

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2003

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 (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of 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, 2003, except as described below.

In the current interim period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. However, the adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition and is capitalised and amortised on a straight line basis.

3. SEGMENT INFORMATION

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

Six months ended 31st December, 2003

	Hong Kong <i>HK\$'000</i>	The People's Republic of China (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			(801)
Finance costs			<u>(24)</u>
Loss before taxation			<u>(1,559)</u>

Six months ended 31st December, 2002

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	<u>25,412</u>	<u>16,865</u>	<u>779</u>	<u>43,056</u>
SEGMENT RESULT	<u>(609)</u>	<u>(242)</u>	<u>(288)</u>	(1,139)
Other operating income				103
Unallocated corporate expenses				(726)
Finance costs				<u>(25)</u>
Loss before taxation				<u>(1,787)</u>

4. LOSS FROM OPERATIONS

	Six months ended	
	31.12.2003	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	195	299
Loss on disposal of property, plant and equipment	-	78
and after crediting:		
Bank interest income	18	35
Gain on disposal of investments in securities	<u>164</u>	<u>-</u>

5. 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.

The tax charge for the six months ended 31st December, 2002 represented the PRC enterprise income tax of a Group's subsidiary calculated at the applicable rate prevailing.

6. DIVIDEND

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

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$1,559,000 (six months ended 31st December, 2002: HK\$1,818,000) and on the weighted average of 959,657,446 (six months ended 31st December, 2002: on 816,233,533) shares in issue throughout the period.

No diluted loss per share has been presented for the six months ended 31st December, 2002 and 2003 because the exercise price of the Company's options was higher than the average market price for that period.

8. GOODWILL

	31.12.2003	30.6.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Arising on acquisition during the period (<i>note 12</i>) and at 31st December, 2003	<u>18,600</u>	<u>-</u>

9. TRADE AND OTHER RECEIVABLES

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

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

	31.12.2003 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Trade receivables		
0-30 days	7,818	9,194
31-60 days	3,972	2,368
More than 60 days	38	1,512
	11,828	13,074
Deposits and prepayments	3,072	1,876
	14,900	14,950

10. TRADE AND OTHER PAYABLES

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

	31.12.2003 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Trade payables		
0-30 days	4,301	7,335
31-60 days	280	-
More than 60 days	1,067	607
	5,648	7,942
Other payables and accrued charges	425	411
	6,073	8,353

11. SHARE CAPITAL

	Number of shares		Amount	
	31.12.2003	30.6.2003	31.12.2003 HK\$'000	30.6.2003 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and at end of the period/year	<u>1,500,000,000</u>	<u>1,500,000,000</u>	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:				
At beginning of the period/year	925,472,663	775,472,663	92,547	77,547
Placing of shares	-	150,000,000	-	15,000
Issue of shares in consideration of the acquisition of a subsidiary	<u>185,000,000</u>	<u>-</u>	<u>18,500</u>	<u>-</u>
At end of the period/year	<u>1,110,472,663</u>	<u>925,472,663</u>	<u>111,047</u>	<u>92,547</u>

On 5th November, 2003, the Company entered into a Sale and Purchase Agreement (the "Agreement") with an independent third party (the "Seller"). Pursuant to the Agreement, the Company agreed to acquire from the Seller the entire issued and paid up share capital of Carion Technology Limited, for a consideration of HK\$18,500,000 settled by the issuance of 185,000,000 new shares of HK\$0.10 each at a market value of HK\$0.10 per share. All the shares issued during the period rank pari passu with the then existing shares in all respects.

12. ACQUISITION OF A SUBSIDIARY

On 5th November, 2003, the Company acquired the entire issued share capital of Carion Technology Limited for a consideration of HK\$18.5 million and incidental cost of approximately HK\$102,000. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	HK\$'000
Net assets acquired	2
Goodwill arising on acquisition	<u>18,600</u>
Total consideration	<u>18,602</u>
Net cash inflow arising on acquisition	
Bank balances and cash acquired	<u>137</u>

Carion Technology Limited did not make any significant contribution to the results of the Group during the interim period.