

The Board of Directors of Comat Industrial Ltd. (the "Company") refers to the announcement of Full Year Financial Statements for the year ended 31 December 2004 ("FY2004 Results") made on 23 February 2005 ("Announcement No. 00159")

In response to the queries raised by the Singapore Exchange Securities Trading Limited ("SGX") in its letter dated 7 March 2005 in relation to the Announcement No 00159, the Board of Directors of the Company wishes to provide the following information:

(i) *In relation to the current assets position, the factors that resulted in the significant change in inventories, trade and bills receivables, advances to suppliers, amount due to related parties and pledged bank deposits.*

The increase in the volume of the Group's business in FY2004 contributed to:

- the Group maintaining a higher inventory level, in particular, raw materials, in FY2004. This was to meet its production schedule, and to shorten the lead time of production fulfillment and delivery of finished goods to customers;
- the increase in trade and bills receivables in FY2004. This was primarily attributable to the increase in the demand for our products in both the PRC and overseas markets as a result of our continuous marketing efforts; and
- the increase in advances to suppliers as a result of more purchases of raw materials during FY2004. This was in line with the higher inventory balance as at 31 December 2004 vis-à-vis that of 31 December 2003 for the reasons detailed above.

The amounts due from/to related parties (mainly non-trade in nature) registered a substantial decrease in view of the full settlement made in August 2004, as detailed in our prospectus dated 8 November 2004.

Pledged bank deposits amounted to RMB107.5 million as at 31 December 2003 relates to deposits pledged to banks as collaterals for certain bills granted to the Group. As those outstanding bills were fully settled during FY2004 (see also (ii) below), these pledged bank deposits were accordingly discharged.

(ii) *In relation to the current liabilities position, the factors that resulted in the significant change in other payables, advances from customers and amount due to related parties.*

Other payables amounted to approximately RMB140.8 million as at 31 December 2003 comprised mainly of bills payable of approximately RMB128.8 million and loans from staff and a third party of approximately RMB2.5 million. These bills and loans were fully settled in FY2004 as detailed in our prospectus dated 8 November 2004.

Advances from customers decreased as a result of the Group collecting lower deposits from the customers in view of competition and the need to procure the contracts.

The decrease in amounts due to related parties has been explained in (i) above.

- (iii) *The factors that resulted in the decline in the Group's operating cash flow position from a net cash inflow of RMB 25.9 million for proforma FY2003 to a net cash outflow of RMB20.5 million for proforma FY2004.***

The changes in net cash flows arising from operating activities were due mainly to the changes in inventories, trade and bills receivables and trade and other payables as detailed in (i) and (ii) above, and the payment of income tax amounting to approximately RMB4.5 million in FY2004 as FY2004 is the first financial year in which the PRC subsidiary is subjected to income tax.

BY ORDER OF THE BOARD

10 March 2005

Xu Youcai, Chief Executive Officer

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