

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2002

I. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 August 2001 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 6 June 2002. This was accomplished by the Company acquiring the entire issued share capital of Isuperior Technology Limited (“Isuperior”), the then holding company of the other subsidiaries of the Group, in consideration for the allotment and issue of the Company’s shares, credited as fully paid, to the former shareholders of Isuperior. Further details of the Group Reorganisation are set out in the Company’s prospectus dated 18 June 2002 (the “Prospectus”). The Company’s shares were listed on the Stock Exchange on 28 June 2002.

These unaudited condensed consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice (“SSAP”) 2.127 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants as a result of the Group Reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented, rather than from the date of acquisition of the subsidiaries except for 上海騰達智能系統有限公司 (“Shanghai Trend”) acquired by the Group on 24 May 2001. Accordingly, the unaudited condensed consolidated results of the Group for the Period and the six months ended 30 June 2001 include the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation/establishment/acquisition, where this is a shorter period.

These unaudited condensed consolidated financial statements have been prepared in accordance with SSAP 2.125 “Interim financial reporting”.

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The accounting policies and basis of presentation adopted in these unaudited condensed consolidated financial statements are consistent with those used in the accountants' report set out in the Prospectus, except for the adoption of the following revised and new SSAPs which are effective for the first time for the Period:

SSAP 2.101 (Revised):	Presentation of financial statements
SSAP 2.111 (Revised):	Foreign currency translation
SSAP 2.115 (Revised):	Cash flow statements
SSAP 2.125 (Revised):	Interim financial reporting
SSAP 2.133:	Discontinuing operations
SSAP 2.134:	Employee benefits

SSAP 2.101 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the Period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 2.111 (Revised) prescribes the basis for translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on the condensed consolidated financial statements.

SSAP 2.115 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the Period into operating, investing and financing activities. The condensed consolidated cash flow statement for the Period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 2.125 (Revised) prescribes the presentation and disclosures following changes in SSAP 2.101 (Revised) and SSAP 2.115 (Revised). The condensed consolidated financial statements for the Period and comparative figures have been presented in accordance with these revised SSAPs.

SSAP 2.133 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no major impact on the condensed consolidated financial statements.

SSAP 2.134 prescribes the accounting treatment and disclosure for employee benefits. This SSAP has had no major impact on the condensed consolidated financial statements.

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2. TURNOVER

Turnover represents an appropriate proportion of contract revenue derived from the provision of advisory and management services, and the distribution of hardware and software for intelligent building projects; and the net invoiced value of goods sold, after allowance for returns and trade discounts, and after elimination of all significant intra-Group transactions.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) Business segments

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (i) the intelligent building projects (the "IB Projects") segment engages in the provision of advisory and management services, and the distribution of hardware and software for intelligent building projects; and
- (ii) the trading of intelligent building equipment, software and accessories segment engages in the trading of equipment, software and accessories.

During the Period, over 90% of the Group's revenue and results were derived from the IB Projects segment.

(b) Geographical segments

During the Period, all of the Group's revenue and results were derived from customers based in the People's Republic of China (the "PRC"), excluding Hong Kong.

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4. PROFIT FROM OPERATING ACTIVITIES BEFORE TAX

Profit from operating activities before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	4,247	3,888
Cost of services rendered	65,367	46,024
Depreciation	918	681
Amortisation of goodwill	26	5
Amortisation of deferred development expenditure	1,274	1,274
Interest income	(80)	(73)

5. TAX

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong	—	—
Macau	5,392	3,924
Elsewhere in the PRC	3,323	1,436
Tax charge for the period	8,715	5,360

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (2001: Nil). Taxes on profits assessable elsewhere had been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the Period (2001: Nil).

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6. EARNINGS PER SHARE

The calculation of basic earnings per share for the Period is based on the net profit from ordinary activities attributable to shareholders for the Period of HK\$22,028,000 (2001: HK\$15,549,000) and the weighted average number of 305,232,000 (2001: 303,000,000) ordinary shares in issue during the Period.

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the six months ended 30 June 2001 and on the assumption that 303,000,000 shares were deemed to have been issued, comprising the 20,000,000 shares in issue as at the date of the Prospectus and the 283,000,000 shares to be issued pursuant to the capitalisation issue. The weighted average number of shares used to calculate the basic earnings per share for the Period includes the additional 101,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 28 June 2002.

There were no potential dilutive ordinary shares in existence for the Period and the six months ended 30 June 2001, and accordingly, no diluted earnings per share had been presented for either of the two periods.

7. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Retention monies held by customers for contract works included in prepayments, deposits and other receivables amounted to approximately HK\$3,801,000 as at 30 June 2002 (31 December 2001: HK\$3,487,000).

8. INTELLIGENT BUILDING CONTRACTS

Contract costs incurred plus recognised profits amounted to approximately HK\$94,305,000 as at 30 June 2002 (31 December 2001: HK\$202,108,000).

Amounts due from contract customers amounted to approximately HK\$21,804,000 as at 30 June 2002 (31 December 2001: HK\$29,877,000).

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9. TRADE RECEIVABLES

The Group normally allows credit terms to its established customers ranging from 30 to 90 days. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale or the contract revenue, is as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
1 – 30 days	20,264	13,430
31 – 60 days	2,049	4,396
	22,313	17,826

10. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of the goods purchased, is as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
1 – 30 days	9,725	8,536
31 – 60 days	–	920
	9,725	9,456

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11. OTHER PAYABLES AND ACCRUALS

Amounts due to contract customers included in other payables and accruals amounted to approximately HK\$692,000 as at 30 June 2002 (31 December 2001: HK\$649,000).

Advances received from customers for contract works included in other payables and accruals amounted to approximately HK\$336,000 as at 30 June 2002 (31 December 2001: HK\$1,408,000).

12. SHARE CAPITAL

The following is a summary of the movements in the authorised and issued share capital of the Company:

	Number of authorised shares '000	Number of issued shares '000	Nominal value of shares issued HK\$'000
Shares allotted and issued nil paid on incorporation	1,000	1,000	—
Sub-division of each of the Company's shares into ten shares	10,000	10,000	—
Increase in authorised share capital	1,990,000	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Isuperior pursuant to the Group Reorganisation	—	10,000	100
Application of share premium to pay up nil paid shares issued on incorporation	—	—	100
Pro forma share capital as at 31 December 2001 (Audited)	2,000,000	20,000	200
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares upon public listing	—	283,000	2,830
New issue on public listing	—	101,000	1,010
Share capital as at 30 June 2002 (Unaudited)	2,000,000	404,000	4,040

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13. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings ranges from 3 months to 2 years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Within one year	968	663
In the second to fifth years, inclusive	120	464
	1,088	1,127

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14. RELATED PARTY TRANSACTIONS

(i) Sub-contracting fees paid to Shanghai Trend

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sub-contracting fees paid to Shanghai Trend	–	2,346

Mr. Xu Peixin, a Director, is a shareholder of Shanghai Trend.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of business of the Group. The terms for the sub-contracting fees were determined in accordance with the relevant agreements entered into between the Group and Shanghai Trend, with terms similar to those with other independent sub-contractors. The Directors have confirmed that the above transactions continued but ceased to be related party transactions of the Group since Shanghai Trend was wholly acquired by the Group on 24 May 2001.

(ii) Acquisition of Shanghai Trend

On 20 January 2001, a conditional agreement was entered into between the Group and the then shareholders of Shanghai Trend, under which the Group agreed to acquire 100% equity interest in Shanghai Trend for a cash consideration of approximately HK\$1,560,000. Mr. Xu Peixin, a Director, was interested in 32% of Shanghai Trend before 24 May 2001. The consideration was determined by reference to the unaudited net asset value of Shanghai Trend. Conditions of the agreement had been completely fulfilled and Shanghai Trend was wholly acquired by the Group on 24 May 2001.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the Period's presentation.