 60 days	4,249	24,530
61 – 90 days	1,660	12,792
91 – 365 days	14,283	45,888
Over 365 days	3,888	3,139
	24,080	86,349
Bills receivables		
0 – 60 days	14,655	1,123

15. Trade payables and bills payable

Ageing analysis of trade payables and bills payable is as follows:

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables:		
0 to 60 days	4,621	3,960
61 – 90 days	62	38,994
91 – 365 days	1,429	1,554
Over 365 days	3,951	2,848
	<u>10,063</u>	<u>47,356</u>
Bills payable:		
0 – 60 days	–	48,262
61 – 90 days	1,679	–
91 – 365 days	11,805	–
	<u>13,484</u>	<u>48,262</u>

16. Warranty provisions

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Beginning of period	27	27
Unused amounts reversed during the period	(5)	–
End of period	<u>22</u>	<u>27</u>

The warranty provision represents management's best estimate of the Group's liability during the 1 to 3 years warranty period granted on automation products and project and technical services based on historical experience and management's estimate of anticipated level of future claims.

17. Loans payable

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Other loans, unsecured	13,461	15,868

The above loans are not wholly repayable within five years and the maturity is as follows:

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
On demand or within one year	5,068	6,328
More than one year, but not exceeding two years	2,398	2,385
More than two years, but not exceeding five years	5,995	7,155
	13,461	15,868
Less: Amounts due within one year shown under current liabilities	(5,068)	(6,328)
	8,393	9,540

The loans bear interest at LIBOR plus 0.5% p.a. and are repayable in 16 equal instalments over a period of 8 years.

18. Short term loans payable

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Bank loans, secured	100,000	30,000

The above loans are repayable within one year.

19. Share capital

During the period, there was no changes in the Company's authorised and issued share capital.

20. Commitments**a) Capital commitments**

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Authorised and contracted for		
– Property, plant and equipment	12,504	308
– Property under development	59,500	59,500
	72,004	59,808

b) Operating lease commitments

As at 31st December, 2004, the Group had commitments for future lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	31st December, 2004 (Unaudited)	30th June, 2004 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Within one year	929	1,377
Beyond one year but within five years	129	763
	1,058	2,140

21. Contingent liabilities

The Company has executed corporate guarantees to banks for securing banking facilities granted to its subsidiaries. As at 31st December, 2004, the amount utilised by these subsidiaries amounting to RMB113,484,000 (30th June, 2004: RMB18,262,000).

22. Recently issued Accounting Standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the interim financial statements for the period ended 31st December, 2004.