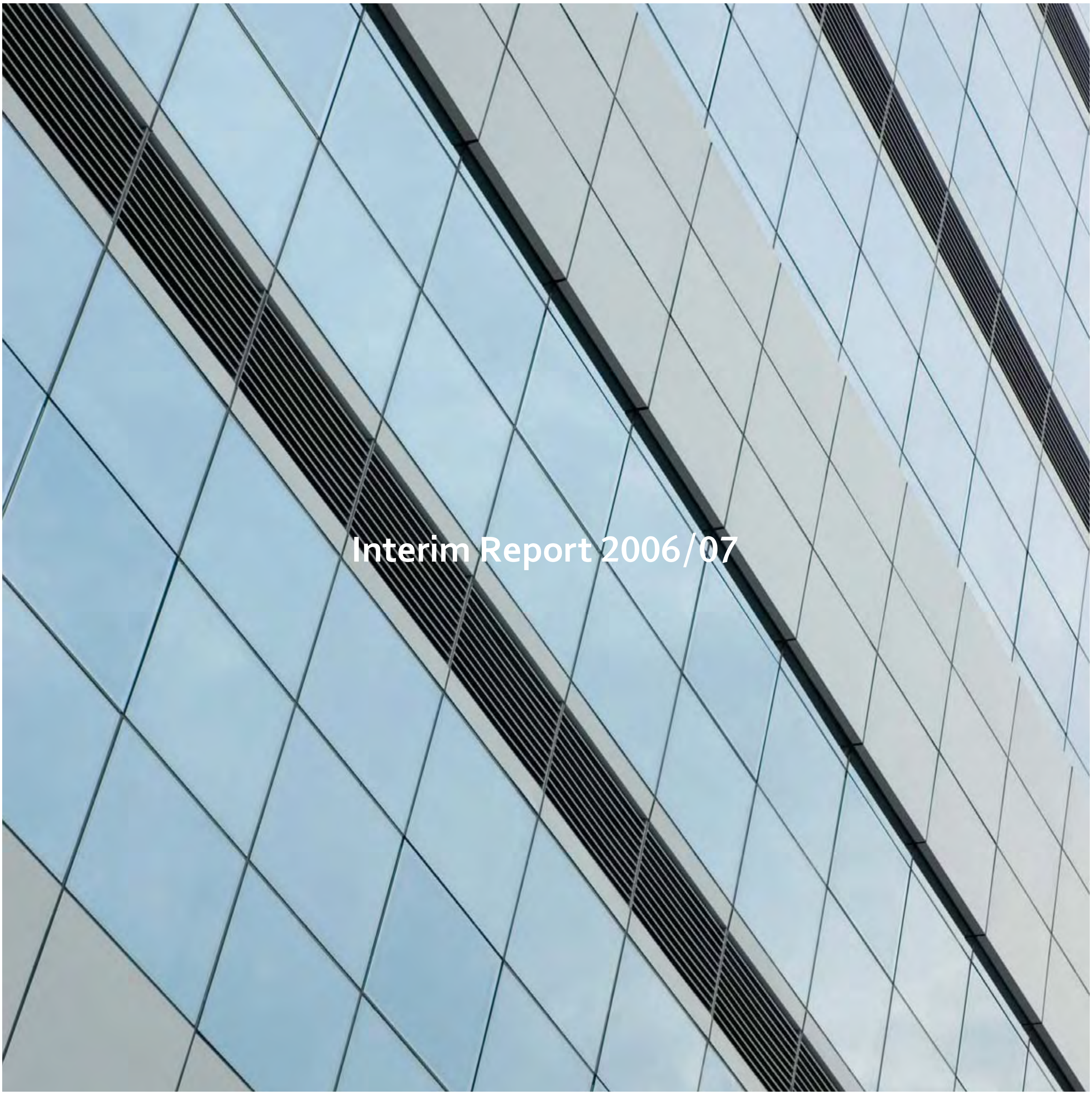
Interim Report 2006/07



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. LAU Sai Chung
Mr. NG Kwok Chu, Winfield
Mr. POON Lai Yin, Michael

AUDIT COMMITTEE

Mr. Gerard J. MCMAHON
Mr. LAU Sai Chung
Mr. NG Kwok Chu, Winfield
Mr. POON Lai Yin, Michael

REMUNERATION COMMITTEE

Mr. Gerard J. MCMAHON
Ms. CHAN Siu Chu, Debby
Mr. LAU Sai Chung
Mr. NG Kwok Chu, Winfield
Mr. POON Lai Yin, Michael

NOMINATION COMMITTEE

Mr. Gerard J. MCMAHON
Ms. CHAN Siu Chu, Debby
Mr. LAU Sai Chung
Mr. NG Kwok Chu, Winfield
Mr. POON Lai Yin, Michael

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
Citic Ka Wah Bank Limited
Bank of China (Shenzhen Branch)

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

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
KY1-1107
Cayman Islands

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

For the six months ended 31 December 2006, the Group's unaudited turnover was greatly decreased to approximately RMB11.7 million when compared with the corresponding period of year 2005 of approximately RMB104.5 million. It was mainly due to the loss of key customers on the trading of automation products resulting from a setback in the Group's image over certain unexpected incidents suffered by the Group in year 2006. Moreover, the revenue of approximately RMB6 million from the technology project business has not been booked-in for the period pending completion of relevant testing. The unaudited loss attributable to equity shareholders was increased to approximately RMB14.2 million as compared to a loss of approximately RMB13.4 million of the correspondence period of last year. During the period, the Company has successfully accomplished the first phase of recovery to solidify its financial position. After tedious months of negotiations, the Company has resolved the major litigation issues involving the alleged guarantees given by the Group. Now we can move confidently into the next phase of revamping our business growth. The Group intends to focus on three major business fronts: technology, trading and property investment.

Technology *(formerly classified under Project and Technical Services segment)*

The Group has redefined its programmable logic controller ("PLC") automation business strategy. With its proprietary products and availability of its in-house qualified technical team, the Group intends to concentrate on the provision of its own products including project work and consultancy services in particular for the environmental and energy industries. During the period, the Group has entered into contracts amounting to an aggregate sum of approximately RMB30 million for the provision of technical services for certain energy related companies. No turnover on this segment was recognized during the period pending completion of relevant testing on this new project. It is anticipated that the project will be completed before the financial year ending 30 June 2007.

Trading

In view of the Group's expansion in trading business, the distribution of imported automation products on non-project base was reclassified under Trading segment starting from the period under review. The unaudited turnover of this segment for the period under review was drastically decreased by about 88.8% to approximately RMB11.7 million when compared with the corresponding period of year 2005. As mentioned above, it was mainly due to the loss of key customers resulting from a setback in the Group's image over certain unexpected incidents suffered by the Group in year 2006. In the distribution of imported automation products, there are little profit margins left as original equipment suppliers are making direct inroad to the market by setting up their own logistics and are no longer offering attractive price incentive to local distributors. Unless there are significant changes in their marketing policy, imported automation products will be sourced and supplied to the customers as part of the items of project work. However, through the technology business referrals, we are in close contacts with the electric and electronic technology industries. As a result, apart from the automation business, we are able to expand our trading activities into laminate products and related industries' raw material. We have also set up an export division for the sales and export of local electronic products and components.

In its trading business of natural resources, the Group has made a breakthrough in reaching a consensus with a major local supplier and the local authority for a long-term solution that is beneficial to all parties in overcoming technicalities for the supplies and shipments of natural resources from Indonesia. Two shipments of iron ore fine of approximately US$3 million (RMB23 million) under a term contract have been made to the buyer in February 2007. In regard of the supplies of coal, negotiations with the supplier are in progress and barring any unforeseen circumstances, trial shipments of coal are expected to commence in May 2007.

Property investment

During the period, the Group has completed the purchase of a company having a portfolio of seven units of commercial property in Hong Kong and it has almost completed the facade and interior fixtures of the Research and Development Centre ("R&D Centre") in Shenzhen. The properties are expected to give stable rental return for the Group in the coming future.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT

Property under development

Construction work on the R&D Centre, 7-storey building with gross floor area of 17,586 square meters, in Shenzhen has been completed in end 2006. The building is expected to be ready for occupancy in the first half of 2007.

Investment properties

With the completion of the acquisition of Weina Land Limited in end December 2006, the Group has diversified its business to property investment holding which has strengthened the asset and revenue bases of the Group. The investment properties comprise seven units of office premises in Hong Kong with total saleable area of approximately 4,582 sq. ft. At 31 December 2006, all of the above office units, having total carrying value of approximately RMB44.7 million (equivalent to approximately HK$45 million), were leased to independent third parties.

Investment in an associate

In July 2006, a wholly-owned subsidiary of the Company and an independent third party formed a joint-venture company, namely Orient Metro Limited (the “JV Company”), which is owned as to 25% by the Group and 75% by such independent third party. The JV Company together with its subsidiaries will be principally engaged in the provision of technical services (involving provision of equipment, machinery, technical advice and supporting services for excavating mines and the operation and management of mines) and export service (involving marketing, sale and export of the mined products such as iron ore, iron sand, coal and other natural mineral products from Indonesia) to an Indonesian company with local mining licence (“STUT”), other Indonesian mining companies and/or mine owners. During the period, the Company has paid-up its pro-rata share of capital and contributed its portion of shareholders’ loan, in an aggregate sum of US$1.5 million (equivalent to approximately RMB11.6 million), to the JV Company for its operation. It is expected that after the installation of the necessary equipment for STUT, the JV Company’s subsidiaries will be able to start shipment from mid 2007.

MATERIAL ACQUISITION OF SUBSIDIARIES AND ASSOCIATED COMPANIES

At the Company’s extraordinary general meeting held on 28 December 2006, the Sale and Purchase Agreement entered into between the Company and Weina Holdings Limited was approved. Pursuant to the agreement, the Company agreed to acquire 100% equity interest in Weina Land Limited at HK$44 million (equivalent to RMB43.74 million) by the issuance of 110,000,000 convertible redeemable preference A shares at HK$0.4 each to Weina Holdings Limited or its nominees. Upon completion of the acquisition which was taken place on 29 December 2006, Weina Land Limited became a wholly-owned subsidiary of the Company.

During the period, the Group entered into an agreement with an independent third party for the establishment of Orient Metro Limited at a maximum commitment of US$1.5 million (equivalent to approximately RMB11.6 million). Since 17 July 2006, Orient Metro Limited which is owned as to 25% by the Group became an associated company of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2006, the total assets of the Group were RMB217,695,000, an increase by approximately 18.4% as compared to 30 June 2006. At 31 December 2006, the Group had total borrowings of RMB109,632,000 (30 June 2006: RMB107,390,000), approximately RMB89.7 million of which is owed to Bank of China, Shenzhen branch. Although a judgment was made in favour of the bank by the Shenzhen Arbitration Commission, the bank has principally agreed not to demand immediate full repayment from the Group for a period of six months (i.e. during the first half of year 2007) in order to allow the bank to restructure the outstanding debt into a loan secured against the R&D Centre. Currently, the Group is making periodic principal repayments to the bank and will continue to make repayment in accordance with the finalized debt restructure proposal. At 31 December 2006, the gearing ratio, expressed as a percentage of total borrowings over total assets, was approximately 50.4% (30 June 2006: 58.4%).

At 31 December 2006, the total cash and bank balances of the Group amounted to approximately RMB36,520,000 (30 June 2006: RMB96,765,000). The Group's net current liabilities was approximately RMB94,192,000 (30 June 2006: RMB43,104,000) and the current ratio was about 0.42 (30 June 2006: 0.71). The decrease of the cash and bank balances was materially due to the injection of capital to a PRC subsidiary for the construction of the R&D Centre, the repayment of indebtedness to the creditors, and the Company's investment in the joint-venture company.

Taking into account of the broadening of the revenue base, the finalization of the debt restructuring proposal, the option right granted to the Company on the subscription of additional 100 million convertible redeemable preference shares at HK$0.4 each and the anticipated fund raising activities, the Directors are confident that the Group has sufficient resources to meet in full its financial obligations as they fall due in the foreseeable future.

CAPITAL STRUCTURE, BANK BORROWINGS AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

In December 2006, the Company issued 110,000,000 convertible redeemable preference A shares at HK$0.4 each being payment of consideration for the acquisition of Weina Land Limited. During the six months ended 31 December 2006, there was no change in the issued ordinary share capital of the Company. Details of the share capital are set out in note 17 to the unaudited interim financial statements.

At 31 December 2006, the Group's bank borrowings of approximately RMB110 million was on a short-term basis and was mainly in Renminbi. Out of such borrowings, the loan of around RMB89.7 million bears fixed interest rate whilst the loan of HK$20 million (approximately RMB19.88 million) bears prevailing market rate. There are no known seasonal factors in our borrowing profiles. Details of the bank loans are set out in note 16 to the unaudited interim financial statements.

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 period under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instrument has been used for hedging purposes.

CONTINGENT LIABILITIES

At 31 December 2006, the Company had given corporate guarantee to a PRC bank for securing the term loan granted to a PRC subsidiary and the outstanding loan balance was approximately RMB89,750,000. Moreover, guarantee for the outstanding loan balance of approximately RMB60.7 million, together with interest, was allegedly provided by that PRC subsidiary for securing the loan borrowed by a third party, Shenzhen Ji Hai Industrial Company. Details of contingent liabilities as at 31 December 2006 are set out in note 22 to the unaudited interim financial statements.

CHARGE ON ASSETS

At 31 December 2006, the Group's certain landed properties in Hong Kong with an aggregate net carrying value of approximately RMB14 million (30 June 2006: nil) were pledged to a local bank for securing a revolving loan granted to a subsidiary of the Company.

EMPLOYEE AND REMUNERATION POLICIES

For the six months period ended 31 December 2006, the Group has recorded staff costs of approximately RMB5 million (2005: RMB2.9 million), represented 72% increase when compared with the corresponding period of year 2005. The number of staff has increased from 53 employees (as at 31 December 2005) to 74 employees (as at 31 December 2006). 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 period under review, certain litigation with aggregate claim amount of RMB72.4 million were settled among the relevant parties and the Group's guarantee obligation allegedly owed to China Construction Bank, Tongling branch, The Industrial and Commercial bank of China, Tongling branch and The Tongling Economic Technical Development Zone (Group) Company were accordingly released.

Regarding the litigation as to the claim amount of approximately RMB21.6 million, the relevant PRC court has made a decision in favour of the plaintiff in December 2006. Subsequent to the balance sheet date, the relevant PRC subsidiaries of the Company, being the guarantors, have reached a settlement agreement with the bank creditor for the payment of the outstanding indebtedness of approximately RMB15 million. The Company will seek legal advice to demand for the said amount from the borrower in due course.

At 31 December 2006, the relevant PRC court has made a decision in favour of the plaintiff on the litigation as to the outstanding indebtedness of RMB60.7 million borrowed by Shenzhen Ji Hai Industrial Company and allegedly guaranteed by a PRC subsidiary of the Company. The subsidiary has made an appeal against the judgement made by the PRC court and is still waiting for the reply. The said RMB60.7 million has been treated as a contingent liability of the Group for the period under review.

INTERIM DIVIDEND

The Directors do not recommend any payment of interim dividends for the six months period ended 31 December 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

The unexpected litigation and incidents issues have adversely affected the image and business of the Group in year 2006. The new management has conducted thorough investigation on the relevant incidents and issues with the assistance of the professional parties. It has also liaised and negotiated with the concerned parties and creditors on the settlement of the litigation issues and dealt with the downturn of the business.

In order to address the decline in turnover as affected by the incidents, the Group took actions in a timely manner to improve the Company's standing in the marketplace by the raising of new funds to improve its financial position, the settlement of the dispute with the contractor in respect of the construction of the Company's R&D Centre, the injection of income generating Hong Kong properties and the diversification of the Group's business activities. As mentioned above, the Group intends to focus on three major business fronts: technology, trading and property investment.

In the technology sector, the Group will focus and actively engage in the promotion and marketing of its own PLCs as well as engineering project in energy and environmental conservation. The Group's PLCs can be tailored to customers' needs to provide a sophisticated control and monitoring system. In the new R&D Centre, more space will be allotted to the research and development division to provide comprehensive facilities for the development and production of the Group's own automation products and provision of project work and consultancy services. Barring any unforeseen policy change or overheating of the China economy, the Group is positive of the potential development as China is increasing its drive on manufacturing for export, investing in basic industries and in training personnel to operate automation plants.

In order to broaden its scope of business and with the experience of the new management, the Company has started its trading business in natural resources and electronic components for PCB products and will expand its activity to include sales and export of electronic products to the emerging markets. The management believes that there is still a market for such electrical, electronic products and technologies at competitive pricing and product quality. Having said that, the management is cautious about its approach on rapid expansion of this business sector.

From the second half of the financial year ending 30 June 2007, the Company shall receive stable property rental income from the Hong Kong commercial properties acquired by the Group during the period under review. On the other hand, the R&D Centre which is estimated for occupancy in the first half of 2007 will also generate steady property rental income for the Group. To further strengthen the financial position of the Group, the Company intends to exercise the option to raise further amount of HK$40 million by requesting the relevant subscriber to subscribe for additional 100 million convertible redeemable preference shares pursuant to the relevant subscription and option agreement. The Company may also consider the raising of additional funds, as and when it is appropriate, to cater for the future expansion of the Group.

In view of the incidents as disclosed previously, the Company's shares trading has been suspended since mid March 2006. With the completion of the investigation, settlement of the litigation issues and the improvement of the Group's financial position, the Company is seeking for resumption of trading in its shares. The management believes that the resumption of trading in its shares is pivotal for the Group to re-establish its image and provide more opportunities for quality assets expansion and business growth of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2006, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance ("SFO")) (1) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (2) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (3) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of director	Nature of interests	Number of ordinary shares held	Percentage of total issued shares
Dr. Sze Kwan[1]	Interest of a controlled corporation	126,700,000*	36.20%

1 *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.*

Save as disclosed above, at 31 December 2006, none of the Directors or the Company's chief executive had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December 2006, neither the Company, holding company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executive 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 31 December 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 of the Company which would fall to be disclosed to the Company under the provisions of division 2 and 3 of Part XV of the SFO, or, was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital:

(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 ("Weina")[1&2]	Beneficial owner	460,000,000	131.43%
Weina Group Limited ("Weina Group")[3]	Interest of a controlled corporation	460,000,000	131.43%
Mr. Tsim Wing Kong ("Mr. Tsim")[3]	Interest of a controlled corporation	460,000,000	131.43%

1. *The Company has entered into the Subscription and Option Agreement on 26 May 2006 with Weina 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.*

2. *The Company has entered into a Sale and Purchase Agreement on 17 November 2006 with Weina Holdings Limited and through such agreement, Weina (being a nominee of Weina Holdings Limited) is interested in 110,000,000 Convertible Redeemable Preference A Shares and has the right to convert up to 110,000,000 Ordinary Shares.*

3. *Weina Group owns entire issued capital of Weina and is therefore deemed to have interests in the shares and underlying shares of the Company in which Weina is interested. Mr. Tsim is deemed to be interested in the shares and underlying shares of the Company by virtue of his controlling interest in Weina Group.*

Save as disclosed above and so far as was known to the Directors, as at 31 December 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, was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

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 recognize 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.

During the six months ended 31 December 2006, no option was granted, exercised or cancelled by the Company under the New Scheme.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions which set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months period ended 31 December 2006.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding securities transactions by the directors of the Company and its subsidiaries in the securities of the Company and its associated companies. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules and the Company's own code of conduct throughout the period from 1 July 2006 to 31 December 2006.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM ACCOUNTS

The Audit Committee currently comprises three independent non-executive directors and a non-executive director of the Company. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the Group's unaudited interim financial accounts for the six months ended 31 December 2006 (the "Interim Accounts").

The Interim Accounts have also been reviewed by the Company's external auditors, Moores Rowland Mazars, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public of Accountants. The auditors' independent review report is included in the Report to shareholders.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises three independent non-executive directors, a non-executive director and the chief executive officer of the Company The principal 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2006.

By Order of the Board
Chan Siu Chu, Debby
Director & Chief Executive Officer

28 March 2007, Hong Kong

Moores Rowland Mazars

摩斯倫・馬賽會計師事務所

INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF THE QUAYPOINT CORPORATION LIMITED

INTRODUCTION

We have been instructed by the company to review the interim financial report set out on pages 12 to 30.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

LIMITATION OF REVIEW SCOPE

The scope of our review was limited in respect of the investment in the shares of a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the investee company"), which is carried in the balance sheet at RMB1,908,000, which is based on the latest market price of the shares before the trading of the shares were suspended in the afternoon of 28 December 2006, pending the release of price sensitive information. No further information has since been released by the investee company. Consequently we are unable to determine whether the investment in the listed shares was stated at its fair value as at 31 December 2006.

MODIFIED REVIEW CONCLUSION ARISING FROM LIMITATION OF REVIEW SCOPE

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 December 2006.

FUNDAMENTAL UNCERTAINTY

In arriving at our review conclusion, we have also considered the adequacy of disclosures made in the interim financial report 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 22 to the interim financial report. We considered that the disclosure is adequate.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong, 28 March 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2006

	Note	2006 (Unaudited) RMB'000	(Restated) 2005 (Unaudited) RMB'000
Turnover	3	**11,697**	104,450
Cost of sales		**(10,274)**	(99,708)
Gross profit		**1,423**	4,742
Other revenue	3	**806**	3,064
Other income	3	**4,597**	28
Distribution costs		**(34)**	(36)
Administrative expenses		**(11,913)**	(7,323)
Impairment loss on available-for-sale securities		**–**	(11,559)
Other operating expenses		**(4,039)**	(26)
Finance costs	5	**(4,713)**	(4,492)
Share of loss of an associate		**(33)**	–
Loss before taxation	6	**(13,906)**	(15,602)
Income tax	7	**(303)**	2,172
Loss attributable to equity shareholders		**(14,209)**	(13,430)
Loss per share			
Basic	8	**(RMB4.06 cents)**	(RMB3.84 cents)
Diluted	8	**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Note	At 31 December 2006 (Unaudited) RMB'000	At 30 June 2006 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	**2,649**	2,796
Property under development	10	**88,916**	72,285
Investment properties	10	**44,736**	–
Prepaid lease payment	10	**1,966**	1,987
Interest in an associate		**11,696**	–
Total non-current assets		**149,963**	77,068
Current assets			
Inventories	11	**11,166**	2,459
Financial assets at fair value through profit or loss		**1,908**	–
Trade receivables	12	**2,331**	1,679
Prepayments, deposits and other receivables	13	**15,807**	5,939
Cash and bank balances		**36,520**	96,765
Total current assets		**67,732**	106,842
Current liabilities			
Trade payables	14	**4,499**	2,642
Bills payable, secured	14	**2,879**	–
Provision, accruals and other payables		**34,815**	34,423
Receipts in advance		**7,532**	612
Due to a director		**–**	1,025
Current portion of interest-bearing borrowing	15	**–**	4,798
Short-term bank loans	16	**109,632**	97,912
Taxation payable		**2,567**	8,534
Total current liabilities		**161,924**	149,946
Net current liabilities		**(94,192)**	(43,104)
Total assets less current liabilities		**55,771**	33,964
Capital and reserves			
Ordinary share capital	17	**37,100**	37,100
Convertible redeemable preference shares	17	**147,742**	104,000
Reserves		**(129,071)**	(111,816)
Total equity		**55,771**	29,284
Non-current liabilities			
Interest-bearing borrowing	15	**–**	4,680
		55,771	33,964

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2006

	Note	Ordinary share capital (Unaudited) RMB'000	Convertible redeemable preference share (Unaudited) RMB'000	Other reserves (Unaudited) RMB'000	Accumulated earnings (losses) (Unaudited) RMB'000	Total (Unaudited) RMB'000
At 1 July 2006		**37,100**	**104,000**	**25,446**	**(137,262)**	**29,284**
Issue of convertible redeemable preference A shares	17(b)	**–**	**43,742**	**–**	**–**	**43,742**
Exchange difference arising from translation of financial statements of overseas operations		**–**	**–**	**(3,046)**	**–**	**(3,046)**
Loss attributable to equity shareholders		**–**	**–**	**–**	**(14,209)**	**(14,209)**
At 31 December 2006		**37,100**	**147,742**	**22,400**	**(151,471)**	**55,771**
At 1 July 2005		37,100	–	26,310	110,258	173,668
Exchange difference arising from translation of financial statements of overseas operations		–	–	(1,800)	–	(1,800)
Loss attributable to equity shareholders		–	–	–	(13,430)	(13,430)
At 31 December 2005		37,100	–	24,510	96,828	158,438

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2006

	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash (used in) from operating activities	**(36,772)**	4,822
Net cash used in investing activities	**(13,229)**	(6,038)
Net cash used in financing activities	**(6,374)**	(5,511)
Net decrease in cash and cash equivalents	**(56,375)**	(6,727)
Effect on foreign exchange rate changes	**(3,870)**	(1,800)
Cash and cash equivalents at 1 July	**96,765**	14,487
Cash and cash equivalents at 31 December, represented by cash and bank balances	**36,520**	5,960

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2006

1. GENERAL INFORMATION

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; (ii) trading of automation products, electronic components and natural resources such as iron ore, iron sand, coal and other natural mineral products; (iii) property investment and (iv) investment in listed securities.

2. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the Group's annual financial statements for the year ended 30 June 2006, except that business segments have been reclassified as explained in Note 4.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the year ended 30 June 2006. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by Moores Rowland Mazars in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the HKICPA. Moores Rowland Mazars's independent review report to the Board of Directors is included on page 11.

The financial information relating to the financial year ended 30 June 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 October 2006.

2. BASIS OF PREPARATION *(Continued)*

The Board of directors announced on 6 October 2006 that the Company discovered certain inadvertent accounting related errors concerning the calculation of sales and purchases for the six months ended 31 December 2005. The errors were an isolated and inadvertent accounting calculation error which resulted in misstatements of the Group's unaudited turnover and cost of sales stated in the interim financial report for the six months ended 31 December 2005. The corresponding figures for the six months ended 31 December 2005 in this interim financial report are restated in accordance with the figures of the Company's announcement dated 6 October 2006.

At the balance sheet date, the Group's current liabilities exceeded its current assets by approximately RMB94,192,000. In addition, a PRC subsidiary has been involved in a claim by a PRC bank for guarantee which were allegedly given by that subsidiary to a third party 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 claim. 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) The Company has the option of requiring the subscriber to subscribe additional 100,000,000 convertible redeemable preference shares at HK$0.4 each if the need arises;

(b) The Company is in the process of negotiation for a restructuring of the short term bank loan of approximately RMB89,750,000 with the Bank of China, Shenzhen Branch and no immediate full repayment is required in short to medium term;

(c) The Company are liaising closely with lawyers in the PRC and the third parties concerned to actively address the claim of approximately RMB60,700,000 raised by the PRC bank and will actively defend the questionable claim; and

(d) The Company shall be able to raise additional funds in debt and/or by equity instrument as and when it is appropriate.

3. TURNOVER, OTHER REVENUE AND OTHER INCOME

Turnover, other revenue and other income consist of:

	For the six months ended 31 December	
		(Restated)
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover		
– Revenue from sales of automation products and electronic components	**11,697**	104,450
	11,697	104,450
Other revenue		
– Bank interest income	**806**	64
– Unrealised gain on trust fund investments	**–**	3,000
	806	3,064
Other income		
– Net gain on disposal of listed securities	**1,913**	–
– Excess of fair value of identified net assets acquired over cost	**1,385**	–
– Gain on disposal of property, plant and equipment	**54**	–
– Waiver of other loan, unsecured	**921**	–
– Others	**324**	28
	4,597	28
	17,100	107,542

4. SEGMENT INFORMATION

To reflect the diversification of business activities of the Group, the Group has revised its business segment format. Formerly, the Group's businesses were classified into two segments, namely automation products, and project and technical services based on the product group and product similarities. For the period under review, the Group reclassified its businesses into three segments: technology, trading, and property investment. Technology segment comprises provision of technical and consultancy services including the provision of automation products on project base. Trading segment comprises the trading of natural resources, automation products as well as electronic components. Property investment segment comprises rental income arising from the Research and Development Centre in Shenzhen and the landed properties in Hong Kong. These segments reflect strategic planning for each business and are aimed at classifying the businesses based on their nature of operation. The comparative figures for the six months ended 31 December 2005 have been reclassified accordingly.

4. SEGMENT INFORMATION *(Continued)*

Primary reporting format – Business Segments

For the six months ended 31 December 2006

	Technology (Unaudited) RMB'000	Trading (Unaudited) RMB'000	Property investment (Unaudited) RMB'000	Unallocated (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
Turnover	**–**	**11,697**	**–**	**–**	**11,697**
Segment results	**(695)**	**(7,044)**	**(21)**	**(1,400)**	**(9,160)**
Finance costs					**(4,713)**
Share of loss of an associate					**(33)**
Loss before taxation					**(13,906)**
Income tax					**(303)**
Loss attributable to equity shareholders					**(14,209)**
Other information					
Capital expenditure	**–**	**138**	**16,631**	**390**	**17,159**
Depreciation and amortisation	**4**	**495**	**21**	**50**	**570**
Loss on disposal of property, plant and equipment	**–**	**–**	**–**	**13**	**13**

For the six months ended 31 December 2005 (Reclassified)

	Technology (Unaudited) RMB'000	Trading (Unaudited) RMB'000	Property investment (Unaudited) RMB'000	Unallocated (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
Turnover (restated)	359	104,091	–	–	104,450
Segment results	(251)	1,524	(20)	(12,363)	(11,110)
Finance costs					(4,492)
Loss before taxation					(15,602)
Income tax					2,172
Loss attributable to equity shareholders					(13,430)
Other information					
Capital expenditure	–	38	6,000	–	6,038
Depreciation and amortisation	294	264	21	56	635
Loss on disposal of property, plant and equipment	–	25	–	1	26
Impairment loss on available-for-sale financial assets	–	–	–	11,559	11,559

4. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – Geographical Segments

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

	Turnover		**Total assets**		**Capital expenditure**	
		(Restated)				
	For the six months ended 31 December		**At 31 December**	At 30 June	**For the six months ended 31 December**	
	2006	2005	**2006**	2006	**2006**	2005
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
PRC (including Hong Kong)	**11,697**	77,297	**205,999**	183,910	**17,159**	6,038
Malaysia	**–**	27,153	**–**	–	**–**	–
	11,697	104,450	**205,999**	183,910	**17,159**	6,038
Interest in an associate			**11,696**	–		
Total assets			**217,695**	183,910		

5. FINANCE COSTS

	For the six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank and other borrowings and overdraft wholly repayable within 5 years	**4,713**	4,263
Interest on bank and other borrowings wholly repayable after 5 years	**–**	229
	4,713	4,492

6. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	For the six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Staff costs (including directors' emoluments):		
Salaries, wages and other benefits	**4,722**	2,764
Contributions to defined contribution plans	**261**	167
	4,983	2,931
Bad debts	**–**	366
Cost of inventories	**10,274**	99,708
Depreciation and amortisation (net of depreciation capitalised in property under development)	**570**	635
Impairment loss on available-for-sale securities	**–**	11,559
Loss on disposal of property, plant and equipment	**13**	26
Operating lease rentals of premises	**1,108**	687
Provision for obsolete and slow moving inventories	**–**	442
Unrealised loss on financial assets at fair value through profit or loss	**180**	–

7. INCOME TAX

Taxation charge in the condensed consolidated income statement

	For the six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current taxation		
– Hong Kong Profits tax	**303**	197
Over-provision in prior year		
– Hong Kong Profits tax	**–**	(2,369)
Tax expenses (credit)	**303**	(2,172)

7. INCOME TAX *(Continued)*

(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

Hong Kong Profits tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits earned by a subsidiary operating in Hong Kong during the period.

(iii) PRC enterprise income tax

Taxation arising in the PRC is calculated at the rates prevailing in the PRC. No PRC enterprise income tax has been provided in the interim financial report as the PRC subsidiaries of the Company did not derive any assessable profits for the period (2005: nil).

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.

8. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 31 December 2006 is based on the consolidated loss attributable to equity shareholders of approximately RMB14,209,000 (2005: RMB13,430,000) and the weighted average number of 350,000,000 shares (2005: 350,000,000 shares) in issue during the period.

No diluted loss per share is presented as there were no dilutive potential ordinary shares in issue during the six months ended 31 December 2006 and 2005.

9. DIVIDENDS

The directors do not recommend the payment of interim dividend for the six months ended 31 December 2006 (2005: nil).

10. CAPITAL EXPENDITURE

	For the six months ended 31 December 2006			
	Property, plant and equipment	**Property under development**	**Investment properties**	**Prepaid lease payment**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Net book value				
At 1 July 2006	2,796	72,285	–	1,987
Additions	528	16,631	–	–
Acquisition of a subsidiary	–	–	44,736	–
Depreciation/amortisation	(567)	–	–	(21)
Disposal	(79)	–	–	–
Exchange difference	(29)	–	–	–
At 31 December 2006	**2,649**	**88,916**	**44,736**	**1,966**

11. INVENTORIES

	31 December 2006	30 June 2006
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Merchandises	**11,166**	2,459

12. TRADE RECEIVABLES

Trade receivables consisted of:

	31 December 2006	30 June 2006
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Trade receivables	**23,515**	23,841
Less: Provision for doubtful debts	**(21,184)**	(22,162)
	2,331	1,679

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 approximately RMB22,162,000 for which the relevant customers were not accessible. This provision has not yet been written off as bad debts and carried forward at 31 December 2006 with the carrying amount of approximately RMB21,184,000 calculated at the group foreign currency translation rate at 31 December 2006.

12. TRADE RECEIVABLES *(Continued)*

Ageing analysis of trade receivables, net of provision, is as follows:

	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Trade receivables		
0 – 60 days	**507**	909
61 – 90 days	**668**	97
91 – 365 days	**493**	141
Over 365 days	**663**	532
	2,331	1,679

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Purchase deposits	**12,809**	183
Prepayments	**31**	481
Utilities and rental deposits	**1,049**	1,005
Other receivables	**1,918**	4,270
	15,807	5,939

14. TRADE PAYABLES AND BILLS PAYABLE

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

	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Trade payables		
0 – 60 days	**1,856**	864
61 – 90 days	**748**	–
91 – 365 days	**199**	25
Over 365 days	**1,696**	1,753
	4,499	2,642
Bills payable		
0 – 60 days	**2,879**	–

15. INTEREST-BEARING BORROWING

	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Other loan, unsecured	–	9,478

The above loan was wholly repayable within five years and the maturity is as follows:

	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
On demand or within one year	**–**	4,798
More than one year, but not exceeding two years	**–**	2,340
More than two years, but not exceeding five years	**–**	2,340
	–	9,478
Less: Amounts due within one year shown under current liabilities	**–**	(4,798)
Non-current portion shown under non-current liabilities	**–**	4,680

The loan bears interest at LIBOR plus 0.5% per annum and is repayable in 16 equal instalments over a period of 8 years from September 2001. In December 2006, the Company has made full repayment for this loan.

16. SHORT TERM BANK LOANS

	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Bank loans, secured	**9,941**	–
Bank loans, unsecured	**99,691**	97,912
	109,632	97,912

Included in the above loans was a loan with outstanding balance of approximately RMB89,750,000 at 31 December 2006 (30 June 2006: approximately RMB97,912,000) borrowed from the Bank of China Shenzhen Branch ("BOC") by a PRC subsidiary of the Company. It bears interest at 6.372% and was overdue since September 2005. This interest rate has been increased to 9.558% as a penalty imposed by BOC. In December 2006, the Shenzhen Arbitration Committee made a decision in favour of BOC which has however subsequently agreed not to enforce its right to demand immediate repayment from the Group for a period of six months in order to allow the bank to restructure the outstanding debt into a loan secured against the property under development.

The remaining amount represents short-term loans borrowed from two local banks by other subsidiaries of the Company which bears interest at the prevailing market interest rate and will become due within one year.

17. SHARE CAPITAL

(a) Ordinary share capital

	31 December 2006		30 June 2006	
	No. of shares		No. of shares	
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
	'000	**RMB'000**	'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 31 December 2006/30 June 2006	**350,000**	**37,100**	350,000	37,100

(b) Convertible redeemable preference shares

	31 December 2006		30 June 2006	
	No. of shares		No. of shares	
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
	'000	**RMB'000**	'000	RMB'000
Convertible redeemable preference				
shares, issued and fully paid:				
At 1 July 2006/1 July 2005	**250,000**	**104,000**	–	–
Shares issued	**110,000**	**43,742**	250,000	104,000
At 31 December 2006/30 June 2006	**360,000**	**147,742**	250,000	104,000

At 28 June 2006, the Company issued 250,000,000 convertible redeemable preference shares of par value of HK$0.10 at a subscription price of HK$0.40 each. At 29 December 2006, the Company further issued 110,000,000 convertible redeemable preference A shares of par value of HK$0.10 at a subscription price of HK$0.40 each.

The major terms of the above-mentioned preference shares are set out below:

(i) For the convertible redeemable preference shares issued on 28 June 2006, 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 convertible redeemable preference shares pursuant to the relevant agreement, 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.

Pursuant to the relevant agreement, the Company has the right to exercise the option to require the subscriber to further subscribe for an additional 100,000,000 convertible redeemable preference shares at HK$0.40 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.

17. SHARE CAPITAL *(Continued)*

(b) Convertible redeemable preference shares *(Continued)*

(ii) For the convertible redeemable preference A shares issued on 29 December 2006, the Company has the right, exercisable immediately following the end of the conversion period (prior to any extension thereof) and up to the second anniversary of the date of the initial issue of the convertible redeemable preference A shares, to require the mandatory conversion of all or part of the outstanding convertible redeemable preference A shares into new Ordinary Shares, or to require the redemption of all or part of the outstanding convertible redeemable preference A shares at the amount equal to all amounts paid up or credited as paid up on the convertible redeemable preference A shares.

(iii) The convertible redeemable preference shares and convertible redeemable preference A shares are not transferable and do not carry the right to vote. Each 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 and convertible redeemable preference A shares have been presented as equity instrument in the balance sheet.

18. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rate applicable to profits in the countries concerned (year ended 30 June 2006: not provided).

Deferred income tax assets are recognised for tax loss carried forwards and other deductible temporary differences to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax loss of approximately RMB55,600,000 (30 June 2006: RMB57,047,000) to carry forward against future taxable income.

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

The movement in net deferred tax assets (liabilities) during the period/year is as follows:

	Accelerated tax depreciation		**Taxation losses**		**Total**	
	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000	**31 December 2006 (Unaudited) RMB'000**	30 June 2006 (Audited) RMB'000	**31 December 2006 (Unaudited) RMB'000**	30 June 2006 (Audited) RMB'000
At 1 July 2006/1 July 2005	**–**	–	**–**	–	**–**	–
Acquisition of a subsidiary	**(1,166)**	–	**1,166**	–	**–**	–
(Charged) credited to income statement	**(52)**	–	**52**	–	**–**	–
At 31 December 2006/ 30 June 2006	**(1,218)**	–	**1,218**	–	**–**	–

19. COMMITMENTS

(a) Capital commitments

	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Authorised and contracted for the capital expenditure in respect of the property under development	**6,243**	31,592

(b) Operating lease commitments

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

	For premises		**For equipment**	
	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000	**31 December 2006** (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Within one year	**1,709**	2,087	**18**	17
Between two and five years	**501**	1,268	**63**	72
	2,210	3,355	**81**	89

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

	For premises	
	31 December 2006 (Unaudited) RMB'000	30 June 2006 (Audited) RMB'000
Within one year	**982**	–
Between two and five years	**252**	–
	1,234	–

20. PLEDGE OF ASSETS

As at 31 December 2006, a subsidiary of the Company has pledged its certain investment properties with carrying value of approximately RMB14,067,000 (30 June 2006: Nil) to a bank to secure general banking facilities granted to this subsidiary.

21. ACQUISITION OF A SUBSIDIARY

The Group acquired the following subsidiary during the period:

Name	Principal activities	Date of acquisition	Percentage of equity interest acquired	Component of cost	Cost
					RMB'000
Weina Land Limited	Property investment	29/12/2006	100%	Issue of convertible redeemable preference A shares	43,742

On 29 December 2006, the Company acquired 100% equity interest of the above subsidiary together with its shareholder's loan of HK$42,823,000 (equivalent to approximately RMB42,572,000) at a consideration of HK$44,000,000 (equivalent to approximately RMB43,742,000) which was satisfied by the issue of 110,000,000 convertible redeemable preference A shares of par value of HK$0.10 at a subscription price of HK$0.40 each by the Company to the vendor.

The aggregate assets and liabilities arising from the acquisition are as follows:

	Fair value (Unaudited)
	RMB'000
Investment properties	**44,736**
Trade and other receivables	**10,235**
Cash and cash equivalents	**543**
Trade and other payables	**(446)**
Shareholder's loan	**(42,572)**
Short-term bank loan	**(9,941)**
Net assets acquired	**2,555**
Total purchase consideration	**1,170**
Excess of net fair value over consideration recognised in profit or loss	**1,385**
Cash and cash equivalents in subsidiary acquired	**543**
Cash inflow on acquisition	**543**

21. ACQUISITION OF A SUBSIDIARY *(Continued)*

The aggregate revenue and the profit of the acquired subsidiary are as follows:

	For the six months ended 31 December 2006 (Unaudited) RMB'000	Post acquisition (Unaudited) RMB'000
Total revenue	**1,026**	–
Profit	**175**	–

22. CONTINGENT LIABILITIES

(a) As at 31 December 2006, the Company has an outstanding corporate guarantees to a PRC bank to secure a term-loan granted to one of its subsidiaries and the loan facilities utilised by that subsidiary totaled approximately RMB89,750,000 (30 June 2006: approximately RMB98,000,000).

(b) At 31 December 2006, a PRC subsidiary of the Company, Techwayson Industrial Limited ("TWS"), has allegedly provided a corporate guarantee to a PRC bank (the "Bank") in respect of the outstanding loan indebtedness of RMB60,692,650, together with interest, owed by Shenzhen Ji Hai Industrial Company. A judgment was made by the relevant court on the litigation regarding the alleged corporate guarantee given by TWS in favour of the Bank. However, the Group was advised that the case would be defendable in view of certain irregularities of the alleged guarantee, TWS has made an appeal against the judgement and no provision for this alleged guarantee has been made.

23. RELATED PARTY TRANSACTIONS

Additional to the transactions and balances disclosed elsewhere in this interim financial report, the Group has incurred the following amount as remuneration for key management personnel which includes the amounts paid to the Company's directors:

	For the six months ended 31 December 2006 (Unaudited) RMB'000	For the six months ended 31 December 2005 (Unaudited) RMB'000
Salaries and other short-term employee benefits	**1,573**	976

24. APPROVAL

This unaudited interim financial report was approved by the board of directors on 28 March 2007.