Notes to the Financial Statements

30 June 2005

1. GROUP REORGANISATION, BASIS OF PRESENTATION AND PRINCIPAL ACTIVITIES

Techwayson Holdings Limited (the "Company") was incorporated in the Cayman Islands on 1 September 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 February 2001. On 29 January 2003, the Company has by way of introduction listed its entire share capital on the Main Board of the Stock Exchange.

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the "new HKFRSs", which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005. HKFRS 3 "Business Combinations" applied to the accounting for business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combinations during the year nor the Group early adopted HKFRS 3 and accordingly, this HKFRS has no impact on the financial statements.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) BASIS OF PREPARATION

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by HKICPA, accounting principles generally accepted in Hong Kong, and the disclosure requirement of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The financial statements have been prepared under the historical cost convention as modified for of trust fund investments revaluation.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) GOODWILL

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of acquisitions of subsidiaries and associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Goodwill in respect of subsidiaries is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisition of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(d) SUBSIDIARIES

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. A subsidiary is considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable during the year.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) TURNOVER AND REVENUE RECOGNITION

The Group enters into contracts with customers on the sales of automation products and provision of project and technical services. Revenue is recognised in accordance with the accounting policies described in (i) and (ii) below. Advance payments received from customers are recorded as receipts in advance.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

(i) *Sales of automation products*
Revenue from sales of automation products is recognised when the work is completed and the customer has accepted the goods together with the risks and rewards of ownership.

(ii) *Provision of project and technical services*
Revenue from the provision of project and technical services is recognised by reference to the stage of completion of the system integration work at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed. In instances where the stage of completion is not identifiable, revenue from the provision of system integration services is recognised on a straight-line basis over the period in which the system integration work is performed.

The Group prepares project timetables for all contracts signed with its customers. Revenue from provision of project and technical services is recognised over the period of service set out in the project timetable. Project timetables are reviewed regularly. The effect of changes in the project timetable on the amount of revenue recognised is accounted for in the period in which the change is made.

(iii) *Interest income*
Interest income is recognised on a time-proportion basis on the principal outstanding and at the rate applicable.

(iv) *Investment income*
Investment income is recognised when the right to receive income has been established.

(f) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or service (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intercompany balances and intercompany transactions are eliminated as party of the consolidation process, except to the extent that such intercompany balances and transactions are between Group enterprises within a single segment.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) SEGMENT REPORTING *(Continued)*

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowing, corporate and financing expenses.

(g) ADVERTISING AND PROMOTION

Costs of advertising and promotion are expenses as incurred.

(h) SOFTWARE DEVELOPMENT COSTS

Research expenditures are written off as incurred. Software development costs are also written off as incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Software development costs are stated at cost less accumulated amortisation and accumulated impairment losses.

Software development costs are amortised on a straight-line basis over a period of not more than three years in which the related products or processes are available for sales or use.

(i) PRODUCT WARRANTY

The Group provides for estimated warranty costs in the period in which the related sales are recognised. Such provision is based upon historical experience and management's estimate of the level of future claims. Claims exceeding amounts previously provided are recognised as an expense in the period in which the claims become known.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are depreciated at rates sufficient to write off their cost less residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20% or over the lease term, if shorter
Equipment	18% to 20%
Furniture	18%
Motor vehicles	18%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(k) PROPERTY UNDER DEVELOPMENT

Property in the course of construction are carried at cost, less any identified impairment loss. Depreciation of this property commences when the property is ready for its intended use.

(l) IMPAIRMENT

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method and includes costs of materials and, in the case of work-in-progress and finished goods, also direct labour. Net realisable value is based on estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) GOVERNMENT GRANTS

A government grant, including non-monetary grants at fair value, is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grant is recognised as income over the period necessary to match them with the related costs which they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

(o) INVESTMENT IN SECURITIES

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

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.

(p) TRUST FUND INVESTMENTS

Trust fund investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

(q) 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.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) PROVISION AND CONTINGENCIES

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(s) OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

(t) FOREIGN CURRENCY TRANSLATION

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). Transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of individual companies.

The Group prepares consolidated financial statements in Renminbi. On consolidation, the assets and liabilities of group companies with functional currencies other than Renminbi are translated into Renminbi at the rate of exchange in effect at the balance sheet date, while income and expense items are translated at the applicable average rates of exchange prevailing during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustment. There were no material cumulative translation adjustments during the years ended 30 June 2004 and 2005.

(u) RELATED PARTY

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(w) EMPLOYEE BENEFITS

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan organized by municipal government as stipulated by the regulations of the People's Republic of China (the "PRC") are recognized as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

4. TURNOVER AND REVENUE

Turnover and revenue consist of:

	2005 RMB'000	2004 RMB'000
Income from*		
– Sales of automation products	**185,670**	354,573
– Fees for project and technical services	**2,295**	4,599
Total turnover	**187,965**	359,172
Other revenue		
– Government grant	**–**	307
– Sundry income	**31**	357
– Bank interest income	**530**	142
– Unrealised gain on trust fund investments	**704**	–
	1,265	806
Total revenue	**189,230**	359,978

* The Group's income excludes PRC value-added tax.

Approximately 76% (2004: 79%) of the Group's turnover was made to top five customers for the year ended 30 June 2005.

5. SEGMENT REPORTING

For management purposes, the Group is currently organised into two business operations. These divisions are the basis on which the Group reports its primary segment information. Principal activities as follows:

– Automation products
– Project and technical services

Business segments

Segment information about these businesses for the year is presented below:

	Automation products *RMB'000*	Project and technical services *RMB'000*	Consolidated *RMB'000*
For the year ended 30 June 2005			
Revenue	185,670	2,295	187,965
Segment results	29,244	(12,413)	16,831
Sundry income			1,262
Unallocated expenses			(22,460)
Loss from operations			(4,367)
Impairment loss on investment securities			(3,700)
Finance costs			(7,940)
Loss before taxation			(16,007)
Taxation			(3,098)
Loss after taxation			(19,105)
Other Information			
Amortisation of software development costs	–	6,600	6,600

5. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Automation products *RMB'000*	Project and technical services *RMB'000*	Consolidated *RMB'000*
For the year ended 30 June 2004			
Revenue	354,573	4,599	359,172
Segment results	37,079	1,144	38,223
Sundry income			499
Unallocated expenses			(20,894)
Profit from operations			17,828
Finance costs			(3,024)
Profit before taxation			14,804
Taxation			(3,883)
Profit after taxation			10,921
Other Information			
Amortisation of software development costs	–	9,546	9,546

5. SEGMENT REPORTING *(Continued)*

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.

	2005	2004
	RMB'000	*RMB'000*
Revenue from external customers		
PRC (including Hong Kong and Macau)	**186,393**	133,414
Malaysia	**1,572**	65,641
Korea	**–**	160,117
	187,965	359,172

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

6. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest on bank and other borrowings and overdraft wholly repayable within 5 years	**7,532**	2,687
Interest on bank and other borrowings wholly repayable after 5 years	**408**	337
	7,940	3,024

7. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is stated after charging the following:

	2005 *RMB'000*	2004 *RMB'000*
Advertising and promotion costs	**64**	190
Auditors' remuneration	**320**	360
Bad debts	**557**	–
Cost of inventories	**158,931**	310,139
Depreciation of property, plant and equipment	**1,365**	1,276
Amortisation of software development costs	**6,600**	9,546
	7,965	10,822
Less: Amount included in research and development expenditures	**(183)**	(317)
	7,782	10,505
Impairment loss on software development costs	**2,600**	–
Loss on disposal of property, plant and equipment	**378**	335
Operating lease rentals of premises	**1,054**	2,357
Provision for doubtful debts	**3,006**	–
Provision for obsolete and slow moving inventories	**1,210**	–
Research and development expenditures	**1,794**	1,234
Staff costs (including directors' emoluments)	**8,093**	8,988
Contributions to defined contribution plan	**396**	544
	8.489	9,532
Less: Amount included in research and development expenditures	**(1,037)**	(807)
	7,452	8,725

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	2005 RMB'000	2004 RMB'000
Fees for executive directors	**551**	–
Fees for non-executive directors	**604**	254
Other emoluments for executive directors		
– Basic salaries and allowances	**149**	935
– Contributions to pension scheme	**19**	19
	1,323	1,208

During the year, one director waived emoluments of RMB275,600 (2004: Four with amount RMB1,003,748). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year (2004: Nil).

The emoluments of all directors for the year ended 30 June 2005 (2004 – All) fall within the band of nil to RMB1,060,000 (equivalent of HK$1,000,000).

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2004: one) is a director whose emoluments are disclosed in Note 8(a). The aggregate of the emoluments in respect of the other four (2004: four) individuals are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries and allowances	**1,757**	2,142
Contributions to pension scheme	**54**	57
	1,811	2,199
Number of directors	**1**	1
Number of employees	**4**	4
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office (2004: Nil).

The emoluments of all of the five highest paid individuals (including directors and other employees) for the year ended 30 June 2005 (2004 – five) fall within the band of nil to RMB1,060,000 (equivalent of HK$1,000,000).

9. TAXATION

Taxation consists of:

	2005 RMB'000	2004 RMB'000
Current taxation		
– PRC enterprise income tax	–	738
– Hong Kong profits tax	3,098	3,145
	3,098	3,883

(a) Overseas income tax

The Company is 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 are 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 at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits earned by a subsidiary operated in Hong Kong for the year.

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

(d) The reconciliation between the Group's tax expense and accounting (loss)/profit at applicable tax rates:

	2005 RMB'000	2004 RMB'000
(Loss)/profit before tax	(16,007)	14,804
Tax calculated at applicable tax rates	(2,801)	2,591
Tax effect of expenses not deductible for tax purposes	901	407
Tax effect of income not taxable for tax purpose	(19)	(3,511)
Tax effect of unused tax losses not recognised	1,223	711
Others	3,794	3,685
Taxation	3,098	3,883

There was no significant unprovided deferred taxation for the year ended 30 June 2005 (2004: Nil).

10. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders included a loss of approximately RMB36,519,000 (2004 – profit of approximately RMB8,419,000) which has been dealt with in the financial statements of the Company.

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the year ended 30 June 2005 is based on the consolidated loss attributable to shareholders of RMB19,105,000 (2004: earnings of RMB10,921,000) and the weighted average number of 350,000,000 shares (2004: 350,000,000 shares) in issue during the year.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the year ended 30 June 2005 (2004: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

	The Group					
	2005					2004
	Leasehold improvements *RMB'000*	Equipment *RMB'000*	Furniture *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*	Total *RMB'000*
Cost						
Beginning of year	1,232	6,024	598	1,481	9,335	6,426
Additions	–	224	193	–	417	4,188
Reclassification	–	83	(83)	–	–	–
Disposals	(367)	(75)	(183)	–	(625)	(1,279)
End of year	865	6,256	525	1,481	9,127	9,335
Accumulated depreciation						
Beginning of year	277	3,207	193	749	4,426	3,876
Provision for the year	193	868	48	256	1,365	1,276
Reclassification	–	4	(4)	–	–	–
Disposals	(123)	(46)	(76)	–	(245)	(726)
End of year	347	4,033	161	1,005	5,546	4,426
Net book value						
End of year	518	2,223	364	476	3,581	4,909
Beginning of year	955	2,817	405	732	4,909	2,550

13. PROPERTY UNDER DEVELOPMENT

	The Group			
	2005			2004
	Land cost	**Development cost**	**Total**	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Beginning and end of year	**2,028**	**66,263**	**68,291**	68,291

The property under development is located in the PRC and the Group has obtained the land use right certificate for the leasehold land with a lease period of 50 years commenced January 2003.

14. SOFTWARE DEVELOPMENT COSTS

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Cost		
Beginning of year	**34,637**	34,637
Written off during the year	**(34,637)**	–
End of year	**–**	34,637
Accumulated amortisation and impairment		
Beginning of year	**25,437**	15,891
Amortisation for the year	**6,600**	9,546
Impairment loss	**2,600**	–
Written off during the year	**(34,637)**	–
End of year	**–**	25,437
Net book value		
End of year	**–**	9,200
Beginning of year	**9,200**	18,746

15. INVESTMENTS IN SECURITIES

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Investment securities		
Equity securities – Unlisted, at cost *(note)*	**51,940**	51,940
Less: Impairment losses		
Beginning of year	**16,324**	16,324
Impairment loss for the year	**3,700**	–
End of year	**20,024**	16,324
	31,916	35,616

Note:

Investment securities represent the Group's 18.52% holding of the registered capital of Tongling Huarui Electronic Materials Company Limited (renamed as Goldwiz Huarui (Tongling) Electronic Material Company Limited) ("Tongling"), a company incorporated in the PRC.

In 2005, the directors of the Company have considered the carrying value of the investments in Tongling with reference to the valuation report dated 15 September 2005 prepared by Vigers Appraisal & Consulting Limited), an independent professional value, in respect of the value of Tongling as at 30 June 2005. On this basis, the directors of the Company identified an accumulated impairment losses of RMB20,024,000 (2004: RMB16,324,000) on the investment securities.

The underlying value of the investment securities is, in the opinion of the Company's directors, not less than their carrying value as at 30 June 2005.

16. INVESTMENT IN SUBSIDIARIES

	The Company	
	2005	2004
	RMB'000	*RMB'000*
Unlisted shares, at cost	**67,638**	67,638
Due from subsidiaries	**21,289**	56,903
	88,927	124,541
Due to a subsidiary	**20,245**	12,049

Amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

16. INVESTMENT IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries as at 30 June 2005 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group		Principal activities
			Directly	*Indirectly*	
Usualink Development Limited	British Virgin Isands/ British Virgin Islands	US$1,250	100%	–	Investment holding
Techwayson Industrial Limited*	PRC/PRC	HK$10,000,000	–	100%	Design, supply and integration of automation and control systems
Techwayson Management Limited	Hong Kong/ Hong Kong	HK$10,000	100%	–	Provision of management services
Techwayson Enterprises Limited	British Virgin Islands/ Mainland China	US$100	100%	–	Design and integration of automation and control systems
Techwire Enterprises Limited	British Virgin Islands/ British Virgin Islands	US$100	100%	–	Investment holding
Techwayson Automation Limited	Hong Kong/Hong Kong	HK$10,000	100%	–	Trading of automation products
Realtop Limited	British Virgin Islands/ British Virgin Islands	US$100	100%	–	Investment holding
Hiwayson Technology Limited*	PRC/PRC	RMB100,000,000	–	100%	Design, supply and integration of automation and control systems

* *Techwayson Industrial Limited and Hiwayson Technology Limited are wholly foreign owned enterprises established in a special economic zone of the PRC to be operated for 15 years up to September 2012 and 20 years up to June 2023 respectively.*

17. TRUST FUND INVESTMENTS

Trust fund investments represent funds placed with Kinghing Trust & Investment Co., Ltd., an independent trust investment company in the PRC. The funds are managed by the trust investment company and transacted with the assets/trust assets under its management. The trust investment company guaranteed the annual rate of return on the trust fund investments at 4%. In accordance with the terms of the trust fund contracts, the trust period of the funds will expire in May 2006.

18. INVENTORIES

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Raw materials	**4,034**	5,624
Work in progress	**673**	2,430
Merchandises	**110**	306
	4,817	8,360

No inventory was stated at net realisable value as at 30 June 2005 (2004: Nil).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Purchase deposits	**16,286**	2,621
Prepayments	**1,428**	258
Utility and rental deposits	**56**	464
Other receivables	**229**	115,385
	17,999	118,728

20. TRADE RECEIVABLES AND BILLS RECEIVABLES

Trade receivables and bills receivables consisted of:

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Trade receivables	**32,644**	82,827
Retention monies receivables*	**749**	3,522
	33,393	86,349
Less: Provision for doubtful debts	**(3,006)**	–
	30,387	86,349
Bills receivables	**9,435**	1,123

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

20. TRADE RECEIVABLES AND BILLS RECEIVABLES *(Continued)*

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

Ageing analysis of trade receivables and bills receivables at the year end date is as follows:

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Trade receivables		
0 – 60 days	**13,777**	24,530
61 – 90 days	**3,337**	12,792
91-365 days	**12,911**	45,888
Over 365 days	**3,368**	3,139
	33,393	86,349
Bills receivables		
0 – 60 days	**9,435**	1,123

21. TRADE PAYABLES AND BILLS PAYABLES

Ageing analysis of trade payables and bills payables at the year end date is as follows:

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Trade payables		
0 – 60 days	**2,234**	3,960
61 – 90 days	**1,073**	38,994
91 – 365 days	**5,987**	1,554
Over 365 days	**1,897**	2,848
	11,191	47,356
Bills payables		
0 – 60 days	**18,851**	48,262

22. WARRANTY PROVISION

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Beginning and end of year	**27**	27

The warranty provision represents management's best estimate of the Group's liability under one to three years warrants granted on system control equipment and software products and system integration services based on historical experience and management's estimate of level of future claims.

23. LOANS PAYABLE

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other loans, unsecured	**8,966**	15,868	**8,966**	15,868

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
On demand or within one year	**1,811**	6,328	**1,811**	6,328
More than one year, but not exceeding two years	**2,385**	2,385	**2,385**	2,385
More than two years, but not exceeding five years	**4,770**	7,155	**4,770**	7,155
More than five years	**–**	–	**–**	–
	8,966	15,868	**8,966**	15,868
Less: Amounts due within one year shown under current liabilities	**(1,811)**	(6,328)	**(1,811)**	(6,328)
Non-current portion	**7,155**	9,540	**7,155**	9,540

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

24. SHORT TERM LOANS PAYABLE

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loan, secured	**100,000**	30,000	**–**	–

The above loans are repayable within one year.

25. SHARE CAPITAL

Ordinary shares of RMB0.106 each (equivalent of HK$0.1)

	The Company	
	Number of shares	Amount
		RMB'000
Authorised:		
As at 30 June 2004	1,000,000,000	106,000
As at 30 June 2005	**1,000,000,000**	**106,000**
Issued and fully paid:		
As at 30 June 2004	350,000,000	37,100
As at 30 June 2005	**350,000,000**	**37,100**

Note: During the year, there was no changes in the company's authorised and issued share capital.

26. RESERVES

	Share premium	General reserve funds *(Note (a))*	Capital reserve *(Note (b))*	Contributed surplus *(Note (c))*	(Accumulated deficit)/ Retained profit	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
The Group						
As at 1 July 2003	7,160	5,309	13,841	–	118,442	144,752
Profit attributable to shareholders	–	–	–	–	10,921	10,921
As at 30 June 2004 and 1 July 2004	7,160	5,309	13,841	–	129,363	155,673
Loss attributable to shareholders	–	–	–	–	(19,105)	(19,105)
As at 30 June 2005	7,160	5,309	13,841	–	110,258	136,568
The Company						
As at 1 July 2003	7,160	–	–	67,614	(24,631)	50,143
Profit attributable to shareholders	–	–	–	–	8,419	8,419
As at 30 June 2004 and 1 July 2004	7,160	–	–	67,614	(16,212)	58,562
Loss attributable to shareholders	–	–	–	–	(36,519)	(36,519)
As at 30 June 2005	7,160	–	–	67,614	(52,731)	22,043

26. RESERVES *(Continued)*

Notes:–

(a) As stipulated by regulations in the PRC, Techwayson Industrial Limited is required to appropriate 10% of after-tax profit (after offsetting prior year losses) to a general reserve fund until the balance of the fund reaches 50% of its share capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior year losses, or for the issuance of bonus shares on the condition that the general reserve fund shall be maintained at a minimum of 25% of the share capital after such issuance.

The balance of the general reserve fund has reached 50% of the share capital of Techwayson Industrial Limited and the board of directors has determined that no further appropriation is necessary unless there is an increase in share capital of the company.

(b) Capital reserve represents effect of the reorganisation and capitalisation of shareholders' loans by a subsidiary.

(c) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation on 16 January 2001.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 30 June 2005, the Company's reserves available for distribution to shareholders amounted to RMB22,043,000 (2004 – RMB58,562,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB7,160,000 (2004 – RMB7,160,000) and contributed surplus of RMB67,614,000 (2004 – RMB67,614,000), less accumulated deficit of RMB52,731,000 (2004 – RMB16,212,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

27. EMPLOYEE SHARE OPTIONS

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's board of directors and will not be less than the highest of (i) the nominal value of the Company's shares, (ii) the average of the closing price of the shares quoted on the Main Board of The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the grant date and (iii) the closing price of the shares on the grant date. No option has been granted since the adoption of the share option scheme.

28. COMMITMENTS

(a) Capital commitments

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Authorised and contracted for the capital expenditure in respect of the acquisition of				
– Property, plant and equipment	**–**	308	**–**	–
– Property under development	**59,500**	59,500	**–**	–
	59,500	59,808	**–**	–
Authorised but not contracted for the capital commitments relating to acquisition of				
– Subsidiary	**–**	90,000	**–**	–

(b) Operating lease commitments

At the balance sheet date, the Group had commitments for future lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**353**	1,377	**–**	–
Between two and five years	**–**	763	**–**	–
	353	2,140	**–**	–

29. CONTINGENT LIABILITIES

a) The Company has executed corporate guarantee to banks for securing banking facilities granted to its subsidiaries. At the balance sheet date, the amount utilised by the subsidiaries amounted approximately RMB144,840,000 (2004: RMB88,873,000).

b) The Group has a contingent liability in respect of warranty responsible for its customers with sale amount approximately RMB196,000,000 (2004: Nil). At the same time, the Group also has warranty in respect of those sales covered by its supplier. Provision has not been recognised in respect of such liability, as it is considered not the warranty would be covered.

30. PLEDGE OF ASSETS

As at 31 December 2004, time deposits of RMB6,872,000 have been pledged to banks to secure banking facilities granted to the Group. On 12 July 2004 and 21 September 2004, the time deposits have been released from pledge.

31. RETIREMENT SCHEMES

From 1 December 2000, the Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month.

As stipulated by rules and regulations in the PRC, Techwayson Industrial Limited is required to contribute to a state-sponsored retirement plan for all of its employees at a certain percentage of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 30 June 2005, the aggregate employer's contributions made by the Group amounted to RMB396,000 (2004 – RMB544,000). As at 30 June 2005, there were no material forfeitures available to offset the Group's future contributions (2004 – Nil).

32. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group had the following related party transactions:

a) Corporate guarantee given by a related company and a director of a major shareholder against the bank loan granted to the Group

A related company and a director of a major shareholder, Goldwiz Holdings Limited ("Goldwiz"), have given a corporate guarantee and personal guarantee to a bank for securing bank loan to the extent of RMB100,000,000 (2004: RMB30,000,000) and the related accrued interest of RMB726,000 (2004: Nil) granted to a subsidiary of the Company.

b) Sales to a major shareholder

During the year, the Group sold project and technical services to a subsidiary of Goldwiz amounted to RMB284,000 (2004: Nil).

c) Management fee to a major shareholder

On 28 September 2004, the Group and Goldwiz entered into an agreement for the provision of administrative services from Goldwiz at RMB42,400 per month with effect from 1 October 2004 without specified date of expiry. During the year, the Group paid management fee to Goldwiz amounted to RMB381,600 (2004: Nil).

d) Advance from a major shareholder

During the year, the Group obtained advances from Goldwiz and its subsidiary amounted to approximately RMB19,212,000 (2004: Nil). These advances are unsecured and bear interest at 2% to 2.7% per month. All the advances were fully repaid by the year ended 30 June 2005.

During the year, the Group paid interest expenses to Goldwiz and its subsidiary amounted to RMB87,000 (2004: Nil).

e) Advance to a major shareholder

During the year, the Group advanced to Goldwiz amounted to RMB1,717,000 (2004: Nil). The advances are unsecured and bear interest at 2.18% to 2.96% per month. All the advances were fully repaid in the year ended 30 June 2005.

During the year, the Group received interest income from Goldwiz amounted to RMB78,000 (2004: Nil).