

NOTES TO THE THIRD QUARTER FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 MARCH 2003

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

The financial statements have been prepared in accordance with Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The 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 interim financial statements for the six months ended 31 December 2002.

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 nine months ended 31 March					
	Building automation 2003 (Unaudited) RMB'000	Industrial automation 2003 (Unaudited) RMB'000	Total 2003 (Unaudited) RMB'000	Building automation 2002 (Unaudited) RMB'000	Industrial automation 2002 (Unaudited) RMB'000	Total 2002 (Unaudited) RMB'000
Income from fixed price contracts						
- Sales of system control equipment and software products	1,963	104,141	106,104	63,221	17,266	80,487
- Fees for system integration services	474	139	613	28,329	50	28,379
	2,437	104,280	106,717	91,550	17,316	108,866
Materials and equipment	(1,788)	(66,823)	(68,611)	(47,640)	(13,505)	(61,145)
	649	37,457	38,106	43,910	3,811	47,721

4. Taxation

Taxation consists of:

	For the nine months ended 31 March	
	2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Current taxation		
– Mainland China enterprise income tax	1,779	936
– Hong Kong profits tax	284	–
	2,063	936

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% (2002: 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 as at 31 March 2003 (2002: Nil).

5. Earnings Per Share

The calculation of basic earnings per share for the nine months ended 31 March 2003 is based on the consolidated profit attributable to shareholders of approximately RMB16,611,000 (2002: RMB37,452,000) and the weighted averaged number of 350,000,000 shares (2002: 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 nine months ended 31 March 2002 and 2003.

6. Reserves

	Share premium	Statutory reserve funds	Capital reserve	Retained profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2002	7,160	5,309	13,841	108,819	135,129
Profit attributable to shareholders	-	-	-	16,611	16,611
As at 31 March 2003	7,160	5,309	13,841	125,430	151,740
As at 30 June 2001	7,160	5,309	13,841	63,789	90,099
Profit attributable to shareholders	-	-	-	37,452	37,452
As at 31 March 2002	7,160	5,309	13,841	101,241	127,551

DIVIDEND

The Directors do not recommend the payment of dividend for the nine months ended 31 March 2003 (2002: NIL).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 31 March 2003, the Group has recorded a total turnover of approximately RMB106,717,000, representing a marginal decrease of 2% when compared with the same period last year. Net profit recorded for the period under review is approximately RMB16,611,000, representing a decline of 55.6% when compared with the corresponding period last year.

From the beginning of the financial year, the Group has shifted more of its marketing effort to distribution and sales of automation products. Distribution and sales of products has a lower profit margin in average. However, it provides the Group with a steady income despite a lower profit margin.

Results from the distribution of Rockwell's products are encouraging. The Group believes that distribution business is a win-win situation to both the Group and its principals. Other brands that the Group is representing include Omron, Invensys, Greystone and Ortronics. The Group will continue to seek for more cooperation opportunities with renowned companies and to represent more quality products to satisfy local demand.

OEM business is another new source of income to the Group other than distribution of automation products. In order to identify the segment which will give the highest potential, the Group has conducted a field research in Southern China on the market of machine manufacturing. At present, the Group is analyzing the findings and expects to finish the formulation of strategies to further develop this market by the end of the financial year.

The research & development strength and TCS (Tailored Control System) brand remain the competitive edge of the Group in the market. More effort will be dedicated to develop the applications of TCS products in machine manufacturing and building automation. The Group believes that we can leverage on the existing sales and distribution channels to promote the TCS brand and thus raise the profit margin by large. The Group will also develop software embedded chips which are more user-friendly and stable in operation. These new products are now either in design stage or under testing. The Group expects to introduce them to both local and overseas market in the next financial year.