

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

1. Background of the Company

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. Basis of Preparation and Principal Accounting Policies

The unaudited condensed interim financial statements have been prepared in accordance with the applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretation issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of Hong Kong Companies Ordinance. The financial statements also comply 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 HKAS 34 “Interim financial reporting” issued by HKICPA. The unaudited condensed interim financial statements have been prepared under the historical cost convention, except for certain financial assets are carried at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2005, except as described below.

In December 2004, the HKICPA issued HKAS 17 “Lease”, HKAS 32 “Financial Instruments” Disclosure and Presentation and HKAS 39 “Financial Instruments: Recognition and Measurement” which are applicable to the Group’s operation and became effective on 1 January 2005. The adoption of these HKASs has no material impact of the Group’s result of operations and financial position except certain presentation and disclosure of financial statements have been changed.

(a) Lease Prepayments

Lease prepayments represent purchase cost of land use rights in the PRC. Land use rights are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

In accordance with HKAS 17, property under development of RMB2,027,572 included in the consolidated balance sheet as at 30 June 2005 was restated as prepaid lease payments (note 11).

(b) Investments

Investments are recognised and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

2. Basis of Preparation and Principal Accounting Policies (continued)

(b) Investments (continued)

Investments other than held-to-maturity securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in the income statement for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Investments in equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less identified impairment losses (if any). An impairment loss is recognised in the income statement when there is objective evidence that an asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

The adoption of HKAS 39 has the following effect on consolidated balance sheet at 1 July 2005 as follows:—

	RMB'000
Increase/(decrease) in assets	
Investment in securities	(31,916)
Available-for-sale investment	31,916
Trust fund investments	(150,704)
Held-to-maturity securities	150,704

3. Turnover and Other Revenue

The Group's turnover represented revenue generated from two main categories of revenue streams: 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 31 December	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Turnover		
Sales of automation products	132,469	97,194
Fees for project and technical services	–	2,299
Total turnover	132,469	99,493
Other revenue		
Unrealised gain on trust fund investments	3,000	–
Reversal of warranty provision	–	5
Interest income	64	506
Sundry income	28	10
	3,092	521
Total revenues	135,561	100,014

4. Segment Information

Business segments

	For the 6 months ended 31 December					
	Automation products		Project and technical services		Consolidated	
	2005	2004	2005	2004	2005	2004
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
TURNOVER	132,469	97,194	–	2,299	132,469	99,493
SEGMENT RESULT	4,742	17,025	–	37	4,742	17,062
Other revenue					3,092	521
Unallocated expenses					(7,385)	(13,057)
Profit from operations					449	4,526
Impairment loss on available-for-sale investment					(11,559)	–
Finance costs					(4,492)	(4,592)
Loss before taxation					(15,602)	(66)
Income tax					2,172	(1,220)
Loss after taxation					(13,430)	(1,286)
OTHER INFORMATION						
Amortisation of deferred software development costs	–	2,300	–	–	–	2,300

4. Segment Information (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.

	For the 6 months ended 31 December	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Revenue from external customers		
PRC (including Hong Kong and Macau)	105,316	99,493
Malaysia	27,153	–
	132,469	99,493

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

5. Staff Costs

	For the 6 months ended 31 December	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Salaries and allowances	2,888	4,103
Contributions to defined contribution plans	44	194
	2,932	4,297

6. Loss Before Taxation

Loss before taxation is arrived at after charging:

	For the 6 months ended 31 December	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Bad debts written off	366	–
Provision for obsolete stocks	442	–
Loss on exchange	88	–
Interest on bank borrowings and loans repayable within 5 years	4,492	3,910
Interest on other borrowings wholly repayable after 5 years	–	682

7. Income Tax

Income tax consists of:

	For the 6 months ended 31 December	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Current taxation		
PRC enterprise income tax		
– Tax for the period	–	(339)
Hong Kong profits tax		
– Tax for the period	197	1,559
– Over-provision in respect of prior years	(2,369)	–
Taxation (credit)/charge	(2,172)	1,220

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 for at the rate of 17.5% (2004: 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 PRC is calculated at the rates prevailing in the PRC.

Techwayson Industrial Ltd., 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 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, the company is subject to the PRC enterprise income tax at 7.5% for the next three years until 31 December 2003, and followed by the other three years of tax reduction period until 31 December 2006 provided it continues to qualify as a High-Tech enterprise.

The Group did not have material unprovided deferred taxation at 31 December 2005 (2004: Nil).

8. Loss Per Share

The calculation of basic loss per share for the six months ended 31 December 2005 is based on the consolidated loss attributable to shareholders of approximately RMB13,430,000 (2004: RMB1,286,000) and the weighted average of 350,000,000 shares (2004: 350,000,000 shares) in issue during the period.

Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in issue during the six months ended 31 December 2005 and 2004.

9. Dividend

The directors do not recommend the payment of interim dividend for the six months ended 31 December 2005 (2004: Nil).

10. Capital Expenditure

	For the 6 months ended 31 December 2005	
	Plant and equipment (Unaudited) RMB'000	Property under development (Unaudited) RMB'000
Net book value at 1 July 2005 (as restated)	3,581	66,263
Additions	38	6,000
Disposals	–	–
Depreciation	(636)	–
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Net book value at 31 December 2005	2,983	72,263

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

11. Prepaid Lease Payments

	31 December 2005 (Unaudited) RMB'000	As restated 30 June 2005 (Audited) RMB'000
Net book value	2,028	2,028
Amortisation	(20)	–
Less: Current portion of lease prepayments	(41)	(41)
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Non-current portion of lease prepayments	1,967	1,987

12. Available-for-sale Investment

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
Fair value transferred from investment in securities at 1 July 2005	31,916	–
Less: Impairment losses	(11,559)	–
Fair value at 31 December 2005/30 June 2005	20,357	–

Notes:

Available-for-sale investment (previously classified as investment in securities) represented the Group's 18.52% equity 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.

For the six months ended 31 December 2005, the directors of the Company have assessed the carrying value of the investment in Tongling with reference to an unaudited net asset value of Tongling as at 31 December 2005. On this basis, the directors of the Company identified an impairment losses of RMB11,559,000 on the available-for-sale investment.

13. Held-to-maturity Securities

Trust fund investments represent funds placed with Kinghing Trust & Investment Co., Ltd., (the "Trust Company") an independent trust investment company in the PRC. The Company's PRC lawyer has confirmed to the Company that the Trust Company has been ordered by the relevant authority to suspend its operation. The assets of the Trust Company is now being managed by the China Construction Bank. The two subsidiaries have registered with the China Construction Bank on its redemption right on the Fund. The Trust Company guaranteed an annual rate of return on the trust fund investments at 4% and recorded in turnover and other revenue (note 3). In accordance with the terms of the trust fund contracts, the securities will mature in May 2006.

	31 December 2005 (Unaudited) RMB'000	(As restated) 30 June 2005 (Audited) RMB'000
Trust fund investment Carrying value at 1 July 2005/1 July 2004 and 31 December 2005/30 June 2005	150,704	–

Following the adoption of HKAS 39 in 2005, trust fund investments were redesignated as financial held-to-maturity securities on 1 January 2005. There were no such designations in 2004 as retrospective application of HKAS 39 is not permitted.

14. Inventories

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
Raw materials	1,809	4,034
Work in progress	4,698	673
Merchandises	767	110
	7,274	4,817

15. Prepayments, Deposits and Other Receivables

	31 December 2005 (Unaudited) RMB'000	As restated 30 June 2005 (Audited) RMB'000
Purchase deposits	11,880	16,286
Prepayments	4,227	1,428
Utility and rental deposits	51	56
Others	5,133	229
	21,291	17,999

16. Trade Receivables and Bills Receivables

Trade receivables and bills receivables consisted of:

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
Trade receivables	22,862	32,644
Retention monies receivables *	-	749
	22,862	33,393
Less: Provision for doubtful debts	-	(3,006)
	22,862	30,387
Bills receivables	-	9,435

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

16. Trade Receivables and Bills Receivables (continued)

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

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

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
0 to 60 days	13,763	13,777
61 – 90 days	388	3,337
91 – 365 days	8,711	12,911
Over 365 days	–	3,368
	22,862	33,393
Bills receivable:		
0-60 days	–	9,435

17. Trade Payables and Bills Payables

Ageing analysis of trade payables and bills payables are as follows:

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
Trade payables:		
0 to 60 days	8,381	2,234
61 – 90 days	1,258	1,073
91 – 365 days	1,331	5,987
Over 365 days	523	1,897
	11,493	11,191
Bills payables:		
0 – 60 days	–	18,851

18. Warranty Provisions

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
Beginning and end of period	27	27

The warranty provision represented management's best estimate of the Group's liability under 1 to 3 years warrants granted on automation products and project and technical services based on historical experience and management's estimate of the potential level of future claims.

19. Loans Payable

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
Other loans, unsecured	8,966	8,966

The above loans were wholly repayable within five years and the maturity is as follows:

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
On demand or within one year	3,003	1,811
More than one year, but not exceeding two years	2,385	2,385
More than two years, but not exceeding five years	3,578	4,770
	8,966	8,966
Less: Amounts due within one year shown under current liabilities	(3,003)	(1,811)
Non-current portion by loans payable	5,963	7,155

The loans bear interest at LIBOR plus 0.5% p.a. and are repayable in 16 equal instalments over a period of 8 years since September 2001.

20. Short-term Bank Loan

	31 December 2005 (Unaudited) RMB'000	30 June 2005 (Audited) RMB'000
Bank loan, unsecured	98,981	100,000

The loan bear interest at 6.375% and is overdue. The management is currently in discussion with the bank to restructure the loan.

21. Share Capital

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

22. Commitmentsa) *Capital commitment*

	At 31 December 2005 (Unaudited) RMB'000	At 30 June 2005 (Audited) RMB'000
Authorised and contracted for		
– Property under development	53,500	59,500

The capital commitment as stated above is based on the contract sum with the main contractor at approximately RMB120million. According to the stage of completion of the property under development, the management is of the opinion that the estimated cost to complete the property will be approximately RMB28million instead.

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:

	At 31 December 2005 (Unaudited) RMB'000	At 30 June 2005 (Audited) RMB'000
Within one year	47	353

23. Contingent Liabilities

- a) The Company has executed corporate guarantees to banks to secure banking facilities granted to its subsidiaries. At the balance sheet date, the banking facilities utilised by subsidiaries totalled approximately RMB98,981,000 (30 June 2005: RMB144,840,000).
- b) Pursuant to the litigations disclosed in note 25, "Subsequent Events", two PRC subsidiaries are allegedly being claimed for a total amount of approximately RMB155 million under guarantees said to be issued by the two PRC subsidiaries.

24. Material 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 to secure bank loan to the extent of RMB100,000,000 as at 31 December 2005 (30 June 2005: RMB100,000,000) granted to a subsidiary of the Company.

- b) *Management fee paid to a major shareholder*

During the period, the Group paid management fee of RMB669,000 (2004: Nil) to Goldwiz and its subsidiary for the provision of administrative services by Goldwiz and its subsidiary.

- c) *Amount due by a major shareholder*

At 31 December 2005, an amount of RMB2,133,000 (30 June 2005: RMB1,717,000) was made by a subsidiary of the Company to a subsidiary of Goldwiz erroneously. The amount was fully recovered in March 2006.

25. Subsequent Events

In early February 2006, the Company had been informed by its wholly-owned subsidiaries in the PRC, Techwayson Industrial Limited and Hiwayson Technology Limited, that they have been served with writs of summons issued by the Tongling Intermediate People's Court and Shenzhen Intermediate People's Court. As the then and current Board were not aware of the underlying transactions concerning the two subsidiaries that were alleged in the writs of summons, the Company is investigating the relevant facts. More detailed information is stated in post balance sheet events of management discussion and analysis.

26. Comparative Figures

Certain comparative figures have been reclassified to conform the current's period presentation.

27. Approval

These unaudited condensed consolidated interim financial statements were approved by the board of directors on 27 March 2006.