

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

1. Background of the Company

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are investment holding and design, supply and integration of automation and control systems.

2. Basis of preparation and principal accounting policies

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 30th June, 2003, except as described below.

In the current period, the Group has adopted SSAP 12 (revised) "Income taxes" issued by the HKSA. The effect of such change to the results of the period is not material and details of this change in accounting policy will be provided in the 2004 Annual Report.

a) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

3. Turnover and other revenue

The Group's turnover represented revenue generated from two main categories: automation products and project and technical services and is stated after deducting PRC value-added tax and city and county maintenance tax.

To facilitate a meaningful presentation of the Company's business and revenues, the Company has changed its presentation for business segment reporting from "building automation" and "industrial automation" in the previous period to "automation products" and "project and technical services" for the six months ended 31st December, 2003. The change in basis was necessary because of the Group's effort to develop its own product TCS and distribution of automation products for other international brands and at the same time to develop project and technical support services. Arising from the change, which does not represent a change in accounting policy, the comparative figures for the previous period have been restated to conform with the current period's presentation of accounts.

	For the 6 months ended	
	31st December,	2002
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover		
Automation products	194,863	58,635
Project and technical services	2,420	613
Total turnover	197,283	59,248
Other revenue		
Reversal of warranty provision	-	17
Interest income	71	7
Sundry income	472	37
	543	61
Total revenue	197,826	59,309

4. Segment information

Business segments

	For the 6 months ended 31st December,					
	Automation products		Project and technical services		Consolidated	
	2003	2002	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	195,170	58,635	2,420	613	197,590	59,248
SEGMENT RESULT	25,477	16,939	526	110	26,003	17,049
Sundry Income					236	61
Unallocated expenses					(11,672)	(7,335)
Profit from operations					14,567	9,775
Finance costs					(144)	(244)
Profit before taxation					14,423	9,531
Income tax					(2,981)	(1,025)
Profit after taxation					11,442	8,506
OTHER INFORMATION						
Amortisation of software development costs	-	2,473	-	-	2,473	2,473

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.

	For the 6 months ended 31st December,	
	2003	2002
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from external customers		
PRC (including Hong Kong and Macau)	67,818	59,248
Malaysia	27,493	-
Korea	101,972	-
	197,283	59,248

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

5. Staff costs

	For the 6 months ended 31st December,	
	2003	2002
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Salaries and allowances	3,942	3,086
Contributions to defined contribution plans	263	138
	4,205	3,224

6. Profit before taxation

Profit before taxation is arrived at after charging:

	For the 6 months ended 31st December,	
	2003	2002
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Interest on bank borrowings and loans repayable within 5 years	1,261	81
Interest on other borrowings wholly repayable after 5 years	144	163

7. Income tax

Income tax consists of:

	For the 6 months ended 31st December,	
	2003	2002
	(Unaudited)	(Unaudited)
	<u>RMB'000</u>	<u>RMB'000</u>
Current taxation		
– PRC enterprise income tax	634	898
– Hong Kong profits tax	2,347	127
	2,981	1,025

7. Income tax (continued)

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 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period.

c) PRC enterprise income tax

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

Techwayson Industrial Limited, being a High-Tech enterprise and a wholly-owned subsidiary of the Company established and operated in a special economic zone of the PRC, is normally subject to the PRC enterprise income tax at a rate of 15%. However, it is 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 expired on 31st December, 2000 and thereafter, Techwayson Industrial Limited is subject to the PRC enterprise income tax at 7.5% for 3 years until 31st December, 2003, and another 3 years until 31st December, 2006 provided it continues to qualify as a High-Tech enterprise.

The Group did not have material unprovided deferred taxation at 31st December, 2003 (30th June, 2003: Nil).

8. Earnings per share

The calculation of basic earnings per share for the six months ended 31st December, 2003 is based on the consolidated profit attributable to shareholders of approximately RMB11,442,000 (2002: RMB8,506,000) and the weighted average number of 350,000,000 shares (2002: 350,000,000 shares) in issued during the period.

Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in issue during the six months ended 31st December, 2003 and 2002.

9. Dividend

The directors do not recommend the payment of a dividend for the six months ended 31st December, 2003 (2002: Nil).

10. Capital expenditure

	For the 6 months ended 31st December, 2003		
	Fixed assets (Unaudited)	Property under development (Unaudited)	Software development cost (Unaudited)
	RMB'000	RMB'000	RMB'000
Net book value at 1st July, 2003	2,550	68,291	18,746
Additions	2,597	–	–
Disposals	(553)	–	–
Depreciation/amortisation	(566)	–	(2,473)
	<hr/>	<hr/>	<hr/>
Net book value at 31st December, 2003	4,028	68,291	16,273

The property under development is located in the PRC and the Group has obtained the land use right certificate for the leasehold land with a lease period of 50 years in January 2003.

11. Inventories

	31st December, 2003 (Unaudited)	30th June, 2003 (Audited)
	RMB'000	RMB'000
Raw materials	4,092	78
Work in progress	2,293	2,198
Merchandises	6,224	9,703
	<hr/>	<hr/>
	12,609	11,979

12. Trade receivables

Trade receivables consisted of:

	31st December, 2003 (Unaudited)	30th June, 2003 (Audited)
	RMB'000	RMB'000
Trade receivables	117,882	65,950
Retention monies receivable *	1,333	1,380
	<hr/>	<hr/>
	119,215	67,330

* Retention monies are receivable upon expiry of the product warranty period ranging from one to three years after completion of the contract.

12. Trade receivables (continued)

Customers are normally required to settle the debts within one month upon issue of invoices, except for certain well established customers whose terms are extended to two to three months.

Ageing analysis of trade receivables is as follows:

	31st December, 2003 (Unaudited)	30th June, 2003 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
0 to 60 days	37,693	55,755
61 – 90 days	70,005	14
91 – 365 days	3,754	11,531
Over 365 days	7,763	30
	119,215	67,330

13. Pledged time deposits

As at 31st December, 2003, fixed deposit of approximately RMB7,027,000 (30th June, 2003: RMB6,834,000) had been pledged to banks under lien to secure banking facilities granted to the Group.

14. Trade payables and bills payable

Ageing analysis of trade payables and bills payable is as follows:

	31st December, 2003 (Unaudited)	30th June, 2003 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables:		
0 to 60 days	25,226	28,828
61 – 90 days	37,594	–
91 – 365 days	47,650	2,403
Over 365 days	981	4,632
	111,451	35,863
Bills payable:		
0 – 60 days	46,511	51,416
61 – 90 days	8,352	–
	54,863	51,416

15. Warranty provisions**(Unaudited)**

RMB'000

As at 1st July, and 31st December, 2003

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The warranty provision represents management's best estimate of the Group's liability during the 1 to 3 years warranty period granted on automation products and project and technical services based on historical experience and management's estimate of anticipated level of future claims.

16. Loans payable**31st December, 2003**

30th June, 2003

(Unaudited)**(Audited)****RMB'000****RMB'000**

Other loans, unsecured

16,782

16,696

The above loans are not wholly repayable within five years and the maturity is as follows:

31st December, 2003

30th June, 2003

(Unaudited)**(Audited)****RMB'000****RMB'000**

On demand or within one year

4,795

3,578

More than one year, but not exceeding two years

2,398

2,385

More than two years, but not exceeding five years

7,192

7,155

More than five years

2,397

3,578

16,782

16,696

Less: Amounts due within one year shown under current liabilities

(4,795)

(3,578)

11,987

13,118

The loans bear interest at LIBOR plus 0.5% p.a. and are repayable in 16 equal instalments over a period of 8 years.

17. Short term loans payable**31st December, 2003**

30th June, 2003

(Unaudited)**(Audited)****RMB'000****RMB'000**

Bank loan, secured

30,000

30,000

Other loan, unsecured

-

2,000

30,000

32,000

18. Share capital

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

19. Commitments**a) Capital commitments**

	31st December, 2003 (Unaudited)	30th June, 2003 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Authorised and contracted for		
– Investment in a subsidiary	–	10,000
– Property under development	59,572	59,500
	<hr/> 59,572	<hr/> 59,500

b) Operating lease commitments

As at 31st December, 2003, the Group had commitments for future lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	31st December, 2003 (Unaudited)	30th June, 2003 (Audited)
	<u>RMB'000</u>	<u>RMB'000</u>
Within one year	1,806	2,795
Beyond one year but within five years	1,348	2,897
	<hr/> 3,154	<hr/> 5,692

20. Contingent liabilities

The Company has executed corporate guarantees to banks for securing banking facilities granted to its subsidiaries. As at 31st December, 2003, the amount utilised by these subsidiaries amounting to approximately RMB84,863,000 (30th June, 2003: approximately RMB81,416,000) .