Annual Report 2006

紀翰集團有限公司 The Quaypoint Corporation Limited

Quaypoint

Stock Code : 2330

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Dr. SZE Kwan *(Vice Chairman)*
Ms. CHAN Siu Chu, Debby *(Chief Executive Officer)*
Mr. LIU Ping
Mr. SIEK Fui

Non-executive Director

Mr. Gerard J. MCMAHON *(Chairman)*

Independent Non-executive Directors

Mr. HUI Hung, Stephen
Mr. LAU Sai Chung
Mr. NG Kwok Chu, Winfield
Mr. WEE Soon Chiang, Henny
Mr. WONG Kam Kau, Eddie

COMPANY SECRETARY

Ms. CHEUNG Hiu Lan

QUALIFIED ACCOUNTANT

Miss FUNG Yin Wan

AUDITORS

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
34th Floor
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
Wing Hang Bank Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Suite 1304
Great Eagle Centre
23 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Room 1803
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

STOCK CODE

2330

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has undergone a period of difficulties. In early February 2006, the Company had been informed by its wholly-owned subsidiaries in the PRC, Techwayson Industrial Limited and Hiwayson Technology Limited (renamed as Techwayson Technology (Shenzhen) Ltd), that they have been served with writs of summons issued by the Tongling Intermediate People's Court and Shenzhen Intermediate People's Court. These two PRC subsidiaries are being sued for a total amount of approximately RMB155 million under certain guarantees allegedly issued in favour of the creditors of a company, namely Goldwiz Huarui (Tongling) Electronic Materials Company Limited ("Goldwiz Tongling"), in which the Group has an interest of 18.52%, and a third party. As the then and current Board were not aware of the underlying transactions concerning the two subsidiaries that were alleged in the writs of summon, the Company has investigated the relevant facts and is dealing with the issues related to these incidents.

As a result, during the period from December 2005 to August 2006, the Group suffered a setback in its image over certain implicated financial and litigation issues, which also have affected its sales performance of its automation business. Sales during this period came almost to a standstill. For the year ended 30 June 2006, the Group recorded a total revenue of approximately RMB116 million (2005: RMB189 million), representing a decrease of 38.6% over last year. The audited loss attributable to equity shareholders of the Company for the year ended 30 June 2006 increased to approximately RMB247.5 million as compared to a loss of approximately RMB19 million for last year.

Although the Group has undergone a year full of difficulties, it has managed to cross the bridge. With the support of its committed workforce and the raising of additional financial funding, the Group has now recovered most of the lost ground and re-established its morale. It has started to submit tender applications for automation projects again. The management expects its automation business will get back to normal gradually and offer better return for the coming financial year.

In order to strengthen its income base, the Company has expanded its trading business into natural resources and other products. These new sectors were developed late in the financial year and are not expected to contribute to the Company's performance until next financial year.

As disclosed by the major shareholder of Goldwiz Tongling, Goldwiz Tongling has suspended its operation since December 2005 due to critical liquidity problem. It has received writs of summons from banks, suppliers, trust company and former shareholder in respect of the alleged indebtedness of approximately RMB221.7 million. Since then, the management of Goldwiz Tongling has been negotiating with the creditors on any possible settlement agreements. However, in view of the substantial outstanding amount of alleged indebtedness and the litigations being involved by Goldwiz Tongling, the management of the Company is not optimistic regarding the prospect of Goldwiz Tongling. The Company, thus, has made a full provision of impairment on its investment in Goldwiz Tongling. Latest development of the litigations is reported in "Litigation" of this report.

LIQUIDITY AND FINANCIAL RESOURCES

Apart from the loan payable and short-term bank loan totalling RMB107,390,000 (2005: RMB109,155,000) which were brought forward from the previous year, the Group generally finances its operations with internally generated cash flows. The Group is in negotiation with the bank for restructuring the short term loan to a long term loan. Terms of the restructuring are subject to change depending upon the result of these negotiations.

For the year ended 30 June 2006, 250,000,000 convertible redeemable preference shares at HK$0.4 each were issued and it gave rise to net proceeds of approximately HK$100,000,000. Moreover, the holder of these shares has granted the option to the Company to require the holder to subscribe for an additional 100,000,000 convertible redeemable preference shares at HK$0.4 each during the stipulated period. Upon the subscription of these additional shares by the holder, the Company will receive further proceeds of approximately HK$40,000,000.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

The Group had, as at 30 June 2006, a trust fund investment with interest of RMB150,704,000 (2005: RMB150,704,000) (the "Fund") which was placed by two PRC subsidiaries with Kinghing Trust & Investment Co. Ltd. in the PRC (the "Trust Company"). The Trust Company has subsequently been ordered by the relevant PRC authority to suspend its operation and its assets are now being managed by the China Construction Bank. At the maturity date being May 2006, the Fund has not yet been returned by the Trust Company. The two subsidiaries of the Company have registered with the China Construction Bank on its redemption right on the Fund and the fixed return. The Group has issued a demand letter through its PRC lawyer to chase for the return of Fund and no reply has yet been received from the Trust Company. In view of the uncertainty on its recoverability, the Group has, for prudent purpose, made a full provision of RMB150,704,000 on the recoverability of the Fund.

As at 30 June 2006, the Group had total borrowings of RMB107,390,000 (2005: RMB109,155,000). Total cash and bank balances amounted to approximately RMB96,765,000 (2005: approximately RMB14,487,000). The gearing ratio, expressed as a percentage of total borrowings over total assets, was 58.4% (2005: 32.9%).

As at 30 June 2006, the Group's net current liabilities was approximately RMB43,104,000 (2005: net current assets of RMB77,035,000) and the current ratio was 0.71 (2005: approximately 1.51). Taking into account the existing and anticipated banking facilities, the cash balance and new operations of the Group, and the option right granted to the Company regarding the subscription of additional 100,000,000 convertible redeemable preference shares at HK$0.4 each by the holder, the Directors are satisfied that the Group has sufficient resources to meet in full its financial obligations as they fall due in the foreseeable future.

All borrowings of the Group carried interest at floating rates. The maturity profile of the borrowings as at 30 June 2006 is analysed as follows:

	RMB'000
Repayable within one year	102,710
Repayable after one year but within two years	2,340
Repayable after two years but within five years	2,340
	107,390

SEGMENTAL INFORMATION

The segment of automation products has experienced a slump during the year ended 30 June 2006. It recorded a decrease in turnover of 38.5% compared with the corresponding period last year. This decrease is mainly due to the fact that the Group suffered a setback in its image over certain implicated financial and litigation issues during the period from December 2005 to August of 2006. As a result, sales during this period came almost to a standstill. However, this segment is now recovering with the support from the committed workforce and additional financial funding. The management believes that automation business will revive entirely and offer a better return for the coming financial year.

Due to the resources reallocation, the turnover from project and technical services segment during the year ended 30 June 2006 maintained immaterial as compared with the total turnover of the Group. However, the management plans to re-develop this segment which was ignored by previous management and expects that it will generate a profitable return in the coming year.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT

– Investment in Equity Securities

The Group has a long term investment of 18.52% interest in Goldwiz Tongling classified as Available-for-sale Securities in the consolidated balance sheet as at 30 June 2006. The Company has no control of the operation of Goldwiz Tongling. As disclosed by the major shareholder of Goldwiz Tongling, the operation of the factory of Goldwiz Tongling has been suspended since December 2005 due to a critical liquidity problem. It has also received writs of summons from various parties including suppliers, bankers, former shareholders and the Trust Company with a total alleged indebtedness of approximately RMB221.7 million. Due to the suspension of Goldwiz Tongling's operation and the pre-litigation protection orders made by the Tongling court on behalf of the creditors, Goldwiz Tongling was not able to finalize its accounts or calculate its unaudited net asset value as at 30 June 2006.

In view of the above factors, the uncertainty of resumption of Goldwiz Tongling's operation and the various litigations it is involved and the fact that the Group has never received any dividend income from the investment in Goldwiz Tongling, the Group made a full provision of impairment loss of RMB31,314,000, taking into account the exchange difference of RMB602,000 (carrying value at 30 June 2005: RMB31,916,000) for the year under review.

– Property Under Development

The construction works for the Group's Research and Development Centre (The "Centre") located in Shenzhen Hi-tech Park, the PRC, has been resumed in the second half of 2006 and the management expects that completion of the building will be finalized in end of 2006. Upon completion, the property will be a 7-storey building with a gross floor area of 17,586 square meters, including a basement car-park for approximately 60 cars. The property will be partly held for leasing purpose and partly for the use of the Group. Based on the existing expanding property leasing market in the PRC, the management believes that the property will contribute rental income of approximately RMB8,000,000 per annum to the Group after its completion, subject to the compliance of the relevant regulations of the Shenzhen Hi-tech Park.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group mainly earns revenues and incurs costs in Renminbi, United States dollars and Hong Kong dollars. The Group's monetary assets and liabilities are denominated in Renminbi, United States dollars and Hong Kong dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instrument has been used for hedging purposes.

CAPITAL STRUCTURE

As at 30 June 2006, the Company issued 250,000,000 Convertible Redeemable Preference Shares at an issue price of HK$0.40 per share. The Convertible Redeemable Preference Shares bear a fixed cumulative preferential dividend at the rate of 3.5% per annum on the amount paid up or credited as paid up. The Company has the right to require, in the stipulated period, the conversion of all or part of the Convertible Redeemable Preference Shares or to redeem, subject to compliance with any legislation applicable to the Company, such Shares at amount (subject to adjustments under relevant events) equal to all amounts paid up or credited as paid up on the Convertible Redeemable Preference Shares. Based on their terms and conditions, the issued Convertible Redeemable Preference Shares have been classified as equity in the consolidated balance sheet.

Moreover, the Company has been granted an option to require the holder of the Convertible Redeemable Preference Shares during the relevant option period to subscribe for an additional 100,000,000 Convertible Redeemable Preference Shares at a subscription price of HK$0.4 per Convertible Redeemable Preference Share.

During the year ended 30 June 2006, there was no change in the Company's ordinary share capital.

CONTINGENT LIABILITIES

As at 30 June 2006, the Company has executed corporate guarantees to a bank to secure banking facilities granted to its subsidiaries and the banking facilities utilised by subsidiaries totaled approximately RMB98 million (2005: RMB145 million).

In addition, as mentioned in the Business Review, at 30 June 2006, two PRC subsidiaries of the Company have been served with writs of summons and are being claimed for a total amount of approximately RMB155 million under certain guarantees being allegedly issued by these two PRC subsidiaries. The guarantees were allegedly provided by the two PRC subsidiaries without the knowledge of the then and current Boards. Among the alleged guarantees, a total amount of approximately RMB94 million was said to be related to the loans borrowed by Goldwiz Tongling whilst approximately RMB60.7 million was related to the alleged loan borrowed by a third party, Shenzhen Ji Hai Industrial Company.

As informed by the management of Goldwiz Tongling, during the year ended 30 June 2006, Goldwiz Tongling has managed to repay a total amount of approximately RMB12.1 million to the plaintiffs by collecting its trade receivables. Regarding a litigation as to approximately RMB21.6 million, although Goldwiz Tongling has subsequently made certain repayment, it has not yet reached any settlement agreement with the plaintiff and the Company, being the alleged guarantor, has prudently made a provision of corporate guarantee in the amount of approximately RMB15 million. Accordingly, the contingent liability of the Group arising from the alleged guarantees at 30 June 2006 was approximately RMB128 million, after taking into account the aforesaid repayment made during the year and the provision of corporate guarantee made by the Group.

Subsequently and up to the date of this report, Goldwiz Tongling has repaid RMB8.2 million to the plaintiffs. Moreover, Goldwiz Tongling and one of the plaintiffs have reached settlement agreement on the litigation amounting to approximately RMB26.1 million, of which RMB14.6 million was said to be guaranteed by a PRC subsidiary of the Company. Regarding the litigations amounting to approximately RMB57.8 million, Goldwiz Tongling and the plaintiffs are in the final stage of conclusion of settlement agreements. Regarding the litigation amounting to RMB60.7 million, the Company would defend the case as the Company was advised by its legal adviser that the case would be defendable. Accordingly, the contingent liability of the Group arising from the alleged guarantees at the date of this report was further reduced to approximately RMB60.7 million, after taking into account the post-balance repayments, the reaching of settlement agreement and the final stage of conclusion of settlement agreements.

The Company was advised that should the indebtedness due to the plaintiffs be settled by Goldwiz Tongling, the contingent liability of the Group arising from the alleged guarantees will lapse.

CHARGE ON ASSETS

Some of the plaintiffs under the writs of summons that the Group received have put a protection order on the Group's property under development in Shenzhen. As some of the litigations have been settled while others are under negotiations, the Company believes that such charges will be removed in the near future.

EMPLOYEE AND REMUNERATION POLICIES

For the year ended 30 June 2006, the Group has recorded staff costs of approximately RMB7 million (2005: RMB8.5 million). The Group employed, as at 30 June 2006, 66 (2005: 102) employees in the PRC and Hong Kong. Both the number of employee and staff costs has decreased as compared to the corresponding period last year as many staff have left the Group at the end of 2005. The Group has basically frozen its headcount since then due to the standstill of automation business in the second half of the financial year ended 30 June 2006 as mentioned above.

The Group encourages high productivity and remunerates its employees based on their qualifications, work experience, prevailing market prices and his/her contributions to the Group. Incentive schemes comprised of discretionary bonus and other merit payments to reward employees based on performance are also offered. Other employee benefits include mandatory provident fund and medical benefits for its employees in Hong Kong and similar benefits for its employees in the PRC.

LITIGATION

During the year, the Group has received certain writs of summons in respect of the total alleged claims of RMB155 million raised by following third parties in relation to the alleged guarantees given by two PRC wholly-owned subsidiaries of the Group on the indebtedness owed by Goldwiz Tongling or Shenzhen Ji Hai Industrial Company:

Plaintiff	**Alleged claim**
China Construction Bank, Tongling branch	RMB41.5 million with interest*
The Industrial and Commercial Bank of China, Tongling branch	RMB14.6 million with interest*
The Tongling Economic Technical Development Zone (Group) Company	RMB16.3 million*
The Bank of China, Tongling branch	RMB21.6 million with interest*
The Bank of China, Shenzhen branch	RMB60.7 million with interest#

* *indebtedness owed by Goldwiz Tongling*

\# *indebtedness owed by Shenzhen Ji Hai Industrial Company*

Details of the above litigation cases were set out in the Company's interim report for the six months ended 31 December 2005, the Company's announcement dated 25 May 2006 and circular dated 14 August 2006.

LITIGATION *(Continued)*

As advised by the Company's PRC lawyer, Goldwiz Tongling has been negotiating with its respective creditors. During the year under review, Goldwiz Tongling has managed to repay RMB12.1 million to the creditors. At the date of this report, Goldwiz Tongling and the plaintiff have reached settlement agreements on the litigations amounting to approximately RMB26.1 million, of which RMB14.6 million was said to be guaranteed by a PRC subsidiary of the Company. Moreover, Goldwiz Tongling and the plaintiffs are in the final stage of conclusion of settlement agreement on the litigations amounting to approximately RMB57.8 million, RMB49.6 million of which was outstanding at 30 June 2006. As to the litigation amounting to approximately RMB60.7 million, the Group was advised that the case would be defendable in view of certain irregularities of the alleged guarantee. Regarding a litigation as to approximately RMB21.6 million, Goldwiz Tongling has subsequently made certain repayment but since this company and the plaintiff have not yet reached any settlement agreement and therefore the Company, being the alleged guarantor, has made a provision of guarantee for approximately RMB15 million and the Company will seek legal advice to demand for the said amount in due course. The Company was further advised that should settlement on the loans be reached between Goldwiz Tongling and the plaintiffs, the contingent liability of the Group arising from the alleged guarantee will lapse.

During the year, the Group has also received a writs of summon from its main contractor in respect of the outstanding fee of approximately RMB16 million with interest in relation to construction of its property under development in Shenzhen, the PRC. Details of the case were also set out in the Company's announcement dated 25 May 2006 and circular dated 14 August 2006. Subsequent to the balance sheet date, the claim has been settled and the contractor has resumed work in August 2006 and the development is expected to be completed in end of 2006.

Moreover, subsequent to the balance sheet date, as disclosed in the Company's announcements dated 3 August 2006 and 6 October 2006, the Group has been served a notice of arbitration proceeding by Shenzhen Arbitration Committee in respect of the Group's indebtedness of RMB100 million together with interest due to The Bank of China, Shenzhen branch, the PRC (the "Bank Creditor"). Both parties have agreed preliminarily to make an out-of-court settlement. The Bank Creditor will proceed with internal approval procedures for restructuring the short term loan to a long term loan subject to the pledge of the property-under-development in favour of the Bank Creditor as security for the long term loan. The property was charged by the plaintiffs of the litigations against the Company in respect of the alleged guarantees for the indebtedness of Goldwiz Tongling. The Group is endeavoring to satisfy the pre-condition of the proposed debt restructuring and will continue its negotiation with the Bank Creditor.

CORPORATE GOVERNANCE

The Company places great importance in its commitment to upholding a high standard of corporate governance. Good governance is an essential factor in corporate success. The new management commits to keep a good corporate governance practice and has spent considerable time in reviewing its internal control to ensure the efficient use of resources and to enhance both corporate accountability and the creation of value.

PROSPECTS

Going forward, the outlook of the Group for the next financial year is positive. In its automation business, confidence of its customers has improved significantly and more opportunities are being offered to the Group. Adoption of free market policies has fuelled China's economy, which has created many opportunities for application of programmable logic controllers ("PLCs") and other automation systems and solutions. The demand for automation products and systems thrives distinctively in a developing economy that has a strong manufacturing and industrial base like China. Besides being able to offer imported automation products to its customers, the Group can also provide its own proprietary products and solutions of PLCs, which will give the Group a competitive edge.

PROSPECTS *(Continued)*

As part of its diversification and expansion plan, the Group has opened up its trading business in natural resources. The Group has received support from two major suppliers in Indonesia for the supply of regular shipments of iron ores and coal. Also, subsequent to the balance sheet date, the Group has entered into a joint venture agreement with an independent third party for the provision of technical services and export services for an Indonesia company in respect of certain mined products such as iron ore and iron sand. The Group holds 25% equity interest in the joint venture company and the total maximum commitment will be approximately US$1.51 million which will be funded by internal resources of the Group. The management believes that the investment in the JV Company will further strengthen its source of supply of iron ore and iron sand for the Group's trading needs. Due to certain delay in the company registration procedures, production of the iron ore sand is estimated to be ready for trial shipment in early 2007.

Moreover, the Group has settled the dispute over the construction of its Centre in Shenzhen and construction work has been resumed. Completion of the Centre is expected to be finalized in end 2006. The Centre is a 7-storey building and is situated at the central of the Shenzhen Hi-tech Park. On completion, it will have a gross floor area of 17,586 sq meters, including a basement car-park for approximately 60 vehicles. The management believes that the Centre will contribute, upon its completion, a stable return to the Group in term of rental income. It also expects improved earnings from automation business and good returns from its natural resources trading in the coming year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. SZE Kwan, aged 41, rejoined the Company as executive director since January 2006. He is also appointed as Vice-Chairman of the Company since May 2006. He is mainly responsible for the overall management of the PRC subsidiaries of the Company. He also serves on the boards of various subsidiaries of the Company. Dr. Sze graduated with a bachelor degree in electronic engineering from the Nanjing Institute of Technology of China (中國南京工學院) in 1985 and a master degree in photo-electronics from East China Institute of Technology (華東工學院) in 1988. He also obtained doctorate in photoelectric technology from the Shanghai Institute of Technical Physics of the Chinese Academy of Science (中國科學院上海技術物理研究所) in 1991. Dr. Sze has over 15 years of experience in automation and control system and is a pioneer in China for developing tailor-made automation and control system. Dr. Sze is also the vice-chairman of Shenzhen Instrumentation & Control Society (深圳市儀器儀表行業協會) and owns patents for various technological inventions he developed.

Ms. CHAN Siu Chu, Debby, aged 42, has been an executive director and Chief Executive Officer of the Company since 6 February 2006 and 10 May 2006 respectively. Ms. Chan graduated from the Chinese University of Hong Kong. Before her appointment, she has been the general manager of certain companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Ms. Chan was the Corporate & Community Relations Manager in ATV and the Marketing Communications Manager in a property developer. She is experienced in general management, marketing and communications.

Mr. LIU Ping, aged 37, has been an executive director of the Company since 4 November 2005. Mr. Liu graduated from Hunan University with bachelor degree in electrical industrial automation. He has nearly 8 years experience in electrical industrial automation and building control system. Mr. Liu is also a member of Hunan Electrical Engineer Society (湖南電氣工程師協會) and Shenzhen Expert Economic Technology Service Centre (深圳市專家經濟技術服務中心).

Mr. SIEK Fui, aged 37, has been an executive director of the Company since 6 February 2006. Mr. Siek graduated from Langara College in Canada. Mr. Siek has extensive experience in trading of IT products, natural resources and other commodities. He was also involved in manufacturing, advertising and property development in China.

Non-executive Director

Mr. Gerard J. MCMAHON, aged 62, has been a non-executive director and the Chairman of the Company since May 2006. Mr. McMahon is qualified as a barrister in Hong Kong and New South Wales of Australia. He was an executive director and a member of Securities and Futures Commission in Hong Kong ("SFC") and the representative of the SFC on the Hong Kong Standing Committee on Company Law Reform. He was also a member of the Hong Kong Takeover and Merger Panel and Legal Adviser to Hong Kong's Securities Review Committee and Insider Dealing Tribunal. Since leaving the SFC, he had been appointed a director of various publicly listed companies in Hong Kong and overseas. Currently, he is an independent non-executive director of Guangnan (Holdings) Limited and the non-executive Chairman of Oriental Technologies Investment Limited, a company listed on the Australian Stock Exchange.

Independent Non-executive Directors

Mr. HUI Hung, Stephen, aged 49, has been an independent non-executive director of the Company since September 2004. Mr. Hui graduated from Middlesex University in United Kingdom with a Bachelor of Arts Degree in Economics and Geography. Mr. Hui has also furthered his studies and obtained a Master of Business Administration in 2001 from the Barrington University of the United States. He is currently the managing director of Federal Glory International Limited and Eastern Gain International Limited. Currently, he is also an independent non-executive director of Global Digital Creations Holdings Limited, a company listed on the Stock Exchange. In the past three years, Mr. Hui was an independent non-executive director of Shougang Concord Grand (Group) Limited and Shougang Concord Century Holdings Limited, both are companies listed on the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. LAU Sai Chung, aged 50, has been an independent non-executive director of the Company since September 2006. He is currently the general manager of UPM Unique Products Manufacturing Limited and in charge of UMP Group's Hong Kong Operation. He had been an independent non-executive director of Dickson Holdings Limited, a company listed on the Stock Exchange during the period from August 2003 to January 2006. He holds a bachelor degree in Commerce with major in Accounting from the University of Alberta, Canada and has over 20 years' experience in the field of banking and finance.

Mr. NG Kwok Chu, Winfield, aged 47, has been an independent non-executive director of the Company since September 2006. He is currently a General Manager of a local financial institution. He has 10 years' experience in consumer and commercial finance in the local and PRC markets. He is currently also an independent non-executive director of Long Success International (Holdings) Limited, a company listed on the Stock Exchange.

Mr. WEE Soon Chiang, Henny, aged 60, has been an independent non-executive director of the Company since September 2001. Mr. Wee graduated from the University of Newcastle in Australia with a Bachelor of Commerce (Accounting) in 1970 and qualified as a Chartered Accountant (Australia) in 1975. He is currently the proprietor of Messrs. Henny Wee & Co., a firm of Certified Public Accountants and is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. WONG Kam Kau, Eddie, aged 58, has been an independent non-executive director of the Company since September 2001. Mr. Wong graduated from the Chinese University of Hong Kong. He is a fellow member of The Institute of Chartered Secretaries and Administrators and a fellow member of the Life Management Institute. He is currently a director of various private companies, namely Jithra Limited, Edwon Inc. and Belmont Capital Group Limited.

QUALIFIED ACCOUNTANT

Ms. FUNG Yin Wan, Wylie, aged 37. Ms. Fung joined the Group as financial controller and qualified accountant since June 2006. She has more than ten years of experience in the fields of auditing, accounting, finance and taxation. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. She is also an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements of The Quaypoint Corporation Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 30 June 2006.

CHANGE OF COMPANY'S NAME

By a special resolution passed on 18 August 2006, the name of the Company was changed from Techwayson Holdings Limited to The Quaypoint Corporation Limited and its Chinese name, for identification purpose only, was changed from 德維森控股有限公司 to 紀翰集團有限公司 with effect from 18 August 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in (i) the design, supply and integration of automation and control system and (ii) trading of automation products and natural resources such as iron ore, iron sand, coal and other natural mineral products. Details of the principal subsidiaries are set out in Note 16 to the financial statements.

An analysis of the Group's turnover by business segments and geographical segments for the year ended 30 June 2006 is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2006 are set out in the consolidated income statement on page 25.

The state of affairs of the Group and of the Company as at 30 June 2006 are set out in the financial statements on pages 26 to 62.

The directors do not recommend the payment of a final dividend for the year ended 30 June 2006.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 June 2006, the Company's reserves of approximately RMB5,891,000 were available for distribution to the Company's shareholders.

LOAN PAYABLE

Particulars of loans payable by the Group as at 30 June 2006 are set out in Notes 28 and 29 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND PROPERTY UNDER DEVELOPMENT

Details of movements in the Group's property, plant and equipment and property under development during the year are set out respectively in Notes 13 and 14 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in Note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 20 January 2003, the share option scheme adopted by the Company on 22 January 2001 was terminated and a new share option scheme (the "New Scheme") was adopted. The purpose of the New Scheme is to provide incentive and to recognise the contribution of the eligible participants, including directors and employees of the Group, to the growth of the Group and to provide more flexibility to the Group in terms of remunerating the participants.

As at 30 June 2006, the Company has no outstanding option and during the year ended 30 June 2006, no option was granted, exercised or cancelled by the Company under the New Scheme.

DIRECTORS

The directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. LIU Ping	(Appointed on 4 November 2005)
Dr. SZE Kwan	(Appointed on 9 January 2006)
Ms. CHAN Siu Chu, Debby	(Appointed on 6 February 2006)
Mr. SIEK Fui	(Appointed on 6 February 2006)
Mr. TUNG Fai	(Resigned on 4 November 2005)
Mr. XIONG Jian Rui	(Resigned on 4 November 2005)
Mr. ZHANG Fang Hong	(Resigned on 4 November 2005)
Mr. SHI Simon Hao	(Resigned on 9 January 2006)
Mr. YAO Keming	(Appointed on 4 November 2005 and resigned on 9 January 2006)
Mr. FENG Jin	(Appointed on 4 November 2005 and resigned on 6 February 2006)
Mr. CHEN Ge Duo	(Appointed on 9 January 2006 and resigned on 21 February 2006)
Mr. SHEN Wei Ping	(Appointed on 9 January 2006 and resigned on 21 February 2006)

Non-executive Directors

Mr. Gerard J. MCMAHON	(Appointed on 10 May 2006)
Mr. LIN Gongshi	(Resigned on 7 July 2006)

Independent Non-executive Directors

Mr. HUI Hung, Stephen	
Mr. WEE Soon Chiang, Henny	
Mr. WONG Kam Kau, Eddie	
Mr. LAU Sai Chung	(Appointed on 15 September 2006)
Mr. NG Kwok Chu, Winfield	(Appointed on 15 September 2006)

REPORT OF THE DIRECTORS

In accordance with Article 87(2) of the Company's Articles of Association, Mr. Wee Soon Chiang, Henny, Mr. Wong Kam Kau, Eddie and Mr. Hui Hung, Stephen shall retire from office by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election at the meeting.

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield shall hold office until the forthcoming annual general meeting of the Company and being eligible, will offer themselves for re-election at the meeting.

The biographical details of the current Directors and Senior Management are set out on pages 10 to 11.

DIRECTORS' SERVICE CONTRACTS

Mr. Tung Fai, being former executive director of the Company, has entered into a service contract with the Company for a term of two years commencing from 1 December 2002. The service contract shall continue thereafter until terminated by either party giving the other not less than three months' written notice after the expiration of the said fixed term. The service contract of Mr. Tung was terminated on 4 November 2005 upon his resignation as executive director.

Except for the above, none of the directors proposed for re-election at the forthcoming annual general meeting has service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") discloses the following director as having a notifiable interest in the shares, underlying shares or debentures of the Company or its associated corporations:

Name of director	Nature of interests	Number of ordinary shares held	Percentage of total issued shares
Dr. Sze Kwan	Interest of a controlled corporation	126,700,000*	36.20%

* *Dr. Sze is deemed to be interested in the 126,700,000 Shares by virtue of his controlling interest in Otto Link Technology Limited which is beneficially owned as to 80% by Dr. Sze and 20% by Mr. Siek Fui.*

Other than disclosed above, as at 30 June 2006, none of the Directors, chief executives and their respective associates have a notifiable interest or short position in the shares, underlying shares or debenture of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTEREST IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 30 June 2006, neither the Company, any of its subsidiaries was a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2006, so far as was known to the Directors, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

(i) Long position in ordinary shares

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of total issued shares
Otto Link Technology Limited	Registered shareholder	126,700,000	36.20%
Mr. Chak Joaquin Emilio Kin Man	Registered shareholder and beneficial owner	96,824,000	27.66%

(ii) Long position in underlying shares

Name	Capacity and nature of interest	Number of underlying shares	As approximate percentage of total issued ordinary shares
Weina (BVI) Limited[1]	Beneficial owner	350,000,000	100%
Mr. Tsim Wing Kong[1]	Interest of a controlled corporation	350,000,000	100%

1 *Weina (BVI) Limited ("Weina") entered into the Subscription and Option Agreement on 26 May 2006 and through such agreement, Weina is interested in 350,000,000 Convertible Redeemable Preference Shares and has the right to convert up to 350,000,000 Ordinary Shares. Mr. Tsim is deemed to be interested in the 350,000,000 Shares by virtue of his controlling interest in Weina.*

Save as disclosed above and so far as was known to the Directors, as at 30 June 2006, there were no other persons who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	38%	–
Five largest customers in aggregate	76%	–
The largest supplier	–	48%
Five largest suppliers in aggregate	–	86%

At no time during the year the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the major customers and suppliers noted above.

COMMITMENTS

Particulars of commitments as at 30 June 2006 are set out in Note 35 to the financial statements.

RETIREMENT SCHEMES

Details of retirement schemes are set out in Note 33 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the latest five years is set out on page 64 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments for the year ended 30 June 2006 disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Main Board Listing Rules of The Stock Exchange are set out in note 8 to the financial statements.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report of the Company which sets out details on how the Company applied and complied with the corporate governance principles, including practices as set out in the Corporate Governance Code.

AUDITORS

CCIF CPA Limited were auditors of the Company for the two years ended 30 June 2004 and 2005. On 29 June 2006, CCIF CPA Limited resigned as auditors of the Company. On 18 August 2006, Moores Rowland Mazars, *Chartered Accountants, Certified Public Accountants* were appointed as auditors of the Company to fill the casual vacancy and hold the office until the conclusion of the forthcoming annual general meeting of the Company. A resolution for the reappointment of Moores Rowland Mazars as auditors of the Company will be proposed at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The 2006 AGM will be held on 24 November 2006. Details of the 2006 AGM are set out in the Notice of AGM which constitutes part of the circular to Shareholders sent together with this Annual Report. Notice of the AGM and the proxy form are also available on the Company's website (www.quaypoint.com.hk).

On behalf of the Board
Gerard J McMahon
Chairman

Hong Kong, 24 October 2006

CORPORATE GOVERNANCE REPORT

The Company is committed to upholding high standards of corporate governance, and has adopted corporate governance practices in conformity with the Code on Corporate Governance Practices (the "CG Code"). The Directors believe that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

(a) Compliance with the CG Code

In the opinion of the Board, the Company has complied with the CG Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 30 June 2006 except that the appropriate amendments of the Company's Articles of Association (regarding re-election and retirement of directors who are appointed to fill a casual vacancy) was approved by the shareholders on 28 October 2005 and policies, procedures and practices regarding the following issues were adopted by the Company since 9 December 2005 instead of throughout the whole year under review:

(1) approval of procedures to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense;

(2) setting out in writing the responsibilities of the Chairman and CEO;

(3) specifying the terms of service of the then non-executive directors;

(4) adoption of the Company's own code of conduct (the "Code") regarding the securities transactions by certain employees of the Company and its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company of its securities, in respect of their dealings in the securities of the Company. The Code represents written guidelines on no less exacting terms than the Model Code as set out in Appendix 10 of the Listing Rules; and

(5) the setting of formalized functions reserved to the Board and the Board's delegation of certain functions to the management which is represented by the newly established Executive Committee with specific written terms of reference. At the date of this report, the Executive Committee comprises the Chief Executive Officer, two executive directors and the Financial Controller.

(b) Directors' securities transactions

On 9 December 2005, the Company has adopted the code of conduct (the "Code") with respect to the Directors' dealings in securities of the Company on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Code during the year ended 30 June 2006 and they all confirmed having fully complied with the required standard set out in the Code.

(c) Board of directors

As at the date of this report, the Board of directors (the "Board") comprises ten Directors including four executive Directors, one non-executive Director and five independent non-executive Directors ("INEDs"):

Executive Directors
Dr. SZE Kwan *(Vice Chairman)*
Ms. CHAN Siu Chu, Debby *(Chief Executive Officer)*
Mr. SIEK Fui
Mr. LIU Ping

Non-executive Director
Mr. Gerard J. MCMAHON *(Chairman)*

Independent Non-executive Directors
Mr. HUI Hung, Stephen
Mr. LAU Sai Chung
Mr. NG Kwok Chu, Winfield
Mr. WEE Soon Chiang, Henny
Mr. WONG Kam Kau, Eddie

There were six meetings being held during the year ended 30 June 2006 and attendance of individual directors is as follows:

	No. of Board meeting attended	No. of Board meeting eligible to attend
Mr. LIU Ping (appointed on 4/11/2005)	4	4
Dr. SZE Kwan (appointed on 9/1/2006)	4	4
Ms. CHAN Siu Chu, Debby (appointed on 6/2/2006)	4	4
Mr. SIEK Fui (appointed on 6/2/2006)	2	4
Mr. XIONG Jian Rui (resigned on 4/11/2005)	1	1
Mr. TUNG Fai (resigned on 4/11/2005)	0	1
Mr. ZHANG Fang Hong (resigned on 4/11/2005)	0	1
Mr. SHI Simon Hao (resigned on 9/1/2006)	2	2
Mr. CHEN Ge Duo (appointed on 9/1/2006 and resigned on 21/2/2006)	0	0
Mr. SHEN Wei Ping (appointed on 9/1/2006 and resigned on 21/2/2006)	0	0
Mr. FENG Jin (appointed on 4/11/2005 and resigned on 6/2/2006)	1	1
Mr. YAO Keming (appointed on 4/11/2005 and resigned on 9/1/2006)	1	1
Mr. Gerard J. MCMAHON (appointed on 10/5/2006)	1	1
Mr. LIN Gongshi (resigned on 7/7/2006)	4	6
Mr. HUI Hung, Stephen	6	6
Mr. WEE Soon Chiang, Henny	6	6
Mr. WONG Kam Kau, Eddie	6	6
Mr. LAU Sai Chung (appointed on 15/9/2006)	0	0
Mr. NG Kwok Chu, Winfield (appointed on 15/9/2006)	0	0

The Board reviews and approves the Group's overall business strategies, key operational proposals, financial control procedures, material acquisition and disposal of investment, major funding decisions, financial announcements, annual reports, share issuance/repurchase, nomination of directors, appointment of key management personnel, related party transactions, remuneration to directors and other significant transactions. The Board conducts meetings on a regular basis and extra meetings are convened when circumstances require.

During the year ended 30 June 2006, the Company has complied with Rule 3.10(1) and (2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise, respectively.

The Company has received from each independent non-executive director an annual confirmation of his independent pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs are independent.

(d) Chairman and Chief Executive Officer

As at the date of this report, the Chairman of the Company is Mr. Gerard J McMahon whilst the Chief Executive Officer of the Company is Ms. Chan Siu Chu, Debby, the respective responsibilities of the Chairman and Chief Executive Officer were duly set out in writing and were approved by the Board on 9 December 2005.

The roles of Chairman of the Board and Chief Executive Officer of the Company are segregated with a clear division of responsibilities. The Chairman is primarily responsible for overseeing the operation of the Board while the Chief Executive Officer is mainly responsible for running the Group's business and the implementation of the approved strategies in achieving the overall commercial objectives.

(e) Non-executive directors

During the year ended 30 June 2006, the non-executive directors of the Company comprised three INEDs and a non-executive director who were appointed with the following specific terms of appointment:

	Up to the conclusion of the Company's annual general meeting to be held in
Mr. WEE Soon Chiang, Henny	Year 2007
Mr. WONG Kam Kau, Eddie	Year 2007
Mr. HUI Hung, Stephen	Year 2008
Mr. Gerard J MCMAHON	Year 2008

Subsequent to the year ended 30 June 2006, Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield were appointed as INEDs. They were appointed for a specific term which shall be up to the annual general meeting of the Company to be held in year 2008.

All the non-executive directors of the Company are subject to the rotation requirements and re-elections at least once three years pursuant to the Articles of Association of the Company.

(f) Remuneration of directors

On 9 December 2005, the Board has established a remuneration committee (the "Remuneration Committee") with written terms of reference. The principle roles of the Remuneration Committee are to review the remuneration package, performance-based remuneration and termination compensation of directors and senior management of the Group.

As at the date of this report, the Remuneration Committee comprises five INEDs, namely Mr. Wee Soon Chiang, Henny, Mr. Wong Kam Kau, Eddie, Mr. Hui Hung, Stephen, Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield, a Non-executive Director, namely Mr. Gerard J. McMahon and an Executive Director, namely Ms. Chan Siu Chu, Debby. Mr. Gerard J. McMahon is the Chairman of Remuneration Committee.

No meeting was held by the Remuneration Committee during the year ended 30 June 2006. However a Board meeting was held to propose the remuneration packages of the newly appointed Directors to the Remuneration Committee for determination. Such meeting was attended by Dr. Sze Kwan, Ms. Chan Siu Chu, Debby, Mr. Siek Fui, Mr. Liu Ping, Mr. Wong Kam Kau, Eddie, Mr. Wee Soon Chiang, Henny and Mr. Hui Hung, Stephen.

Subsequent to the year ended 30 June 2006, the Remuneration Committee held a meeting in July 2006 to determine the remuneration packages of four executive directors and one non-executive director. Such meeting was attended by all the then members of the Remuneration Committee, namely Mr. Gerard J McMahon, Mr. Wong Kam Kau, Eddie, Mr. Wee Soon Chiang, Henny, Mr. Hui Hung, Stephen and Ms. Chan Siu Chu, Debby.

(g) Nomination of directors

During the year ended 30 June 2006, the function of nomination committee has been performed by the Board. To maintain high quality of the Board with a balance of skill and experience, the Board identifies individuals who fulfill criteria of the Company. When assessing the quality of the individual, the Board makes reference to his/her experience, qualification, integrity and other relevant factors.

During the year under review, the Board approved the appointment of eight Executive Directors and one Non-Executive Director, of which four Executive Directors, namely Mr. Chen Ge Duo, Mr. Shen Wei Ping, Mr. Feng Jin and Mr. Yao Keming, have resigned and four Executive Directors, namely Dr. Sze Kwan, Mr. Siek Fui, Ms. Chan Siu Chu, Debby and Mr. Liu Ping, and one Non-Executive Director, namely Mr. Gerard McMahon were subsequently recommended by the Board for re-election at the extraordinary general meeting held on 18 August 2006.

There was one board meeting being held during the year ended 30 June 2006 for considering, inter alia, the appointment of a Non-executive Director, nomination of Remuneration Committee's and Audit Committee's members and nomination of the Chairman, Vice Chairman and Chief Executive Officer. All the then Directors, namely Dr. Sze Kwan, Ms. Chan Siu Chu, Debby, Mr. Siek Fui, Mr. Liu Ping, Mr. Wong Kam Kau, Eddie, Mr. Wee Soon Chiang, Henny, Mr. Hui Hung, Stephen, except Mr. Lin Gongshi have attended such meeting.

Subsequent to the year ended 30 June 2006, the Board established a nomination committee (the "Nomination Committee") on 15 September 2006 with written terms of references in compliance with the CG Code. The primary duties of the Nomination Committee are to review the composition of the Board and make recommendations to the Board on the selection of individuals nominated for directorship.

As at the date of this report, the Nomination Committee comprises two INEDs, namely Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield, a Non-executive Director, namely Mr. Gerard J. McMahon. The Nomination Committee members will meet at any time when necessary and desirable to carry out the aforesaid duties.

(h) Auditors' remuneration

The remuneration payable in respect of the year ended 30 June 2006 for audit and non-audit services provided to the Group by the Company's auditors is as follows:

Services rendered:		*RMB*
(a)	audit fee (audit work for the year ended 30 June 2006)	551,000
(b)	non-audit fee (tax related services)	–

(i) Audit committee

The Company has established an audit committee (the "Audit Committee") with written terms of reference which were adopted by reference to the code provisions of the CG Code.

As at the date of this report, the Audit Committee comprised of five INEDs, namely Mr. Wee Soon Chiang, Henny, Mr. Wong Kam Kau, Eddie, Mr. Hui Hung, Stephen, Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield and a Non-executive Director, namely Mr. Gerard J. McMahon. Mr. Wee is the Chairman of Audit Committee and he has the appropriate professional qualification as defined in Rule 3.10(2) of the Listing Rules.

There were three Audit Committee meetings being held during the year ended 30 June 2006. The individual attendance of each member is as follows:

	No. of meeting attended	**No. of meeting eligible to attend**
Mr. WEE Soon Chiang, Henny	3	3
Mr. WONG Kam Kau, Eddie	3	3
Mr. HUI Hung, Stephen	3	3
MR. Gerard J. MCMAHON (appointed on 10/5/2006)	0	0

The Audit Committee oversees the Group's overall financial reporting process and its internal control procedures. It is responsible for making recommendations to the Board for the appointment, re-appointment or removal of external auditors and also reviews and monitors the external auditors' independence and objectivity as well as the effectiveness of the audit process to make sure that it is in full compliance with applicable standards. The Audit Committee has reviewed and approved the audit plans and the Group's interim result for the six month ended 31 December 2005 and the annual results for the year ended 30 June 2006.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

(j) Internal controls

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Directors have conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management functions.

(k) Directors' responsibility for the financial statements

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensuring that the financial statements are prepared in accordance with the statutory requirements and applicable accounting standards. It is also the responsibility of the Directors to ensure the timely publication of the financial statements of the Group.

The statement of the external auditors of the Company, Moores Rowland Mazars, *Chartered Accountants, Certified Public Accountants* on their reporting responsibilities in respect of the financial statements of the Group is set out on the Auditors' report on page 24.

Save as disclosed in Note 2(b) to the financial statement on page 32, the Directors confirm that, to their best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Moores Rowland Mazars
摩斯倫・馬賽會計師事務所

AUDITORS' REPORT TO THE SHAREHOLDERS OF THE QUAYPOINT CORPORATION LIMITED
(Incorporated in the Cayman Islands with Limited Liability)

We have audited the financial statements on pages 25 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements relating to a pending litigation against the Group for an alleged guarantee given to the bank for a bank loan granted to a third party. The future settlement of this guarantee could result in additional liabilities. Details of the circumstances relating to this fundamental uncertainty are described in note 37. We consider that appropriate estimates and disclosures have been made and our opinion is not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong, 24 October 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2006

	Note	**2006 RMB'000**	2005 RMB'000
Turnover	4	**115,581**	187,965
Cost of sales		**(107,172)**	(158,931)
Gross profit		**8,409**	29,034
Other revenue	4	**104**	1,234
Other income		**1,885**	31
Distribution costs		**(316)**	(1,941)
Administrative expenses		**(50,563)**	(32,349)
Impairment loss on available-for-sale securities/investment in securities		**(31,314)**	(3,700)
Impairment loss on held-to-maturity securities		**(150,704)**	–
Other operating expenses		**(15,325)**	(376)
Finance costs	7	**(9,690)**	(7,940)
Loss from operations	6	**(247,514)**	(16,007)
Income tax	10	**(6)**	(3,098)
Loss attributable to equity shareholders	31	**(247,520)**	(19,105)
Loss per share			
Basic	12	**(RMB70.72 cents)**	(RMB5.46 cents)
Diluted	12	**N/A**	N/A

The notes on page 32 to 62 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Note	2006 RMB'000	2005 RMB'000 (restated)
Non-current assets			
Property, plant and equipment	13	**2,796**	3,581
Property under development	14	**72,285**	66,263
Available-for-sale securities/Investment in securities	15	**–**	31,916
Prepaid lease payment	17	**1,987**	2,028
Total non-current assets		**77,068**	103,788
Current assets			
Inventories	18	**2,459**	4,817
Trade receivables	19	**1,679**	30,387
Bills receivable	19	**–**	9,435
Prepayments, deposits and other receivables	21	**5,939**	17,999
Held-to-maturity securities/Trust fund investments	22	**–**	150,704
Cash and bank balances	23	**96,765**	14,487
Total current assets		**106,842**	227,829
Current liabilities			
Trade payables	24	**2,642**	11,191
Bills payable, secured	24	**–**	18,851
Provision, accruals and other payables	25	**34,423**	6,728
Receipts in advance		**612**	3,260
Due to a director	26	**1,025**	–
Current portion of interest-bearing borrowings	28	**4,798**	2,000
Short-term bank loan	29	**97,912**	100,000
Taxation payable		**8,534**	8,764
Total current liabilities		**149,946**	150,794
Net current (liabilities) assets		**(43,104)**	77,035
Total assets less current liabilities		**33,964**	180,823

The notes on page 32 to 62 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Note	2006 RMB'000	2005 RMB'000 (restated)
Capital and reserves			
Ordinary share capital	30	**37,100**	37,100
Convertible redeemable preference shares	30	**104,000**	–
Reserves	31	**(111,816)**	136,568
Total equity		**29,284**	173,668
Non-current liabilities			
Interest-bearing borrowings	28	**4,680**	7,155
		33,964	180,823

Approved and authorised for issue by the board of directors on 24 October 2006

Sze Kwan	**Chan Siu Chu, Debby**
Director	*Director*

The notes on page 32 to 62 form part of these financial statements.

BALANCE SHEET

At 30 June 2006

	Note	2006 RMB'000	2005 RMB'000 (restated)
Non-current assets			
Investments in subsidiaries	16	**66,362**	67,638
Current assets			
Due from subsidiaries	20	**38,575**	21,289
Prepayments, deposits and other receivables	21	**4,160**	–
Cash and bank balances	23	**67,684**	8
Total current assets		**110,419**	21,297
Current liabilities			
Accruals and other payables		**1,899**	392
Due to subsidiaries	27	**18,413**	20,245
Current portion of interest-bearing borrowings	28	**4,798**	2,000
Total current liabilities		**25,110**	22,637
Net current assets (liabilities)		**85,309**	(1,340)
Total assets less current liabilities		**151,671**	66,298
Capital and reserves			
Ordinary share capital	30	**37,100**	37,100
Convertible redeemable preference shares	30	**104,000**	–
Reserves	31	**5,891**	22,043
Total equity		**146,991**	59,143
Non-current liabilities			
Interest-bearing borrowings	28	**4,680**	7,155
		151,671	66,298

Approved and authorised for issue by the board of directors on 24 October 2006

Sze Kwan
Director

Chan Siu Chu, Debby
Director

The notes on page 32 to 62 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Note	Ordinary share capital RMB'000	Convertible redeemable preference share RMB'000	Other reserves RMB'000	Accumulated profits (losses) RMB'000	Total RMB'000
Balance as at 1 July 2004		37,100	–	26,310	129,363	192,773
Loss attributable to equity shareholders	31	–	–	–	(19,105)	(19,105)
Balance as at 30 June 2005		37,100	–	26,310	110,258	173,668
Issue of convertible redeemable preference shares	30	–	104,000	–	–	104,000
Exchange difference arising from translation of financial statements of overseas operations		–	–	(864)	–	(864)
Loss attributable to equity shareholders	31	–	–	–	(247,520)	(247,520)
Balance as at 30 June 2006		37,100	104,000	25,446	(137,262)	29,284

The notes on page 32 to 62 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	2006 RMB'000	2005 RMB'000
Operating activities		
Loss before taxation	**(247,514)**	(16,007)
Adjustment for:		
Amortisation of lease payment	**41**	–
Amortisation of software development costs	**–**	6,600
Bad debts	**309**	557
Bank interest income	**(104)**	(530)
Depreciation of property, plant and equipment	**1,126**	1,365
Impairment loss on available-for-sale securities/ investment in securities	**31,314**	3,700
Impairment loss on property, plant and equipment	**22**	–
Impairment loss on held-to-maturity securities	**150,704**	–
Impairment loss on software development costs	**–**	2,600
Interest expenses	**9,690**	7,940
Loss on disposal of property, plant and equipment	**309**	378
Provision for doubtful debts	**33,353**	3,006
Provision for corporate guarantee	**15,000**	–
Provision for obsolete and slow moving inventories	**595**	1,210
Unrealised gain on trust fund investments	**–**	(704)
Operating (loss) profit before changes in working capital	**(5,155)**	10,115
Decrease in inventories	**1,762**	2,333
Decrease in prepayments, deposits and other receivables	**11,710**	100,172
Decrease (increase) in bills receivable	**9,435**	(8,312)
(Increase) decrease in trade receivables	**(4,606)**	52,956
Decrease in trade payables	**(8,548)**	(36,165)
Decrease in bills payable	**(18,851)**	(29,411)
Decrease in provision, accruals and other payables	**(2,388)**	(142)
Increase in amount due to a director	**1,025**	–
Decrease in receipts in advance	**(2,648)**	(5,070)
Cash (used in) from operations	**(18,264)**	86,476
Tax paid	**(70)**	–
Net cash (used in) from operating activities	**(18,334)**	86,476

The notes on page 32 to 62 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	Note	2006 RMB'000	2005 RMB'000
Cash flows from investing activities			
Bank interest received		**104**	530
Decrease in pledged time deposits		**–**	6,872
Increase in trust fund investment		**–**	(150,000)
Payments for acquisition of property, plant and equipment		**(671)**	(417)
Proceeds from disposal of property, plant and equipment		**–**	2
Net cash used in investing activities		**(567)**	(143,013)
Cash flows from financing activities			
Interest paid		**(132)**	(7,751)
Issue of convertible redeemable preference shares		**104,000**	–
New loans raised		**–**	100,000
Repayment of loans		**(2,088)**	(36,902)
Net cash from financing activities		**101,780**	55,347
Increase (decrease) in cash and cash equivalents		**82,879**	(1,190)
Effect on foreign exchange rate changes		**(601)**	–
Cash and cash equivalents at beginning of year		**14,487**	15,677
Cash and cash equivalents at end of year		**96,765**	14,487
Analysis of cash and cash equivalents			
Cash and bank balances	23	**96,765**	14,487

The notes on page 32 to 62 form part of these financial statements.

1. GENERAL INFORMATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the financial statements.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000) unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs which are generally effective for accounting periods beginning on or after 1 January 2005. Details of major changes in accounting policies following the adoption of these HKFRS are summarised in note 3 to the financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that available-for-sale securities is stated at fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

At the balance sheet date, the Group's current liabilities exceeded its current assets by RMB43,104,000, as the Group has made significant provisions on its short term assets, including a provision of RMB150,704,000 on the trust fund investments. In addition, certain of its subsidiaries in the PRC are also involved in claims by PRC banks for guarantees which were allegedly given by these subsidiaries to third parties without formal approval of the Group management. The sustainability of the Group as a going concern is dependent on its ability to successfully obtain adequate medium to long term financing to fund its operations before sufficient cash flows are generated from profitable operations and to favourably resolve the claims. After evaluating all the relevant facts available to them, the Directors are of the opinion that the Group should be able to maintain itself as a going concern by raising adequate additional finance and by debt restructuring; details are set out below:

(a) Prior to the balance sheet date, the Company has successfully raised significant amount of cash by issuing convertible redeemable preference shares ("Preference Shares") for working capital purposes and has the option of requiring the subscriber to subscribe more Preference Shares if the need arises;

(b) The Directors are in the process of negotiation for a restructuring of the short term bank loan of RMB98 million with the Bank of China, Shenzhen Branch; and

(c) The Directors are liaising closely with lawyers in the PRC and the third parties concerned to actively address the claims raised by the PRC banks and will be actively defending questionable claims.

(c) Critical accounting estimates and judgements

(i) Allowance for inventories

The Group's management reviews an aging analysis of inventories at each balance sheet date, and make allowance for obsolete and slow-moving inventory items identified that are no longer recoverable or suitable for use in production. The management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowances for obsolete items.

(ii) Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of the accounts receivable and on management's judgement. At the balance sheet date, the accounts receivable, net of provision, amounted to RMB1,679,000 (2005: RMB30,387,000). A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

(iii) Impairment of assets

As there were impairment indicators, it triggered the requirement to estimate the recoverable amounts of property, plant and equipment, property under development, held-to-maturity securities and available-for-sale securities. In accordance with HKAS 36 Impairment of assets, the Company completed its impairment test by comparing their recoverable amounts to their carrying amounts as at balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Financial instruments

Financial assets and financial liabilities are recognised on the trade date basis, and when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are measured as follows:

(i) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities. They are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Any gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

(ii) Available-for-sale securities

Available-for-sale securities are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. When these investments are derecognised, the cumulative gain or loss previously recognised in equity is included in the income statement. Available-for-sale securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any accumulated impairment losses.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method except where receivables are interest-free and without any fixed repayment term or the effect of discounting would be immaterial, in such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Any gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments *(Continued)*

(iv) Trade receivables and payables

Trade receivable and payables are recognised at cost which approximates to their fair value, less provision for impairment.

(v) Interest-bearing borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of associated costs. After initial recognition, loans and borrowings are measured at amortised cost using the effective interest method.

At each balance sheet date, the Group assesses whether there is any objective evidence of the occurrence of a loss event that has an impact on the Group's estimated future cash flow of the financial asset or group of financial assets that can be reliably measured. A provision of impairment is recognised as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognises financial liability when, and only when the liability is extinguished.

(f) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives from the date on which they are available for use as follows:

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

Gains or losses arising from the retirement or disposal of an item or property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

(h) Property under development

Property in the course of construction or development for future use as investment property is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to the property. At the time of completion, it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in income statement.

(i) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(j) Impairment losses

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amount of its property, plant and equipment, investment in subsidiaries, property under development, prepaid lease payment, held-to-maturity securities and available-for-sale securities have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generate cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

(k) 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 includes 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories *(Continued)*

The amount of any write-down in inventories to net realisable value and all losses on inventories are recognised as an expenses 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.

(l) Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of overdraft, if any.

(m) Employee benefits

Defined contribution retirement plan

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan organised by municipal government as stipulated by the regulations of the People's Republic of China (the "PRC") are recognised 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.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Turnover and revenue recognition

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:

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.

(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.

Interest income is recognised as the interest accrues (using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected useful life of the financial instruments) to the net carrying amount of the financial asset.

(q) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Segment reporting *(Continued)*

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 part of the consolidation process, except to the extent that such intercompany balances and transactions are between Group entities within a single segment.

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, borrowings, tax balances, corporate and financing expenses.

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(s) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in the currency of Renminbi, which is the Company's presentation currency and also functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's entities, which have a functional currency different from Renminbi are translated to presentation currency at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average rates of exchange for the year. Exchange differences arising are recognised as a separate component of equity.

(t) Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRS that are not yet effective and the Group has not early adopted. Except for the following amendments, which will be effective from the next financial year, the directors anticipate that the adoption of these new / revised HKFRS in the future accounting periods will have no significant impact on the result of the Group.

HKAS39 and HKFRS 4 (Amendments): Financial guarantee contracts
A financial guarantee contract is a contract that requires the Group to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Future changes in HKFRS *(Continued)*

Financial guarantee contracts are accounted for as financial instruments under HKFRS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 *Provisions, contingent liabilities and contingent assets* and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The Group is not yet in a position to reasonably estimate the impact on the adoption of the above amendments in the period of initial application to the Group's and the Company's financial position.

3. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition of financial instruments and disclosure of financial statements. Prior to 1 July 2005, the Group classified investments into investment in securities and trust fund investments. Investment in securities were stated at cost less provision for impairment losses that was expected to be other than temporary. Trust fund investments were stated at their fair value and changes in fair value were recognised in income statement as they arose.

Upon the adoption of HKAS 32 and HKAS 39, the Group and the Company's investment in securities and trust fund investments were re-designated as available-for-sale securities and held-to-maturity securities respectively. They have been re-measured in accordance with HKAS 39 as appropriate. The adoption of HKAS 32 and HKAS 39 had no significant impact on the results and financial positions of the current and prior accounting periods. No prior period adjustments were required.

(b) Lease (HKAS 17, Lease)

In prior years, leasehold land held for development was stated at cost less any identified impairment loss. With the adoption of HKAS 17 as from 1 July 2005, the Group adopted a new policy for such land. Under the new policy, the leasehold interest in the land is accounted for as being held under an operating lease and classified as prepaid lease payment. The cost of acquiring such land is amortised on a straight-line basis over the period of the lease term.

(c) Definition of related parties (HKAS 24, related party disclosure)

As a result of the adoption of HKAS 24, *Related party disclosures*, the definition of related parties as disclosed in note 2(r) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

4. TURNOVER AND OTHER REVENUE

Turnover and other revenue consist of:

	2006 RMB'000	2005 RMB'000
Income from		
– Sales of automation products	**111,538**	185,670
– Fees for project and technical services	**4,043**	2,295
Total turnover	**115,581**	187,965
Other revenue		
– Bank interest income	**104**	530
– Unrealised gain on trust fund investments	**–**	704
	104	1,234
Total revenue	**115,685**	189,199

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

	Automation products RMB'000	Project and technical services RMB'000	Consolidated RMB'000
For the year ended 30 June 2006			
Turnover	**111,538**	**4,043**	**115,581**
Segment results	**(35,411)**	**3,850**	**(31,561)**
Unallocated operating income and expenses			**(8,922)**
Unallocated corporate expenses			**(197,341)**
Finance costs			**(9,690)**
Loss from operations			**(247,514)**
Income tax			**(6)**
Loss attributable to equity shareholders			**(247,520)**

5. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

Other information

	Automation products RMB'000	Project and technical services RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditure	**38**	**–**	**633**	**671**
Depreciation and amortisation	**1,126**	**–**	**–**	**1,126**
Impairment loss	**–**	**–**	**182,040**	**182,040**

	Automation products RMB'000	Project and technical services RMB'000	Consolidated RMB'000
For the year ended 30 June 2005			
Turnover	185,670	2,295	187,965
Segment results	16,166	(12,413)	3,753
Unallocated operating income and expenses			(7,744)
Unallocated corporate expenses			(4,076)
Finance costs			(7,940)
Loss from operations			(16,007)
Income tax			(3,098)
Loss attributable to equity shareholders			(19,105)

Other information

	Automation products RMB'000	Project and technical services RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditure	417	–	–	417
Depreciation and amortisation	1,365	–	–	1,365
Amortisation of software development costs	–	6,600	–	6,600
Impairment loss	–	–	3,700	3,700

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.

	2006 RMB'000	2005 RMB'000
Revenue from external customers		
PRC (including Hong Kong)	**88,428**	186,393
Malaysia	**27,153**	1,572
	115,581	187,965

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

6. LOSS FROM OPERATIONS

Loss from operations is stated after charging the following:

	2006 RMB'000	2005 RMB'000
Staff costs (including director's emoluments):		
Salaries, wages and other benefits	**6,673**	8,093
Contributions to defined contribution plans	**325**	396
	6,998	8,489
Included in research and development expenditures	**(757)**	(1,037)
	6,241	7,452
Auditors' remuneration	**551**	320
Bad debts	**309**	557
Cost of inventories	**107,172**	158,931
Depreciation of property, plant and equipment	**1,126**	1,365
Impairment loss on available-for-sale securities/investment in securities	**31,314**	3,700
Impairment loss on held-to-maturity securities	**150,704**	–
Impairment loss on property, plant and equipment	**22**	–
Impairment loss on software development costs	**–**	2,600
Loss on disposal of property, plant and equipment	**309**	378
Operating lease rentals of premises	**877**	1,054
Provision for corporate guarantee	**15,000**	–
Provision for doubtful debts	**33,353**	3,006
Provision for obsolete and slow moving inventories	**595**	1,210
Research and development expenditures	**1,564**	1,794

7. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank and other borrowings and overdraft wholly repayable within 5 years	**9,690**	7,532
Interest on bank and other borrowings wholly repayable after 5 years	**–**	408
	9,690	7,940

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2006 Total RMB'000
Executive directors				
Dr. Sze Kwan	138	114	3	255
Mr. Siek Fui	–	184	4	188
Ms. Chan Siu Chu, Debby	5	225	5	235
Mr. Liu Ping	–	83	6	89
Mr. Xiong Jian Rui	–	86	3	89
Mr. Tung Fai	–	362	4	366
Mr. Feng Jin	–	56	2	58
Non-executive directors				
Mr. Lin Gongshi	125	–	–	125
Mr. Gerard J. McMahon	52	–	–	52
Independent non-executive directors				
Mr. Wee Soon Chiang, Henny	125	–	–	125
Mr. Wong Kam Kau, Eddie	125	–	–	125
Mr. Hui Hung, Stephen	125	–	–	125
	695	1,110	27	1,832

8. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2005 Total RMB'000
Executive directors				
Mr. Xiong Jian Rui	–	149	6	155
Mr. Tung Fai	–	551	13	564
Independent non-executive directors				
Mr. Wee Soon Chiang, Henny	127	–	–	127
Mr. Wong Kam Kau, Eddie	127	–	–	127
Mr. Hui Hung, Stephen	96	–	–	96
	350	700	19	1,069

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, two (2005: one) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2005: four) individuals are as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	**1,014**	1,757
Retirement scheme contributions	**30**	54
	1,044	1,811

The emoluments of all (2005: all) of the five highest paid individuals (including directors and other employees) for the year ended 30 June 2006 fall within the band of nil to HK$1,000,000, equivalent to RMB1,040,000 (2005: RMB1,060,000).

10. INCOME TAX

(a) Taxation charge in the consolidated income statement

	2006 RMB'000	2005 RMB'000
Current taxation		
– Hong Kong Profits tax	**–**	3,098
Under-provision in prior year		
– Hong Kong Profits tax	**6**	–
Taxation charge	**6**	3,098

(i) 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.

(ii) Hong Kong Profits tax

No Hong Kong Profits tax has been provided in the financial statements as the Company and its subsidiaries operating in Hong Kong did not derive any assessable profits for the year (2005: provided at the rate of 17.5% on the estimated assessable profits).

(iii) PRC enterprise income tax

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

The wholly owned subsidiaries of the Company, Techwayson Industrial Limited and Techwayson Technology (Shenzhen) Limited, are High-Tech enterprise which were established and are operating in a special economic zone of the PRC, and are normally subject to the PRC enterprise income tax at a rate of 15%. However, they are 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 of Techwayson Industrial Limited expired on 31 December 2000 and thereafter, it is subject to the PRC enterprise income tax at 7.5% for years until 31 December 2003 and another three years until 31 December 2006 provided it continues to qualify as a High-Tech enterprise. This year is the first year of profitable operations of Techwayson Technology (Shenzhen) Limited. No PRC enterprise income tax has been provided in the financial statements.

10. INCOME TAX *(Continued)*

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates

	2006	2005
	RMB'000	RMB'000
Loss before taxation	**(247,514)**	(16,007)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	**(38,908)**	(2,801)
Tax effect of non-deductible expenses	**31,371**	901
Tax effect of non-taxable income	**(12)**	(19)
Tax effect of unused tax losses not recognised	**7,518**	1,223
Tax effect of deductible temporary difference not recognised	**31**	–
Others	**–**	3,794
Under-provision in prior year	**6**	–
Taxation charge	**6**	3,098

11. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders is dealt with in the financial statements of the Company to the extent of RMB15,036,000 (2005: RMB36,519,000).

12. LOSS PER SHARE

The calculation of loss per share for the year ended 30 June 2006 is based on the consolidated loss attributable to shareholders of RMB247,520,000 (2005: RMB19,105,000) and the weight average number of 350,000,000 shares (2005: 350,000,000 shares) in issue during the year.

No diluted loss per share is presented as there were no dilutive potential ordinary shares in issue during the year ended 30 June 2006 and 2005.

13. PROPERTY, PLANT AND EQUIPMENT

	The Group				
	Leasehold improvements RMB'000	Equipment RMB'000	Furniture RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1 July 2004	1,232	6,024	598	1,481	9,335
Additions	–	224	193	–	417
Reclassification	–	83	(83)	–	–
Disposals/Write-off	(367)	(75)	(183)	–	(625)
At 30 June 2005	865	6,256	525	1,481	9,127
Additions	215	211	245	–	671
Disposals/Write-off	(852)	(1,962)	(205)	–	(3,019)
Exchange difference	–	(4)	–	(8)	(12)
At 30 June 2006	**228**	**4,501**	**565**	**1,473**	**6,767**
Accumulated depreciation and Impairment losses					
At 1 July 2004	277	3,207	193	749	4,426
Provision for the year	193	868	48	256	1,365
Reclassification	–	4	(4)	–	–
Disposals/Write-off	(123)	(46)	(76)	–	(245)
At 30 June 2005	347	4,033	161	1,005	5,546
Provision for the year	170	690	95	171	1,126
Disposals/Write-off	(504)	(2,145)	(61)	–	(2,710)
Impairment loss	–	–	22	–	22
Exchange difference	–	(2)	–	(11)	(13)
At 30 June 2006	**13**	**2,576**	**217**	**1,165**	**3,971**
Net book value					
At 30 June 2006	**215**	**1,925**	**348**	**308**	**2,796**
At 30 June 2005	518	2,223	364	476	3,581

14. PROPERTY UNDER DEVELOPMENT

	The Group	
	2006	2005
	RMB'000	RMB'000
Construction and development cost		
At beginning of year	**66,263**	66,263
Additions	**6,022**	–
At end of year	**72,285**	66,263

Property under development represents property that is being constructed for future use as investment property. It is located in the Hi Tech Park in Shenzhen, the PRC and is expected to be completed in end of 2006. In assessing whether there is an impairment on the carrying value of the property under development, the Group has adopted a capitalisation of future rental valuation method and has obtained a valuation report prepared by an independent valuer in October 2006, which indicated the total rental value of the property in the remaining land use right term would be approximately RMB144,000,000.

The Group has obtained the land use right (see note 17) for the leasehold land with a lease period of 50 years commenced in January 2003. The property was charged by the plaintiffs of the writs of summons which were served to the two PRC subsidiaries of the Company through Tongling Intermediate People's Court and Shenzhen Intermediate People's Court in respect of the alleged guarantees given by the Group relating the indebtedness of Goldwiz Tongling. The Group is having out-of court settlement with the plaintiffs in some of the litigation cases and should settlement on the loans be reached, the property will be discharged. On the other hand, the Group is having final stage of negotiation with its bank creditors for restructuring the short term loan to long term loan and should debt restructuring be finalised, the property will be pledged with the bank creditor as security for the long term loan. Details are set out in notes 29.

15. AVAILABLE-FOR-SALE SECURITIES/INVESTMENT IN SECURITIES

	The Group	
	2006	2005
	RMB'000	RMB'000
Unlisted equity securities, at cost		
At beginning of year	**51,940**	51,940
Effect on change in exchange rate	**(602)**	–
At end of year	**51,338**	51,940
Impairment losses		
At beginning of year	**(20,024)**	(16,324)
Impairment loss for the year	**(31,314)**	(3,700)
At end of year	**(51,338)**	(20,024)
Carrying value at end of year	**–**	31,916

Available-for-sale securities (previously classified as investment in securities) represented the Group's 18.52% unlisted equity interest in the registered capital of Goldwiz Huarui (Tongling) Electronic Material Company Limited ("Goldwiz Tongling"), a company incorporated in the PRC.

15. AVAILABLE-FOR-SALE SECURITIES/INVESTMENT IN SECURITIES *(Continued)*

As a minority shareholder, the Company has no control over the operation of Goldwiz Tongling. As disclosed by the major shareholder of Godwiz Tongling, the operation of the factory of Goldwiz Tongling has been suspended since December 2005 due to a critical liquidity problem. Goldwiz Tongling has also received writs of summons from various parties including suppliers, bankers, former shareholders and a PRC trust company in respect of alleged indebtedness of approximately RMB221,000,000. All the fixed assets have been pledged to or charged by the bankers.

Having considered the latest available information relating to existing financial position of Goldwiz Tongling and the various pending litigations, the Group has decided to make a full provision in respect of the carrying amount of its investment in Goldwiz Tongling.

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**66,362**	67,638

Details of the principal subsidiaries as at 30 June 2006 are as follows:

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Usualink Development Limited	British Virgin Islands	1,250 shares of US$1 each	100%	–	Investment holding
(德維森實業(深圳)有限公司) (Techwayson Industrial Limited*#)	PRC	10,000,000 shares of RMB1 each	–	100%	Design, supply and integration of automation and control systems
Techwayson Management Limited	Hong Kong	10,000 shares of HK$1 each	100%	–	Provision of management services
Techwire Enterprises Limited	British Virgin Islands	100 shares of US$1 each	100%	–	Investment holding
Techwayson Automation Limited	Hong Kong	10,000 shares of HK$1 each	100%	–	Trading of automation products
Realtop Limited	British Virgin Islands	100 shares of US$1 each	100%	–	Investment holding

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
德維森科技(深圳)有限公司 Techwayson Technology (Shenzhen) Limited# (formerly known as Hiwayson Technology Limited)*	PRC	100,000,000 shares of RMB1 each	–	100%	Design, supply and integration of automation and control systems
Smart Gain Asia Limited	Hong Kong	1 share of HK$1 each	100%	–	Inactive during the year and pending for trading of natural resources and other mineral products

English company names for identification purpose only.

* Techwayson Industrial Limited and Techwayson Technology (Shenzhen) 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. PREPAID LEASE PAYMENT

	The Group 2006 RMB'000	2005 RMB'000
Land use right		
Carrying value at beginning of year	**2,028**	2,028
Amortisation for year	**(41)**	–
	1,987	2,028

Prepaid lease payment represents a land use right acquired for the construction or development of a property being under development which is located in the PRC and will be classified as investment property upon completion (see note 14).

18. INVENTORIES

	The Group 2006 RMB'000	2005 RMB'000
Raw materials	**–**	327
Work in progress	**–**	673
Merchandises	**2,459**	3,817
	2,459	4,817

All inventories, excluding those fully provided (see note 6) for with nil carrying value, are stated at cost.

19. TRADE RECEIVABLES AND BILLS RECEIVABLE

Trade receivables and bills receivable consisted of:

	The Group	
	2006	2005
	RMB'000	RMB'000
Trade receivables	**23,841**	33,393
Less: Provision for doubtful debts	**(22,162)**	(3,006)
	1,679	30,387
Bills receivable	**–**	9,435

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.

In the review of the recoverability of trade receivables at each balance sheet date, the management made their judgement based on the age of the amount due, the extent of settlements received subsequent to the balance sheet date and the accessibility of the trade receivables. For the year ended 30 June 2006, the management recognised a full provision in respect of trade debts of RMB22,162,000 for which the relevant customers were not accessible.

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Trade receivables		
0 – 60 days	**909**	13,777
61 – 90 days	**97**	3,337
91 – 365 days	**141**	12,911
Over 365 days	**532**	362
	1,679	30,387
Bills receivable		
0 – 60 days	**–**	9,435

20. DUE FROM SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Due from subsidiaries	**48,912**	21,289
Provision for doubtful debts	**(10,337)**	–
	38,575	21,289

The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Purchase deposits	**183**	16,286	**–**	–
Prepayments	**481**	1,428	**–**	–
Utilities and rental deposits	**1,005**	56	**–**	–
Other receivables	**4,270**	229	**4,160**	–
	5,939	17,999	**4,160**	–

22. HELD-TO-MATURITY SECURITIES/TRUST FUND INVESTMENTS

	The Group	
	2006	2005
	RMB'000	RMB'000
Trust fund investments		
At beginning of year	**150,704**	–
Additions	**–**	150,704
Impairment loss	**(150,704)**	–
At end of year	**–**	150,704

Trust fund investments represents funds placed by two PRC subsidiaries with Kinghing Trust & Investment Co., Ltd. (the "Trust Company"), an independent trust investment company in the PRC. Pursuant to the relevant contracts, the funds were for a fixed term up to May 2006 and the Group's return on the trust funds is limited to an annual rate of return of 4%.

In early 2006, the Company was informed that the Trust Company has been ordered by the relevant authority to suspend its operation. The assets of the Trust Company are now being managed by the China Construction Bank. The two PRC subsidiaries have registered with the China Construction Bank its entitlement to the fund. Despite the Group's repeated attempts for confirmation of the repayment schedule, neither the China Construction Bank nor the local government has provided any information. In view of the absence of information to substantiate the recoverability of the trust fund, as at 30 June 2006, the Directors consider that it is prudent to recognise an impairment loss of RMB150,704,000 on trust fund investments.

23. CASH AND BANK BALANCES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**8,365**	14,487	**84**	8
Time deposits	**88,400**	–	**67,600**	–
As stated in the cash flow statement	**96,765**	14,487	**67,684**	8

24. TRADE PAYABLES AND BILLS PAYABLE

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Trade payables		
0 – 60 days	**864**	2,234
61 – 90 days	**–**	1,073
91 – 365 days	**25**	5,987
Over 365 days	**1,753**	1,897
	2,642	11,191
Bills payable		
0 – 60 days	**–**	18,851

25. PROVISION, ACCRUALS AND OTHER PAYABLES

Included in provision, accruals and other payables is an amount of RMB15,000,000 set aside in respect of alleged guarantee which are said to be issued by two PRC subsidiaries of the Company (see note 37).

26. DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and repayment on demand.

27. DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest-free and have no fixed term of repayment. The carrying amount of the amounts due approximates their fair values.

28. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(restated)		(restated)
Other loans, unsecured	**9,478**	9,155	**9,478**	9,155

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(restated)		(restated)
On demand or within one year	**4,798**	2,000	**4,798**	2,000
More than one year, but not exceeding two years	**2,340**	2,385	**2,340**	2,385
More than two years, but not exceeding five years	**2,340**	4,770	**2,340**	4,770
	9,478	9,155	**9,478**	9,155
Less: Amounts due within one year shown under current liabilities	**(4,798)**	(2,000)	**(4,798)**	(2,000)
Non-current portion shown under non-current liabilities	**4,680**	7,155	**4,680**	7,155

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

29. SHORT TERM BANK LOAN

	The Group	
	2006	2005
	RMB'000	RMB'000
Bank loan, unsecured	**97,912**	100,000

The loan was borrowed from the Bank of China Shenzhen Branch ("Bank Creditor") which bears interest at 6.372% and is overdue. The interest rate has been increased to 9.558% as a penalty imposed by the Bank Creditor.

On 2 August 2006, a notice of arbitration proceeding was served on the Company in respect of the bank indebtedness of RMB100 million owed by Techwayson Industrial Limited, a wholly-owned subsidiary of the Company, to the Bank Creditor. The indebtedness was overdue in September 2005.

On 26 September 2006, Techwayson Industrial attended the hearing on the Arbitration and preliminarily agreed with the Bank Creditor to make an out-of-court settlement. The Bank Creditor will proceed with internal approval procedures for restructuring the short term loan to a long term loan subject to the pledge of the property under development in favour of the Bank Creditor as security for the long term loan.

30. SHARE CAPITAL

(a) Ordinary share capital

	2006		2005	
	No. of shares '000	**RMB'000**	No. of shares '000	RMB'000
Authorised:				
Ordinary shares of RMB0.106 (equivalent to HK$0.1) each	**1,000,000**	**106,000**	1,000,000	106,000
Ordinary shares, issued and fully paid:				
At 30 June 2006 and 1 July 2005	**350,000**	**37,100**	350,000	37,100

(b) Convertible redeemable preference shares

	2006		2005	
	No. of shares '000	**RMB'000**	No. of shares '000	RMB'000
Convertible redeemable preference shares, issued and fully paid:				
At 1 July	**–**	**–**	–	–
Shares issued	**250,000**	**104,000**	–	–
At 30 June	**250,000**	**104,000**	–	–

At 28 June 2006, the Company issued 250,000,000 convertible redeemable preference shares for par value of HK$0.10 at a subscription price of HK$0.40 each. The major terms of the relevant subscription and option agreement (the "Agreement") are set out below:

(i) The Company has the right, exercisable immediately following the end of the conversion period (prior to any extension thereof) and up to the third anniversary of the date of the initial issue of the 250,000,000 Convertible Redeemable Preference Shares, to require the mandatory conversion of all or part of the outstanding Convertible Redeemable Preference Share into new Ordinary Shares, or to require the redemption of all or part of the outstanding Convertible Redeemable Preference Shares into new Ordinary Shares, at amount equal to all amounts paid up or credited as paid up on the Convertible Redeemable Preference Shares.

(ii) The Company may require the subscriber to the convertible redeemable preference shares to further subscribe for an additional 100,000,000 convertible redeemable preference shares at HK$0.4 each. These convertible redeemable preference shares are convertible into new ordinary shares of the Company during the conversion period at the conversion price of HK$0.40.

(iii) The convertible redeemable preference shares are not transferable and do not carry the right to vote. Each convertible redeemable preference share is entitled to be paid a fixed cumulative preferential dividend in priority to any payment to the holders of any other class of shares at the rate of 3.5% per annum on the amount paid up or credited as paid up.

Based on their terms and conditions, the convertible redeemable preference shares have been presented as equity instrument in the balance sheet.

31. RESERVES

	The Group					
	Share premium	General reserve funds *(Note (a))*	Capital reserve *(Note (b))*	Exchange difference	Retained profits/ (Accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 July 2004	7,160	5,309	13,841	–	129,363	155,673
Loss attributable to equity shareholders	–	–	–	–	(19,105)	(19,105)
At 30 June 2005	7,160	5,309	13,841	–	110,258	136,568
Loss attributable to equity shareholders	–	–	–	–	(247,520)	(247,520)
Exchange difference	–	–	–	(864)	–	(864)
At 30 June 2006	**7,160**	**5,309**	**13,841**	**(864)**	**(137,262)**	**(111,816)**

Notes:

(a) As stipulated by regulations in the PRC, two PRC subsidiaries are 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.

31. RESERVES *(Continued)*

	The Company				
	Share premium *(Note (i))* RMB'000	**Contributed surplus** *(Note (i))* RMB'000	**Exchange difference** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 July 2004	7,160	67,614	–	(16,212)	58,562
Loss attributable to equity shareholders	–	–	–	(36,519)	(36,519)
At 30 June 2005	7,160	67,614	–	(52,731)	22,043
Loss attributable to equity shareholders	–	–	–	(15,036)	(15,036)
Exchange difference	–	–	(1,116)	–	(1,116)
At 30 June 2006	**7,160**	**67,614**	**(1,116)**	**(67,767)**	**5,891**

Note:

(i) 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 reconstruction 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 2006, the Company's reserves available for distribution to shareholders amounted to RMB5,891,000 (2005: RMB22,043,000) 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 (2005: RMB7,160,000) and contributed surplus of RMB67,614,000 (2005: RMB67,614,000), less accumulated deficit of RMB67,767,000 (2005: RMB52,731,000) and exchange loss of RMB1,116,000 (2005: nil), 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.

32. DEFERRED TAXATION

No deferred taxation has been provided in the financial statements as there are no material taxable temporary difference (2005: nil). There are no significant deferred tax liabilities of the Group for which provision has not been made.

No deferred tax assets are recognised as the realisation of the related tax benefit through future taxable profits cannot be ascertained. As at 30 June 2006, the Group has unused tax losses of RMB57,047,000 (2005: RMB12,604,000) to carry forward against future taxable income.

33. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Scheme Ordinance for its Hong Kong employees. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, each of the Group (“the employer”) and its employees makes monthly contributions to the scheme at 5% of the employee’s 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, the two PRC subsidiaries are required to contribute to a state-sponsored retirement plan for all 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 2006, the aggregate employer’s contributions made by the Group amounted to RMB325,000 (2005: RMB396,000).

34. 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.

35. COMMITMENTS

(a) Capital commitments

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for the capital expenditure in respect of the property under development	**31,592**	59,500	**–**	–

(b) Operating lease commitments

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases which are payables as follows:

	For premises		For equipment	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,087**	353	**17**	–
Between two and five years	**1,268**	–	**72**	–
	3,355	353	**89**	–

36. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables, bills receivable and held-to-maturity securities. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

At the balance sheet date, the Group has a certain concentration of credit risk, as 38% (2005: 43%) and 76% (2005: 76%) of the total trade receivables were due from the Group's largest customer and the five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including held-to-maturity securities, in the balance sheet. Except for the guarantee given by the Company in respect of a loan to a subsidiary of the Company and guarantee allegedly being given by two PRC subsidiaries of the Company as disclosed in note 37, the Group does not provide any other guarantees which would expose the Group to credit risk.

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Group has exposed to both fair value interest rate risk and cash flows interest rate risk through the impact of the rate changes on fixed interest rate bank borrowings and floating interest rate borrowings respectively. The Group currently does not have an interest rate hedging policy.

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars and United States dollars. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign currency risk is considered to be minimal.

37. CONTINGENT LIABILITIES

As at 30 June 2006, the Company has executed corporate guarantees to a bank to secure banking facilities granted to its subsidiaries and the banking facilities utilised by subsidiaries totaled approximately RMB98 million (2005: RMB145 million).

In addition, as mentioned in the Business Review, at 30 June 2006, two PRC subsidiaries of the Company had been served with writs of summons and are being claimed for a total amount of approximately RMB155 million under certain guarantees being allegedly issued by these two PRC subsidiaries. The guarantees were allegedly provided by the two PRC subsidiaries without the knowledge of the then and current Boards. Among the alleged guarantees, a total amount of approximately RMB94 million was said to be related to the loans borrowed by Goldwiz Tongling whilst approximately RMB60.7 million was related to the alleged loan borrowed by a third party, Shenzhen Ji Hai Industrial Company.

According to information provided by the management of Goldwiz Tongling, during the year ended 30 June 2006, Goldwiz Tongling has managed to repay a total amount of approximately RMB12.1 million to the plaintiffs by collecting its trade receivables. Regarding a claim of approximately RMB21.6 million, although Goldwiz Tongling has subsequently made certain repayment, it has not yet reached any settlement agreement with the plaintiff and the Company, being the alleged guarantor, has prudently made a provision under the alleged guarantee in the amount of RMB15 million. Accordingly, the contingent liabilities of the Group arising from the alleged guarantees at 30 June 2006 were approximately RMB128 million, after taking into account the aforesaid repayment made during the year and the abovementioned provision.

37. CONTINGENT LIABILITIES *(Continued)*

Subsequently and up to the date of this report, Goldwiz Tongling has made further repayments to the plaintiffs. Moreover, Goldwiz Tongling and one of the plaintiffs have reached an agreement to settle the amount claimed. The guarantee to the extent of RMB14.6 million allegedly provided by a PRC subsidiary of the Company in this regard has therefore been released. Regarding the remaining claims amounting to approximately RMB57.8 million, Goldwiz Tongling also has made certain repayments to the plaintiffs since the first trial in April 2006. Goldwiz Tongling and the plaintiffs are in the final stage of conclusion of a settlement agreement under the supervision of the Tongling Intermediate People's Court. Accordingly, the Group anticipates that the alleged guarantees will be released upon the successful settlement between Goldwiz Tongling and the plaintiffs and does not anticipate any significant liability arising therefrom.

The Company was advised that the contingent liabilities of the Group arising from the alleged guarantees would lapse upon the settlements of the indebtedness by Goldwiz Tongling.

Regarding the litigation amounting to RMB60.7 million relating to Shenzhen Ji Hai Industrial Company, the Company was advised by its legal adviser that the case would be defendable.

38. RELATED PARTY TRANSACTIONS

Additional to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2006 **RMB'000**	2005 RMB'000
Salaries and other short-term employee benefits	**2,399**	1,556

(b) Guarantee given by a former related company and a director of a former major shareholder against the bank loan granted to the Group

A former related company and a director of a former major shareholder have given a corporate guarantee and personal guarantee to a bank to secure bank loan to the extent of RMB97,912,000 (2005: RMB100,000,000).

(c) Management fee paid to a former major shareholder

During the year, the Group paid management fee of RMB752,222 (2005: RMB381,600) to a subsidiary of the former major shareholder for the provision of administrative services by that former major shareholder. The service fee was charged at normal commercial terms.

(d) Advance to a former major shareholder

During the year, the Group advanced to its former major shareholder totally RMB2,134,000 (2005: RMB1,717,000). The advances are unsecured and interest-bearing. The amount was fully recovered by the year ended 30 June 2006.

39. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 3.

SCHEDULE OF PROPERTY

As at 30 June 2006

Description	Use	Area	Stage of completion (estimated completion date)	Percentage of attributable interest
Land Parcel No. T205-0035 located at High-tech Industrial Park, Nanshan District, Shenzhen City, Guangdong Province, The PRC	Under Development	Site area – approximately 8,159 sq. m. Gross floor area – approximately 17,586 sq. m.	Work in progress (By the end of December 2006)	100%

FIVE YEARS FINANCIAL SUMMARY

Year ended 30 June

Results	2006	2005	2004	2003	2002
Turnover (RMB'000)	**115,581**	187,965	359,172	161,811	143,269
(Loss)/profit attributable to shareholders (RMB'000)	**(247,520)**	(19,105)	10,921	9,623	45,030
(Loss)/earnings per share (RMB cents)					
– Basic	**(70.72)**	(5.46)	3.12	2.75	12.87
– Diluted	**N/A**	N/A	N/A	N/A	N/A

As at 30 June

Assets and liabilities	2006	2005	2004	2003	2002
Total assets (RMB'000)	**183,910**	331,617	355,125	333,597	213,528
Total liabilities (RMB'000)	**(154,626)**	(157,949)	(162,352)	(151,745)	(41,299)
Net asset value (RMB'000)	**29,284**	173,668	192,773	181,852	172,229
Net asset value per share (RMB cents)	**8.37**	49.62	55.08	51.96	49.2