



Techwayson Holdings Limited

德維森控股有限公司

(Incorporated in the Cayman Islands with Limited Liability)



Third Quarterly Report
2002/2003

The Board of Directors (the “Directors”) of Techwayson Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months ended 31 March 2003, together with the comparative figures for the corresponding period in the preceding year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	For the nine months ended 31 March	
		2003 RMB'000	2002 RMB'000
Turnover	3	106,717	108,866
Materials and equipment	3	(68,611)	(61,145)
		38,106	47,721
Other revenue		24	3,585
Staff costs		(4,940)	(5,503)
Amortisation of software development cost		(3,709)	–
Depreciation of equipment and furniture		(591)	(817)
Provision for warranty costs		(17)	(1,259)
Other operating expenses		(9,750)	(5,339)
Profit from operations		19,123	38,388
Finance cost		(449)	–
Profit before taxation		18,674	38,388
Taxation	4	(2,063)	(936)
Profit attributable to shareholders		16,611	37,452
Earnings per share	5		
– Basic		RMB4.75 cents	RMB10.70 cents

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	2002
	(Unaudited)	(Unaudited)
	RMB'000	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.

The Group has adopted a flexible marketing strategy which will adapt to the needs of the changing market. Although the market is highly competitive, the Group feels it will be able to maintain its place in the market.

Finance

For the nine months ended 31 March 2003, the Group has recorded a turnover of approximately RMB106,717,000 representing a 2% decrease as compared to the same period last year. The Group's turnover slightly decreased due to keen competition of the market and a general worsening of the business climate throughout the region, particularly in the Mainland China, in the wake of the crisis over Severe Acute Respiratory Syndrome ("SARS") and the war in Iraq.

For the nine months ended 31 March 2003, profit attributable to shareholders reduced by approximately RMB20,841,000 to approximately RMB16,611,000, representing a 55.6% decrease as compared with the corresponding period in 2002. Such decrease was primarily due to lower profit margin and the expenses related to transferal of the shares listed from GEM to main board during the period, amounting to approximately RMB4,000,000.

Earnings per share for the nine months ended 31 March 2003 declined to RMB4.75 cents from RMB10.70 cents for the corresponding period in 2002.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, the interests of the Directors in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of director	Nature of interests	Number of shares held
Dr. SZE Kwan	Corporate	161,700,000*

* These shares are held through Otto Link Technology Limited, which are beneficially owned as to 80% by Dr. Sze Kwan and 20% by Mr. Tung Fai, directors of the Company.

Saved as disclosed above, as at 31 March 2003, none of the Directors or their associates had any interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, save for the interests of the Directors disclosed above, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following shareholders (other than the Directors) were directly or indirectly interested in 10% or more of the Company's issued share capital:

Name	Number of shares hold	Approximate Shareholding
Otto Link Technology Limited ¹	161,700,000	46.20%
Goldwiz Technology Limited	61,824,000	17.66%
Goldwiz Holdings Limited ²	61,824,000	17.66%
Mr. Siu Ting	38,976,000	11.14%

Notes:

1. Otto Link Technology Limited is beneficially owned as to 80% by Dr. Sze Kwan who is the Chairman of the Company and 20% by Mr. Tung Fai who is a director of the Company.

In order to comply with the minimum public float requirement as stated in rule 8.08(1) of the Listing Rules, Otto Link Technology Limited, the controlling shareholder, disposed of 6,300,000 Shares (equivalent to approximately 1.80% of the existing issued share capital of the Company) to 7 individual investors who are independent third parties, and not connected with any director, chief executive or substantial shareholders of the Company, any of its subsidiaries or their respective associates ("Transaction"). The Transaction was completed on 24 December 2002.

2. Goldwiz Holdings Limited ("Goldwiz Holdings") is the 100% holding company of Goldwiz Technology Limited ("Goldwiz") and is therefore deemed to be interested in the 61,824,000 Shares held by Goldwiz.

Save as disclosed above, the Directors are not aware of any person having a direct or indirect interest of 10% or more in the issued share capital of the Company as at 31 March 2003.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 20 January 2003, the share option scheme adopted by the Company on 22 January 2001 (the "Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted. The purpose of the New Scheme is to provide incentive and to recognise the contribution of the eligible participants, including directors and employees of the Group, to the growth of the Group and to provide more flexibility to the Group in terms of remunerating the participants.

During the nine months ended 31 March 2003, no option was granted, exercised or cancelled by the Company under the Scheme.

AUDIT COMMITTEE

The Company established an audit committee on 27 November 2000 with written terms of reference. The duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors. The third quarterly results for the nine months ended 31 March 2003 have been reviewed by the audit committee, who were of the opinion that the preparation of such results complied with applicable accounting standards and legal requirements and that adequate disclosures had been made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the nine months ended 31 March 2003.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange at any time during the nine months ended 31 March 2003.

By Order of the Board
SZE Kwan
 Chairman

Hong Kong, 26 June 2003