

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

1. BACKGROUND OF THE COMPANY

The Company was incorporated in the Cayman Islands on 1 September 2000 as an exempted Company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 February 2001. On 29 January 2003, the Company withdrew the listing of its shares on GEM and on the same date, the Company's shares were listed on the Main Board of the Stock Exchange by way of introduction.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

a) Basis of preparation

The condensed financial statements have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2002, except as described below.

In the current period, the Group has adopted, for the first time, the following SSAPs issued by the HKSA which became effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34 (revised)	:	Employee benefits

The adoption of these standards has resulted in a change in the format of presentation of the condensed consolidated cash flow statement and consolidated statement of changes in equities, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

b) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

c) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Continued)

c) Employee benefits (Continued)

- (ii) Contributions to Mandatory Provident Funds for Hong Kong staff as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and contributions to pension schemes for PRC staff as stipulated by rules and regulations in Mainland China are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.
- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

3. TURNOVER

The Group's turnover represented revenue generated from fixed price contracts in respect of (i) sales of system control equipment and software products, and (ii) fees for system integration services and was further classified under the heading of industrial automation services and building automation services. The Group's revenue from fixed price contracts is stated after deducting Mainland China value-added tax and city and county maintenance tax.

	For the six months ended 31 December					
	Building	Industrial	Total	Building	Industrial	Total
	automation	automation		automation	automation	
	2002	2002	2002	2001	2001	2001
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income from fixed price contracts						
– Sales of system control equipment and software products	1,961	56,674	58,635	63,221	787	64,008
– Fees for system integration services	474	139	613	26,171	50	26,221
	2,435	56,813	59,248	89,392	837	90,229
Materials and equipment	(1,439)	(37,766)	(39,205)	(47,316)	(581)	(47,897)
	996	19,047	20,043	42,076	256	42,332

4. SEGMENT INFORMATION

The Group has only one significant single geographical segment which is Mainland China. Accordingly, the segment information for this sole geographical segment is equivalent to the consolidated figures.

	Building automation		Industrial automation		Consolidated	
	6 months ended		6 months ended		6 months ended	
	31 December		31 December		31 December	
	2002	2001	2002	2001	2002	2001
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
REVENUE						
Sales of system control equipment and software products	1,961	63,221	56,674	787	58,635	64,008
System Integration	474	26,171	139	50	613	26,221
	2,435	89,392	56,813	837	59,248	90,229
SEGMENT RESULT						
Sales of system control equipment and software products	519	15,023	16,420	195	16,939	15,218
System Integration	85	25,806	25	49	110	25,855
	604	40,829	16,445	244	17,049	41,073
Sundry income					61	3,279
Unallocated expenses					(7,335)	(7,928)
Profit from operations					9,775	36,424
Finance costs					(244)	–
Profit before taxation					9,531	36,424
Taxation					(1,025)	(818)
Profit after taxation					8,506	35,606
OTHER INFORMATION						
Amortisation of software development costs						
Sales of system control equipments and software products	–	–	2,473	–	2,473	–
System Integration	–	–	–	–	–	–
	–	–	2,473	–	2,473	–

4. SEGMENT INFORMATION (Continued)

	Building automation		Industrial automation		Consolidated	
	31 December	30 June	31 December	30 June	31 December	30 June
	2002	2002	2002	2002	2002	2002
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
BALANCE SHEET						
ASSETS						
Segment assets						
Sales of system control equipment and software products	5,530	301	79,592	58,565	85,122	58,866
System Integration	1,337	15,635	558	336	1,895	15,971
	6,867	15,936	80,150	58,901	87,017	74,837
Unallocated assets					162,969	138,691
Consolidated total assets					249,986	213,528
LIABILITIES						
Segment liabilities						
Sales of system control equipment and software products	208	64	42,771	8,892	42,979	8,956
System Integration	51	1,151	15	461	66	1,612
	259	1,215	42,786	9,353	43,045	10,568
Unallocated liabilities					26,206	30,731
Consolidated total liabilities					69,251	41,299

5. STAFF COSTS

	For the 6 months ended 31 December	
	2002	2001
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Wages and salaries	3,086	3,480
Social security costs	78	94
Pension costs – defined contribution plans	60	33
	3,224	3,607

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the 6 months ended 31 December	
	2002	2001
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Interest on bank overdrafts and loans repayable within five years	81	–
Interest on other loan wholly repayable after five years	163	–

7. TAXATION

Taxation consists of:

	For the 6 months ended 31 December	
	2002	2001
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Current taxation		
– Mainland China enterprise income tax	898	818
– Hong Kong profits tax	127	–
	1,025	818

a) Overseas income tax

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2020. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income taxes.

b) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16% (2001: Nil) on the estimated assessable profits arising in Hong Kong during the period.

c) Mainland China enterprise income tax

Taxation arising in Mainland China is calculated at the rates prevailing in Mainland China.

Techwayson Industrial Ltd., being a High-Tech enterprise and a wholly-owned subsidiary established and operated in a special economic zone in Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. However, it is exempted from Mainland China enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses. The tax exemption period expired on 31 December 2000 and thereafter, the company is subject to 50% tax reduction for the next three years until 31 December 2003, and followed by the other three years of tax reduction period until 31 December 2006 provided it remains as a High-Tech enterprise.

The Group did not have material unprovided deferred taxation at 31 December 2002 (30 June 2002: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 31 December 2002 is based on the consolidated profit attributable to shareholders of approximately RMB8,506,000 (2001: RMB35,606,000) and the weighted averaged number of 350,000,000 shares (2001: 350,000,000 shares) in issue during the period.

Diluted earnings per share was not presented because there was no dilutive potential ordinary shares in issue during the six months ended 31 December 2001 and 2002.

9. DIVIDEND

The directors do not recommend the payment of dividend for the six months ended 31 December 2002 (2001: Nil).

10. CAPITAL EXPENDITURE

	Equipment furniture	Software development cost	Property under development
	RMB'000	RMB'000	RMB'000
Net book value at 1 July 2002	2,990	23,691	11,886
Other additions	799	–	56,382
Depreciation/amortisation	(753)	(2,473)	–
Net book value at 31 December 2002	3,036	21,218	68,268

The property under development represented the payments to a construction company for the construction of the Group's new office building and the cost of the underlying land. The property is located in Mainland China on a medium term leasehold land. The Group has obtained the land use right certificate on 24 January 2003.

11. INVENTORIES

	31 December 2002 (Unaudited)	30 June 2002 (Audited)
	RMB'000	RMB'000
Raw materials	1,272	627
Work in progress	2,559	–
Finished goods	2,009	967
	5,840	1,594

No inventory was stated at net realisable value as at 31 December 2002 (30 June 2002: Nil).

12. TRADE RECEIVABLES

Ageing analysis of trade receivables is as follows:

	31 December 2002 (Unaudited)	30 June 2002 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Current to 60 days	50,116	33,655
61 - 90 days	5,509	168
91 - 360 days	30	15,729
	<hr/> 55,655 <hr/>	<hr/> 49,552 <hr/>

Customers are normally required to settle the debts within two weeks upon issue of invoices.

13. PLEDGED FIXED DEPOSIT

As at 31 December 2002, fixed deposit of approximately RMB4,304,000 (30 June 2002: Nil) had been pledged to banks to secure banking facilities granted to the Group during the period.

14. TRADE PAYABLES

Ageing analysis of trade payable is as follows.

	31 December 2002 (Unaudited)	30 June 2002 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Current to 60 days	16,168	7,295
61 - 90 days	5,690	1
91 - 360 days	3	45
	<hr/> 21,861 <hr/>	<hr/> 7,341 <hr/>

15. WARRANTY PROVISION

	RMB'000
As at 1 July 2002	84
Additional provision	17
Utilisation of provision	(9)
Unused amounts reversed during the period	(54)
	<hr/>
As at 31st December 2002	38 <hr/>

The warranty provision represented management's best estimate of the Group's liability under 6 month to 36 month warrants issued on system control equipment and software products and system integration services based on historical experience and management's estimate of level of future claims.

16. LOANS PAYABLE

	31 December 2002	30 June 2002
	(Unaudited)	(Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Other loans, unsecured		
– Interest bearing at LIBOR plus 0.5% p.a.	16,695	19,080
– Non-interest bearing	2,000	2,000
	18,695	21,080
Current portion of loans	(4,385)	(5,578)
	14,310	15,502

As at 31 December 2002, the Group's other loans were repayable as follows:

	Other loans	
	At 31	At 30
	December	June
	2002	2002
	(Unaudited)	(Audited)
	<u>RMB</u>	<u>RMB</u>
Within one year	4,385	5,578
In the second year	2,385	2,385
In the third to fifth year	7,155	7,155
After the fifth year	4,770	5,962
	18,695	21,080

17. SHARE CAPITAL

There were no movements in the share capital of the Company during the period under review.

18. COMMITMENTS**a) Capital commitments**

	At 31 December 2002 (Unaudited) RMB'000	At 30 June 2002 (Audited) RMB'000
Property under development		
Contracted but not provided for	59,500	115,500

b) Operating lease commitments

At the balance sheet date, the Group had commitments for future lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	At 31 December 2002 (Unaudited) RMB'000	At 30 June 2002 (Audited) RMB'000
Within 1 year	1,958	1,337
After 1 year but within 5 years	1,244	1,432
	3,202	2,769

19. CHARGE ON ASSETS

As at 31 December 2002, banking facilities of approximately RMB23,000,000 extended to a subsidiary were secured by corporate guarantee provided by the Company and time deposits amounting to 30% of the facilities utilised. At the same date, time deposits of RMB4,303,000 was pledged as a security for the facilities.

20. CONTINGENT LIABILITIES

As at 31 December 2002, the Company had provided corporate guarantees to banks in respect of banking facilities utilised by a subsidiary amounting to approximately RMB12,646,000.