Techwayson Holdings Limited

德維森控股有限公司

(Incorporated in the Cayman Islands with Limited Liability)

LISTING BY INTRODUCTION

Sponsor

JS CRESVALE

Co-Sponsor

CAF Securities

wholly owned subsidiary of Agricultural Bank of China

IMPORTANT

If you are in any doubt about this document, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

INTRODUCTION OF THE ENTIRE ISSUED SHARE CAPITAL OF

TECHWAYSON HOLDINGS LIMITED
德維森控股有限公司*

(incorporated in the Cayman Islands with limited liability)

ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Stock Code: 2330

Sponsor

JS CRESVALE

Co-sponsor

CAF Securities
wholly owned subsidiary of Agricultural Bank of China

This document is published in connection with the listing by way of introduction on the Stock Exchange of the entire issued share capital of Techwayson Holdings Limited and contains particulars given in compliance with the Securities (Stock Exchange Listing) Rules 1989 (as amended) of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to Techwayson Holdings Limited.

This document does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of Techwayson Holdings Limited, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to the public. No new shares will be issued in connection with, or pursuant to, the publication of this document.

Your attention is drawn to the section headed "Risk factors" in this document.

The shares of HK$0.10 each in the capital of Techwayson Holdings Limited ("Shares") have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS") with effect from 8 February 2001, the first date on which the Shares were listed on The Growth Enterprise Market of the Stock Exchange. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made to enable the Shares to continue to be accepted as eligible securities of CCASS.

* *For identification only*

30 December 2002

EXPECTED TIMETABLE

Despatch of circular, notice of Extraordinary General Meeting and forms of proxy to the Shareholders for the Extraordinary General Meeting	Friday, 27 December 2002
Despatch of listing document in relation to the Introduction	Monday, 30 December 2002
Latest time for lodgement of forms of proxy for the Extraordinary General Meeting	11:00 a.m. on Saturday, 18 January 2003
Extraordinary General Meeting	11:00 a.m. on Monday, 20 January 2003
Notice of the Proposed Withdrawal and announcement of results of the Extraordinary General Meeting to be published in the South China Morning Post, the Hong Kong Economic Times and on GEM website	Tuesday, 21 January 2003
Last day of dealings in the Shares on GEM	Tuesday, 28 January 2003
Withdrawal of listing from GEM effective from	9:30 a.m. on Wednesday, 29 January 2003
First day of dealings in the Shares on the Main Board	9:30 a.m. on Wednesday, 29 January 2003

Notes:

(1) All time stated herein refer to Hong Kong local time.

(2) Investors will be duly informed by public announcement of any changes to the above expected timetable.

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You should rely only on the information contained in this document with regard to the Company.

The Company has not authorised anyone to provide you with information that is different from what is contained in this document.

Any information or representation not made in this document must not be relied on by you as having been authorised by the Company, the Sponsors, any of their respective directors or any other person involved in the Introduction.

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This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

BUSINESS

The Group is one of the leading PC-based open platform automation and control solution hardware and software providers in the PRC and is principally engaged in the research, design, integration and supply of automation and control systems, components, software applications, products and services for industries and buildings. The Group generates most of its sales revenue from fixed price contracts of system integration services and system control equipment and software products.

In 1999, the Group completed its development of TCS, a set of PC-based automation and control systems which adopts non-proprietary open operating platforms such as Windows NT and similar technologies.

The Group has also developed software applications and firmware which can support the operations of the CPUs deployed in the controllers. These features make TCS an automation and control system which can be tailor-made in accordance with the specific requirements of customers from different industries. The Group has also developed APC application software which by incorporating in TCS can achieve process control optimisation, quality control, improvement in process efficiency, safety and cost reductions of the existing system.

The Group's industrial automation and control system can be applied in a broad spectrum of industries including the production processes of iron and steel, oil drilling and exploration, petrochemical, cement manufacturing as well as in the public utilities sector such as power generation. Apart from developing systems for automation in process industries, the Group has also developed automation and control systems targeting factory automation sector such as locomotives for rail transportation and other specialised machinery such as injection moulding machines. The Directors believe that with sales of these specialised machinery on a contract term basis, the Group is able to enjoy more stable revenue streams than those generated from project-by-project basis.

Building upon such an open control system and the Group's leading industry position, the Group has developed tailor-made building automation and control system targeting residential communities and buildings in the PRC. The Group also intends to gain a headway in the emerging sector of railway transportation by providing environmental and machinery control systems (EMCS) for railway station automation. Capitalising on its product technology and in-depth industry expertise, the Directors believe that the Group has the capability to become an international total solution provider for industrial and building automation and control systems.

TRADING RECORD

The following is a summary of the audited consolidated results of the Group for the three years ended 30 June 2002 ("Trading Record Period") extracted from the accountants' report, the text of which is set out in appendix I to this document. The audited consolidated results of the Group were prepared as if the Group's current existing structure had been in place throughout the Trading Record Period. Furthermore, the unaudited consolidated results of the Group for the three months ended 30 September 2002 are extracted from the First Quarterly Report. The Main Board's listed issuers are not required to publish quarterly reports. However, it is the Directors' current intention to continue to issue quarterly results after the Introduction.

For further details on how the audited trading record of the Group was prepared, please refer to "Financial Information – Trading Record" in this document.

	For the three months ended 30 September	**For the year ended 30 June**		
	2002	**2002**	**2001**	**2000**
	(unaudited)	(audited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	8,270	143,269	130,961	27,778
Materials and equipment	(349)	(75,517)	(45,948)	(11,697)
	7,921	67,752	85,013	16,081
Other revenue	6	7,542	3,715	26
Staff costs	(1,352)	(7,519)	(7,224)	(2,299)
Depreciation and amortisation	(209)	(5,896)	(1,104)	(742)
Impairment loss on software development costs	–	(6,000)	–	–
Provision for product warranty costs	(8)	(84)	(5,504)	(1,174)
Other operating expenses	(2,649)	(7,405)	(12,912)	(2,430)
Profit from operations	3,709	48,390	61,984	9,462
Finance cost	(209)	(511)	–	–
Profit before taxation	3,500	47,879	61,984	9,462
Taxation	(389)	(2,849)	(1,547)	–
Profit attributable to shareholders	3,111	45,030	60,437	9,462
Earnings per Share – Basic *(Note 1)*	RMB0.89 cents	RMB12.87 cents	RMB19.63 cents	RMB3.38 cents

Notes:

1. The calculation of basic earnings per Share for each of the three years ended 30 June 2002 and the three months ended 30 September 2002 is based on the consolidated profit attributable to shareholders of the relevant years and period and on the respective weighted average number of approximately 280,000,000, 307,808,000, 350,000,000 and 350,000,000 Shares in issue during the years and period.

FUTURE PLANS AND PROSPECTS

The accession of the PRC into the WTO, the Go-West Campaign and Beijing's winning the hosting right of the 2008 Olympic Games will all drive the PRC industrial enterprises to improve the efficiency and quality of their manufacturing process or face severe competition, both internally or from overseas.

For industrial automation, the Group intends to further strengthen its efforts in product customisation for different specialised industries such as power generation and steel refining by standardising its automation and control systems targeting the specific needs of each industry. Apart from the traditional process industries, the Group intends to continue to develop the factory automation market by providing automation and control systems for specialised machinery such as injection moulding machines, chiller machines, air-compressors and tube bending machines.

For building automation, the Group intends to expand its system integration capability by cooperating with system integrators in the PRC. In addition, the Group intends to take advantage of the development opportunities of automation and control systems in railways in the PRC by providing environmental and machinery control systems (EMCS) for railway station automation. Thirdly, the Group intends to tap the home automation market targeting the upmarket residential houses in North America, the PRC as well as in Hong Kong.

RISK FACTORS

The Directors consider that the operations and results of the Group are subject to certain risks which can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; and (iv) risk relating to the Introduction:

Risks relating to the Group

- Reliance on major customers
- Reliance on major suppliers
- Absence of production facilities
- Reliance on key personnel
- Sustainability of profit
- Limited profit history
- Non-inclusion of profit forecast
- Fixed-price contracts
- Dependence on large system contracts
- Dependence on the performance of certain industries in the PRC
- Potential tax exposure
- Taxation
- Funding requirements of the Group
- Set up a research and development centre
- License for development and construction and title to land

Risks relating to the industry

- Competition
- Rapid technological changes
- Intellectual property rights
- Potential product liability

Risks relating to the PRC

– Political and economic environment

– Foreign exchange control and currency conversion risks

Risk relating to the Introduction

– Statistics from unofficial publications

KEY FINANCIAL INFORMATION

Earnings per Share for the year ended 30 June 2002 *(Note 1)* .... RMB12.87 cents

Adjusted net tangible asset value per Share *(Note 2)* .... RMB42.87 cents

Board lot size .... 4,000 Shares

Notes:

1. The calculation of the basic earnings per Share for the year ended 30 June 2002 is based on the consolidated profit attributable to shareholders of approximately RMB45,030,000 during the year and the weighted average number of 350,000,000 ordinary Shares in issue during the year.

2. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in "Financial Information – Adjusted Net Tangible Assets" in this document and on the basis of 350,000,000 Shares in issue upon Introduction, but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the New Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares.

USE OF PROCEEDS FROM THE PLACEMENT OF SHARES IN FEBRUARY 2001

The Company raised approximately HK$41.75 million of net proceeds through the placement of 70 million Shares at HK$0.78 per Share in February 2001. Set out below is the intended use of proceeds as stated in the annual reports of the Company for the years ended 30 June 2001 and 2002:

- approximately HK$19 million for the research and development of new control system technologies up to 31 December 2001;

- approximately HK$7 million for cooperation and investment projects with large-scale customers in the PRC up to 30 June 2001;

- approximately HK$7 million for marketing and promotional activities up to 30 June 2001;

- approximately HK$6 million for the geographical expansion of the Group up to 31 December 2001;

- approximately HK$2 million for establishing a training centre for the Group's customers up to 30 June 2001; and

- approximately HK$1 million for developing the e-automation.com.cn website up to 30 June 2001.

The Directors confirmed that the use of proceeds are in line with the overall business objectives and implementation plans as stated in the Prospectus. The Group's actual use of proceeds for the period since its listing in February 2001 and up to 30 June 2002 was as follows:

- approximately HK$19 million for the research and development of new control system technologies;

- approximately HK$15 million for cooperation and investment projects with large-scale customers in the PRC;

- approximately HK$2 million for marketing and promotional activities;

- approximately HK$1 million for the geographical expansion of the Group; and

- approximately HK$0.4 million for establishing a training centre for the Group's customers.

The Group will use the remaining unutilised net proceeds of approximately HK$3.75 million in accordance with its plans as set out in the Prospectus. The unutilised net proceed is caused by reallocation of sources of fund between the proceeds and the internal sources of funding in financing the Group's business plan. Due to the larger than expected scale of cooperation and investment projects in the PRC, the Group has invested HK$7 million more than planned for cooperation and investment projects in industrial automation system, especially in copper clad laminate industry. The investment projects would enable the Group to achieve its stated strategy of improving its technology in the design, development and quality of its products. The Directors expect that there will be positive contributions to the future earnings of the Group for its financial year 2003.

In this document, unless the context otherwise requires, the following words and expressions have the following meanings:

"associate"	has the meaning ascribed thereto in the Listing Rules
"BVI"	British Virgin Islands
"CAF Securities"	CAF Securities Company Limited, an investment adviser and securities dealer registered under the Securities Ordinance
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Law"	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Techwayson Holdings Limited, a company incorporated in the Cayman Islands on 1 September 2000 with limited liability
"connected persons"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company
"Dr. Sze"	Dr. Sze Kwan, who, being chairman of the Company, beneficially owns 80 per cent. of Otto Link which is one of the substantial shareholders of the Company for the purpose of the Listing Rules
"Extraordinary General Meeting"	an extraordinary general meeting of the Company to be held at Room 1810, 18/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong on Monday, 20 January 2003 at 11:00 am
"First Quarterly Report"	the quarterly report of the Group for the three months ended 30 September 2002 dated 14 November 2002
"GDP"	gross domestic product
"GEM"	the Growth Enterprise Market operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Goldwiz"	Goldwiz Technology Limited, a limited liability company incorporated in the BVI on 31 March 2000 and 100 per cent. beneficially owned by Goldwiz Holdings. For the purpose of the Listing Rules, it is one of the substantial shareholders of the Company

"Goldwiz Holdings"	Goldwiz Holdings Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the Main Board. By virtue of its 100 per cent. ownership of Goldwiz which beneficially owns approximately 17.66 per cent. shareholding of the Company, it is deemed as one of the substantial shareholders of the Company for the purpose of the Listing Rules
"Group"	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company's subsidiaries at that time or some or any of them
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Intellution"	Intellution Corporation Limited, an independent third party and a major international supplier of control software applications for industrial automation systems
"Introduction"	the proposed listing of the Shares on the Main Board by way of an introduction pursuant to the Listing Rules
"JS Cresvale"	JS Cresvale Securities International Limited, an investment adviser and dealer registered under the Securities Ordinance
"Latest Practicable Date"	24 December 2002, being the latest practicable date for ascertaining certain information in this document prior to its publication
"Listing Date"	the date on which the Shares commence trading on the Main Board
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM
"Mr. K. F. Siu"	Mr. Siu Kwok Fai, who, apart from his equity interest in the Company, is independent from the Company and not an associate of any of the chief executive, directors and substantial shareholders of the Company

"Mr. T. Siu"	Mr. Siu Ting, who, for the purpose of the Listing Rules, is a substantial shareholder of the Company.
"Mr. Tung"	Mr. Tung Fai, who, being a director of the Company, beneficially owns 20 per cent. of Otto Link which is one of the substantial shareholders of the Company for the purpose of the Listing Rules
"New Share Option Scheme"	the share option scheme proposed to be adopted by the Company at the Extraordinary General Meeting, and the principal terms of which are summarised under the section headed "Summary of Terms of New Share Option Scheme" in appendix IV to this document
"Otto Link"	Otto Link Technology Limited, a company incorporated in the BVI on 28 January 2000 and beneficially owned as to 80 per cent. by Dr. Sze who is the chairman of the Company and as to the remaining 20 per cent. by Mr. Tung who is a director of the Company. For the purpose of the Listing Rules, it is one of the substantial shareholders of the Company
"PRC" or "China"	the People's Republic of China which, for the purposes of this document and for geographical reference only (unless otherwise stated), does not include Hong Kong, Macau and Taiwan
"PRC government"	the central government of the PRC, including provincial, municipal, county and other regional or local government entities and political sub-division thereof
"Prospectus"	the prospectus of the Company dated 31 January 2001 in connection with the listing of the Shares on GEM by way of placing
"Reorganisation"	the reorganisation of the Group as described in the paragraph headed "Corporate Reorganisation" under the section headed "Further information about the Company" in appendix IV to the Prospectus
"SDI Ordinance"	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"Securities Ordinance"	Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
"SFC"	Securities and Futures Commission of Hong Kong
"Share(s)"	share(s) of $0.10 each in the share capital of the Company

"Shareholder(s)"	registered holder(s) of Shares
"Share Option Scheme"	the share option scheme approved and adopted by the Company on 22 January 2001, the principal terms of which are summarised under the section headed "Share Option Scheme" in appendix IV to this document
"Shenzhen Hailai"	Shenzhen Hailai Information Software Development Ltd. (深圳海來信息軟件技術開發有限公司) is a sino-foreign equity joint venture established in the PRC on 14 April 2000. It is a customer of the Group and is principally engaged in the research, development and production of industrial automation and control system
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Streetwise"	Streetwise Investments Limited, a limited liability company incorporated in the BVI on 20 April 2000
"Techwayson Industrial"	Techwayson Industrial Ltd. (德維森實業(深圳)有限公司), a wholly-foreign owned enterprise established on 18 September 1997 with limited liability in the PRC and a wholly-owned subsidiary of the Company
"Techwayson Enterprises"	Techwayson Enterprises Limited (德維森企業有限公司), a company incorporated in the BVI on 22 March 2000 with limited liability and a wholly-owned subsidiary of the Company
"Techwayson Management"	Techwayson Management Limited (德維森管理有限公司), a company established in HK on 14 February 2001 with limited liability and a wholly-owned subsidiary of the Company
"Techwayson Trading"	Techwayson Trading Limited (德維森貿易有限公司), a company established in HK on 19 August 2002 with limited liability and a wholly-owned subsidiary of the Company
"Techwire"	Techwire Enterprises Limited, a company incorporated in the BVI on 28 February 2001 with limited liability and a wholly-owned subsidiary of the Company. Techwire holds 18.52 per cent. equity interest in Tongling Huarui
"Tongling Huarui"	Tongling Huarui Electronic Materials Co., Ltd. (銅陵華瑞電子材料有限公司), a sino-foreign equity joint venture enterprise primarily engaged in the production and distribution of (i) epoxide woven glass fabric copper clade laminate (FR-4) and (ii) thin and rigid laminate used in multi-layer printed circuit board (PCB)
"Trading Record Period"	the period comprising the three financial years ended 30 June 2002

"United States" or "US"	the United States of America
"Usualink"	Usualink Development Limited, a company incorporated in the BVI on 17 March 2000 with limited liability and a wholly owned subsidiary of the Company
"WTO"	The World Trade Organisation
"HK$" or "$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"sq. ft."	square feet
"sq.m."	square metres
"%"	per cent.

For the purpose of this document, unless otherwise indicated, Hong Kong dollar amounts have been translated using the following rates:

RMB1.06	:	*HK$1*
US$1	:	*HK$7.8*

Such exchange rates have been used, where applicable, for purposes of illustration only and do not constitute a representation that any amounts have been, could have been or may be exchanged, at these or any other rates.

Note: The English name of a company established in the PRC appearing herein is only an English translation of its official Chinese name.

"ARC Advisory Group"	ARC Advisory Group, founded in 1986, is a strategic advisory consulting firm providing strategic planning and technology assessment services to manufacturing companies, utilities, and global logistics providers, as well as to software and solution suppliers worldwide.
"APC"	Advanced Process Control. It provides effective control of input and output processes by using an internal model of the actual process to predict the future behaviour of the process. Based on that prediction, it calculates the best move sequences for each manipulated variable in order to meet the control target and minimise disturbance to the process
"BAS"	Building Automation System
"CIMS"	Computer Integrated Manufacturing System(s). A CIMS is an integrated system that encompasses all the activities in the production system from the planning and design of a product through the manufacturing system, including control. CIMS is an attempt to combine existing computer technologies in order to manage and control the entire business
"CompactPCI"	a CompactPCI is a modern, very high performance bus based on the standard PCI electrical specification. CompactPCI begins with the 32-/64-bit data path and 132/264 Mbps transfer rate of desktop PCI, and tailors for real-time machine tool, industrial automation, real-time data acquisition or any other application requiring high speed computing
"DCS"	Distributed Control System. This refers to an integration of electronic and computing devices that perform the function of operating and controlling a process or complex industrial device
"ERP"	Enterprise Resource Planning. A broad set of activities supported by multi-module application software that helps a manufacturer manage the important aspects of its business operations, including product planning, parts purchasing, inventories maintenance, suppliers interaction, customer service support, and order tracking
"Ethernet"	a widely-installed local area network (LAN) technology that can provide transmission speeds ranging from 10 Mbps to 100 Mbps
"FCS"	Fieldbus Control System. A fieldbus is a digital, two-way, multi-drop communication link among intelligent measurement control devices. It serves as a local area network (LAN) for advanced process control, remote input/output and high speed factory automation applications

"HMI"	Human Machine Interface. A software tool known for its ability to create and present animated graphical representations of a process and such graphical representations are then connected to real-world systems, such as sensors, motors, pumps and valves, and update themselves according to the status of these real-world devices
"Hot back-up/redundancy"	a stand-by part of a system or equipment that has the ability to place a "hot stand-by equipment" on line as a "slave" equipment and then to identify, remove and replace the "master" equipment upon the failure of the "master" equipment without interrupting the process
"IAS"	Industrial Automation System
"IDC"	International Data Corporation, a leading provider of technology intelligence, industry analysis and strategic and tactical guidance to builders, providers and users of IT. IDC is owned by International Data Group based in the U.S.
"IEC"	The International Electrotechnical Commission, a world organisation that prepares and publishes international standards for all electrical, electronic and related technologies
"I/O"	Input/Output. It describes any operation, program, or device that transfers data to or from a computer
"iFix"	a control software developed by Intellution for monitoring the HMI of an automation and control system
"IP"	Internet Protocol. It is a set of rules that specifies how information is broken up into packets and how those packets should be addressed for transmission between computer systems
"IT"	Information technology
"Lloyd's Register of Shipping"	a leading international ship classification society and an independent technical inspection and advisory organisation which carries out inspection and certification of all types of fixed and mobile structures and provides a wide range of services for land-based industry including safety technology and environmental and quality assurance
"LonWorks"	an internationally recognised standard for interoperable control networks developed by Echelon Corporation. The LONWORKS system is an open networked automation and control solution for the building, industrial, transportation, and home markets

"OEM" — Original equipment manufacturing

"PC" — Personal computer

"PCI" — Peripheral Computer Interconnect

"PLC" — Programmable Logic Controllers. These are microcomputers developed to handle industrial automation processes. They produce on/off voltage outputs and can actuate such elements as electric motors, fans and light switches. The basic operation of a PLC corresponds to a software-based equivalent of a relay panel and can be programmed in easy-to-learn languages

"TCP/IP" — Transmission Control Protocol/Internet Protocol. A basic communication protocol of the internet

"TCS" — Tailored Control System. A PC-based open platform automation and control system which is designed to meet customers' unique requirements and is marketed under the trademark

"TFIX" — TFIX, Monitoring and Control Software for TCS Tailored Control System. A control software application for the TCS operating system registered under the name of Techwayson Industrial

RISKS RELATING TO THE GROUP

Reliance on major customers

A significant portion of the Group's revenue has been, or may continue to be, derived from a limited number of customers who all have less than two years of relationship with the Group. For each of the three years ended 30 June 2002, sales to the Group's largest customer accounted for approximately 65 per cent., 34 per cent. and 65 per cent. respectively of the Group's turnover. During the same period, the Group's five largest customers who together accounted for 100 per cent., 99 per cent. and 99 per cent. of the Group's turnover. Should the Group be unable to secure new contracts from its existing customers or find new customers to replace them, the Group's operations and financial conditions may be adversely affected.

Reliance on major suppliers

A significant portion of the Group's purchase has been, or may continue to be, derived from a limited number of suppliers. The Group has relatively short history and relationship with the suppliers. For the year ended 30 June 2002, the Group only has around one year of relationship with its five largest suppliers. For each of the three years ended 30 June 2002, purchases from the Group's largest suppliers accounted for approximately 63 per cent., 47 per cent. and 36 per cent. respectively of the Group's total purchases. During the same period, the Group's five largest suppliers together accounted for 95 per cent., 96 per cent. and 93 per cent. of the Group's total purchases. Should the Group be unable to secure new sources from its existing suppliers or find new suppliers to replace them, the Group's operations and financial conditions may be adversely affected.

Absence of production facilities

The Group does not have any production facilities for manufacturing controller modules. As a result, throughout the Track Record Period, the Group has mainly relied on its contractors for the manufacturing of controller modules. As the Group did not enter into any long term contracts with these contractors, any discontinuation of the manufacturing of controller modules by any of these contractors may have an adverse impact on the Group's profitability if the Group cannot secure alternative contractors to perform such manufacturing.

Reliance on key personnel

The success of the Group, to a large extent, depends on the continued services of its key senior executives and skilled professionals. Should any of these key executives cease to be involved in the management and operations of the Group or should their full-time services be interrupted, there may be an adverse impact on the Group's financial and operating performance. There can be no assurance that the Group will be able to retain their services in the future.

The Group believes that its future success will, to a large extent, depend on its ability to attract, retain and motivate highly skilled and experienced professionals. In addition, the Group's future expansion will require an increase in the number of technical staff. However, competition for these highly skilled and experienced professionals is intense and there can be no assurance that the Group will be able to attract or retain such professionals in the future. Should the Group experience an inadequate supply of skilled professionals, the Group's operations and business growth may be adversely affected.

Sustainability of profit

Most of the Group's revenue is generated primarily on a project-by-project basis and the Group's revenue may vary over time. Therefore, the future growth of the Group's profits depends on its ability to secure new contracts. There can be no assurance that the revenue and/or profits achieved during a particular period will be sustained in any subsequent periods. There can also be no assurance that the level of revenue derived from a particular project or client during a particular period will recur in any subsequent periods. If the Group cannot secure adequate number of contracts in the future, the Group's financial performance and profit growth may be adversely affected. In view of this, the Group has developed new revenue sources by selling automation and control systems to manufacturers of specialised machinery on a contract term basis and the Directors believe that such new product sales will generate more stable income to its revenue mix.

Limited profit history

The Group has a limited profit history for prospective investors to evaluate its business and prospects. The Group recorded net profit attributable to shareholders to approximately RMB9 million, RMB60 million and RMB45 million for each of the years ended 30 June 2000, 2001 and 2002 respectively. The Directors consider that the substantial growth in the Group's profit is attributable primarily to the Group's business strategies and demand for the Group's products and services in the past financial years. However, since the Group is still in its development stage, there is no assurance that the Group will achieve its business objectives or that the Group will be able to maintain its existing level of operations or manage a sufficient level of growth in its business. Should the Group's business decline in the future, the Group's profitability may be adversely affected.

Non-inclusion of profit forecast

As mentioned in the previous paragraph headed "Sustainability of profit", most of the Group's sales revenue are generated on a project-by-project basis and the Group's revenue may vary over time, as such, the Directors and the Sponsors consider that it is not possible to forecast the operating results of the Group for the year ending 30 June 2003 to the level of accuracy and reliability required for inclusion in a listing document. Accordingly, no profit forecast is included in this document. Prospective investors should be aware that there is no assurance that the Group's historical revenue or profitability can be maintained or relied upon in assessing the Group's future performance. Please also refer to the paragraph headed "Non-inclusion of profit forecast" in the section headed "Financial information" of this document.

Fixed-price contracts

Most of the Group's completed and existing contracts in progress are on a fixed-price basis rather than on a "time-and-materials" basis. It is also the intention of the Group's management to continue to charge its clients on a fixed-price basis, the financial risk associated with which may be greater than that associated with charging on a "time-and-materials" basis. If the total costs of a fixed-price contract is under-estimated or if unexpected delays or difficulties are encountered in the course of carrying out the contract which result in an increase in costs, the Group's profitability and financial conditions may be adversely affected.

Dependence on large system contracts

The Group derives a substantial portion of its revenues from large systems contracts, which make the Group's operating results more difficult to predict. The attainment of such large orders, which are limited in number and do not necessarily occur at regular intervals, is dependent on a variety of factors and, many of which are beyond the Group's control. The revenues of the Group would decline in the near term if the Company were unable to offset the impact on its results of operations resulting from the expiration of existing contracts with new bookings of the same magnitude and profitability. There can be no assurance that the Group will be able to obtain such large contracts in the future. In addition, it is estimated that the time required to complete a project under normal circumstances from the signing of contract to product acceptance ranges from two to four months, depending on the complexity of the project. The profit derived from large system contracts may be adversely affected if there is any delay in project completion.

Dependence on the performance of certain industries in the PRC

Many of the industries in the PRC served by the Group, such as the metal refining, oil drilling and power generating industries, have been subject to substantial cyclicality in the past and are likely to suffer the same in the future. This cyclicality may in turn materially affect the Group's results of operations, particularly if customers in these industries reduce capital expenditures, and delay ordering the Group's products, in anticipation of potential economic downturns or reductions in demand, or in response to economic uncertainty.

In respect of this, the Group has diversified into the building automation market and intends to explore business opportunities in the home automation sector. The Directors believe that with a wider product range, the Group will subject to less cyclicality from the performance of those traditional industries.

Potential tax exposure

Foreign enterprise income tax of Techwayson Enterprises has been provided for at 10 per cent. of the PRC-sourced gross income multiplied by the appropriate tax rate. The Directors considered that this is the most appropriate basis applicable to this case, which basis has been confirmed by the PRC tax consultant. Should the PRC tax bureau not agree with the basis and that another basis is used, the maximum tax exposure would then be RMB8,929,000, which is RMB7,977,000 more than the Enterprise Income Tax (EIT) provided for the year ended 30 June 2002. The final profits will not be due for reporting to the Tax Bureau within four months after 31 December 2002 i.e. on or before 30 April 2003. Accordingly, provision for tax penalty is not necessary. The executive Directors have given an indemnity against, inter alia, the additional tax should the later basis be used and charged against Techwayson Enterprises as referred to under the sub-section headed "Estate duty and tax indemnity" of appendix IV to this document. In any event if these happened, it would adversely affect the profitability of the Group.

Taxation

In accordance with relevant tax laws and regulations, enterprises with foreign investment established in the PRC are subject to PRC Enterprise Income Tax (EIT) at a rate of 15% and are entitled to full exemption from EIT for the first two years and a 50% reduction for the next three years, commencing from the first profitable year after offsetting available tax losses carried forward from the previous five years. The Techwayson Industrial is a foreign invested enterprise established in Shenzhen, as approved by the Shenzhen Tax Bureau, the first profitable year of Techwayson Industrial was 1999. Hence, Techwayson Industrial was fully exempted from EIT for the two years ended 31 December 1999 and 2000 and was/would be entitled to a 50% reduction in EIT for the three years ended 31 December 2001, 2002 and 2003. A further 50% reduction on EIT from 1 January 2004 to 31 December 2006 would be provided if the Company still were a High-Tech enterprise. There is no assurance that the PRC government will continue to offer such preferential tax treatment or that there will not be any significant change in any preferential tax treatment currently offered to foreign-invested enterprises and High-Tech enterprises in the PRC. Potential investors should be aware that in the event the PRC government abolishes or changes its tax incentive policies relating to such enterprises, the Group's effective tax rate may change and the Group's financial position may be adversely affected.

Funding requirements of the Group

To achieve the business objectives and materialise the business plans of the Group, the Group has to be able to generate sufficient funds internally from operating cashflows or to seek additional funds by means of other external financing. Should the Group be unable to obtain additional funds from internal and/or external sources in the future, the operations of the Group and the implementation of the Group's business plans will be adversely affected.

Set up a research and development centre

The Group has applied to the 深圳市科學技術局 (Shenzhen Science and Technology Bureau) and 深圳市計劃局 (Shenzhen Planning Bureau) for setting up a research and development centre using "深圳市 (Shenzhen)" as part of its name together with a research funding granted by the PRC government. There is no assurance that the approval will be granted. If no such approval is granted, the Group will set up its internal research and development centre at the same location without using the name "深圳市工業自動化工程技術研究開發中心(Shenzhen Automation Engineering Technology Research and Development Center)" as its name.

Licence for development and construction and title to land

The Group has applied to relevant PRC government departments for the Realty Title Certificate (房地產權證) and will apply for Constructions Licence (施工許可證) for the Land Parcel No.T205-0035 located at High-tech Industrial Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC. The Group has not obtained the certificate or licence yet. There is no assurance that the certificate or licence will be obtained. If no such certificate or licence is granted, the property may be not transferable and the operations of the Group and implementation of the Group's business plans may be adversely affected.

RISKS RELATING TO THE INDUSTRY

Competition

The markets for automation and control systems integration and production are highly competitive and are characterised by major existing international competitors that have introduced or developed products and services similar to those offered by the Group. The Group competes with PRC and international automation and control systems integrators and manufacturers, and as the Group expands its geographical coverage outside the PRC, it will also have to compete with other local and international automation and control systems integrators and manufacturers. Competitors of the Group may have substantially greater resources, larger customer bases, greater brand name recognition and more established relationships than the Group. As a result, these competitors may be able to adapt to new or emerging technologies and changes in customer requirements more quickly, take advantage of business opportunities more readily, devote greater resources to the marketing and sale of their products and services and adopt more aggressive pricing policies than the Group. This intense competition may limit the profitability of the Group or result in a loss in the Group's market share.

On the other hand, the Directors believe that instead of adopting a head-on competition strategy with these international players, the Group may be able to gain mutual benefits through strategic cooperation relationships such as joint-venture and distributorships with these competitors which are trying to localize their sales and manufacturing functions in the PRC.

Rapid technological changes

The automation and control industry is characterised by rapid technological changes. Existing products subject to improved and enhanced standards as new industry standards are being introduced regularly. The Group's prospect may be adversely affected if it is unable to keep pace with the technological advances in a timely and cost-efficient manner by improving and enhancing its existing products and services and by introducing new products and services embodying the latest technologies required by the Group's customers from various industries in the PRC. The development of new technologies or new products and the enhancement of existing products entail substantial investments in research and development. There is no assurance that such research and development efforts will result in the successful introduction of new products or the enhancement of existing products, and there is no assurance that any of such new or enhanced products will be accepted by the market. If the Group cannot continue to develop new products acceptable by the market, the Group's future growth and profitability may be adversely affected.

Intellectual property rights

Piracy of software applications and hardware developed by the Group and the infringement of its intellectual property rights may adversely affect the Group's revenue and financial performance. As at the Latest Practicable Date, the Group has registered certain copyrights for its software and hardware products in the PRC and certain trademarks in Hong Kong and the PRC. Nevertheless, there can be no assurance that the piracy or infringement of its technology can be kept under control at all times. In addition, the Group may be required to incur additional expenses and time and efforts of its management in any proceedings for enforcing its intellectual property rights in future. Such diversion of resources may adversely affect the existing business and future growth of the Group.

The Group has also applied for registration of certain patents and other trademarks. There is no assurance that any of such applications will be accepted for registration or there is no condition attached to such acceptances. To the extent that the Group is unable to register or has not registered any intellectual property rights in any relevant jurisdiction, the use of such intellectual property rights by the Group may be unprotected and subject to challenge or dispute by third parties. Any infringement, challenge or dispute in respect of such unregistered intellectual property rights may adversely affect the existing business and future growth of the Group.

Potential product liability

The products developed and distributed by the Group may be important to the operations of its customers. As the Company does not maintain any product liability insurance and if the Group's products contain defects or errors which adversely affect the operations of its customers, the Group may have to incur additional costs to correct the defects and/or devote significant resources to defend any claims which may be brought by its clients. This may also adversely affect the Group's relationship with such client, and result in negative publicity which may adversely affect the reputation of the Group. However, the Group has not experienced any third party claims in respect of its products during the three years ended 30 June 2002.

RISKS RELATING TO THE PRC

Political and economic environment

The PRC is in the process of transforming its economy from a planned economy into a more market-oriented economy. Political, economic and social factors may result in the PRC government making further changes to its laws or regulations, introducing additional tax measures, imposing restrictions on currency exchange and remittance, and changing tax rates or customs duties. Such factors may also adversely affect the Group's operations in the PRC.

Foreign exchange control and currency conversion risks

The Group is operating significantly in the PRC and thus generating very substantial part of its revenues, expenses and liabilities in RMB and is thereby subject to the effect of RMB exchange rate fluctuations. The Group has not currently entered into agreements or purchased instruments to hedge such exchange rate risks.

RMB is not a freely convertible currency in the international currency market and its exchange rate system is a managed-floating-rate system. Upon the execution of the unitary managed-floating-rate system in 1994, RMB was devaluated by 50 per cent. against the US dollar. Since then, the exchange rate between the RMB and US dollar has been generally stable. However, there can be no assurance that the RMB will not become volatile against other currencies. In the event of a major devaluation of the RMB, the Group may incur capital depreciation on its investments in the PRC as well as a material adverse effect on the Group's operations and financial condition, in view of the Group's significant PRC presence at the moment.

Although new policies were introduced by the PRC government in 1996 to allow greater convertibility of the RMB, significant restrictions still remain. In accordance with "Foreign Exchanges Control Rules" and the "Regulations on the Administration of Foreign Exchange Settlements, Sales and Payments", foreign exchange required for the payment of dividends that are payable in foreign currencies can be purchased from designated foreign exchange banks upon presentation of the relevant documents including, but not limited to board resolutions authorising the distribution of profits or dividends of the company concerned. Although the Group currently is able to convert its RMB earnings into foreign currency for the purpose of dividend distribution, there is no guarantee that the PRC government will not introduce more restrictive foreign exchange measures that could adversely affect the Group's ability to convert its RMB earnings into foreign currencies.

RISK RELATING TO THE INTRODUCTION

Statistics from unofficial publications

Certain statistics in this document such as statistics relating to the industry, are derived from various public and private publications. Such information has not been independently verified by the Group and may not be accurate, complete and/or up-to-date. The Group makes no representation as to the correctness or accuracy of such statements and, accordingly, such information should not be unduly relied upon.

DIRECTORS' ASSUMPTION OF RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This document is published in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to the offer, of the Shares or other securities of the Company.

APPLICATION FOR LISTING ON THE MAIN BOARD

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the New Share Option Scheme. Except that prior to the Introduction, the Shares are listed on GEM, and no part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal in any of its securities on any other stock exchange. The Shares will continue to be traded in board lot of 4,000 Shares each. In addition, the Main Board's listed issuers are not required to publish quarterly reports. However, it is the Directors' current intention to continue to issue quarterly results after the Introduction.

SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 8 February 2001, the first date on which the Shares were listed on GEM. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

Necessary arrangements have been made with HKSCC for the Shares in issue and the Shares which may fall to be issued upon the exercise of the options which were granted under the Share Option Scheme and which may be granted under the New Share Option Scheme to continue to be accepted as eligible securities of CCASS.

STAMP DUTY

Dealings in the Shares registered on the register of members kept by the Company's Hong Kong branch share registrar will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. None of the Company, JS Cresvale, CAF Securities, any of their respective directors, agents or advisers or any other party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the holding of or dealing in the Shares.

MINIMUM PUBLIC FLOAT

In order to comply with the minimum public float requirement as stated in rule 8.08(1) of the Listing Rules, Otto Link, the controlling shareholder, disposed of 6,300,000 Shares (equivalent to approximately 1.80 per cent. of the existing issued share capital of the Company) to 7 individual investors (Disposal). These 7 individual investors are independent third parties, and not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries nor are an associate of any of them. The Disposal was priced at an average price of HK$0.60 per Share (representing approximately 15 per cent. discount to the closing price of the Shares at HK$0.71 per Share on 23 December 2002) in order to increase the public float of the Company to 25 per cent. of the existing issued share capital of the Company. The Disposal was completed on 24 December 2002. Otto Link and Dr. Sze (who is beneficially interested in 80 per cent. of shares of Otto Link and is therefore deemed to be interested in the Shares held by Otto Link) had made corresponding notification for compliance with the SDI Ordinance.

UNDERTAKINGS

Otto Link and Dr. Sze, being the controlling shareholders (the "Controlling Shareholders") (as defined in the Listing Rules) holding or deemed to hold 161,700,000 Shares (the "Relevant Shares"), representing approximately 46.2 per cent. of the total issued Shares as at the Latest Practicable Date have undertaken to the Company and the Stock Exchange that, they shall not:

(i) in the period of six months from the date on which dealings in the Shares commence on the Main Board, dispose of (other than by way of security for a bona fide commercial loan), and shall procure that the registered holder shall not dispose of, any direct or indirect interest in any of the Relevant Shares; and

(ii) in the period of six months commencing from the date on which the period referred to in paragraph (i) above expires, dispose of or permit the registered holder to dispose of, any direct or indirect interest of any of the Relevant Shares referred to paragraph (i) above if, immediately following such disposal the Controlling Shareholders would cease to be a controlling shareholder of the Company.

The Controlling Shareholders have also undertaken to the Company and the Stock Exchange that, within the period of 12 months from the date on which dealings in the Shares commence on the Main Board, they shall:

(i) immediately inform the Company of any pledge/charge of Shares beneficially owned by them together with the number of Shares so pledged/charged when they make such pledges/charges; and

(ii) immediately inform the Company when they receive indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of.

The Company has agreed that it will inform the Stock Exchange as soon as it has been informed of any matters relating to the pledge/charge mentioned above by the Controlling Shareholders, and will disclose such matters by way of a press notice in newspaper as soon as possible in accordance with the requirements of the Listing Rules.

CONDITIONS OF THE INTRODUCTION

The Introduction is subject to the fulfilment of the conditions that, among other things, the Listing Committee of the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the New Share Option Scheme on the Main Board.

The Shares are currently listed on GEM. Immediately prior to the Introduction, the listing of the Shares on GEM will be withdrawn in accordance with the GEM Listing Rules. In this connection, the Extraordinary General Meeting will be held on 20 January 2003 to approve, amongst other things, the withdrawal of the listing of the Shares on GEM. The Directors expect that dealings in the Shares on the Main Board will commence on or about 29 January 2003.

DIRECTORS

Name	Address	Nationality
Executive Directors		
SZE Kwan *(Chairman)*	Flat B3, 28/F Block B Elizabeth House 252 Gloucester Road Causeway Bay Hong Kong	Dominican
LEE Tiong Hock	Flat H, 21/F Lotus Mansion Taikoo Shing Hong Kong	Singaporean
TUNG Fai	11E, Fairview Height 1 Seymour Road Mid-Levels Hong Kong	Chinese
YE Wei Fa	Meilin Yi Cun 91-18C Shenzhen PRC	Chinese
Non-executive Director		
LIN Gongshi	Research Institute of Tsinghua University Shenzhen Hi-tech Industrial Zone Shenzhen 518057 Nanshan District Shenzhen PRC	Chinese
Independent Non-executive Directors		
WEE Soon Chiang, Henny	Flat A, 1/F 39 Braemar Hill Road North Point Hong Kong	Malaysian
WONG Kam Kau, Eddie	8B Seaview Garden 31 Cloudview Road Hong Kong	British

PARTIES INVOLVED

Sponsor	JS Cresvale Securities International Limited 701-704A, 7th Floor Asia Pacific Finance Tower Citibank Plaza 3 Garden Road Central Hong Kong
Co-sponsor	CAF Securities Company Limited 13th Floor, Fairmont House 8 Cotton Tree Drive Central Hong Kong
Legal advisers to the Company	*As to Hong Kong Law:* Sit, Fung, Kwong & Shum Suite 4428, COSCO Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong *As to Cayman Islands Law:* Conyers Dill & Pearman, Cayman Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman Cayman Islands British West Indies *As to PRC Law:* Chen & Co. Suite 1901, North Tower Shanghai Stock Exchange Building 528 Pudong Nan Road Shanghai The PRC

Auditors and reporting accountants	Charles Chan, Ip & Fung CPA Ltd *Certified Public Accountants* 37th Floor, Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong
Property valuer	Sallmanns (Far East) Limited 15th Floor, Trinity House 165-171 Wanchai Road Wanchai Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business	Room 1810, 18th Floor Harbour Centre 25 Harbour Road Wanchai, Hong Kong
Company website	www.techwayson.com.hk
Company secretary	LI Chi Yuen *AHKSA, ACMA* 1706 Block G Luk Yeung Sun Chuen Tsuen Wan Hong Kong
Audit committee	WEE Soon Chiang, Henny *(Chairman)* WONG Kam Kau, Eddie
Authorised representatives	TUNG Fai LI Chi Yuen
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong
Principal banker	Bank of China (Hong Kong) Limited Wanchai Branch Ground Floor and 1st Floor 133 Wanchai Road Wanchai Hong Kong

The information contained in this section has been extracted from publicly available documents that have not been independently verified by the Company, the Sponsors or any of their respective advisers or affiliates in connection with the Introduction.

INTRODUCTION

The automation and control industry can be divided into industrial and building automation and control. Industrial automation is further divided into factory automation and process automation.

Factory automation and control refers to discrete operations which manufacture individual items used mainly within the automotive, packaging and consumer goods industries. Products mainly consist of items such as programmable logic controllers (PLCs), robots, drives and standardised solutions.

Process automation and control refers to the continuous control solutions applied in processes where the main objective is to control the continuous production of products including raw oil, electricity and paper at preferred levels. Its products consist of instrumentation, analytical products such as meters and control products.

Building automation and control systems comprise products and services that control ventilation, humidification, video surveillance, air-conditioning and access control equipment, security/fire alarm systems, home automation systems, energy-efficient lighting and building management systems, software applicable to home and building control and such products as sensors, switches, actuators and controllers.

Systems serving today's process automation market requirements are generally based on computer and communication hardware and high reliability needs of industrial automation and control applications. System components are physically distributed throughout a plant or across multiple plant sites, and are linked by high speed digital communication lines to operation centres. From these centres, operators may observe and directly interact with a single control variable, a single unit operation, groups of units, a whole plant-site or multiple plant-sites.

WORLD MARKET

Process Automation

The worldwide market for automation products and services for process industries exceeded US$44 billion in 2001 and is expected to grow at the compounded annual growth rate (CAGR) of over five per cent. over the next five years, reaching close to US$57 billion in 2006, according to ARC Advisory Group. ARC Advisory Group, founded in 1986, is a strategic advisory consulting firm providing strategic planning and technology assessment services to manufacturing companies, utilities, and global logistics providers, as well as to software and solution suppliers worldwide.

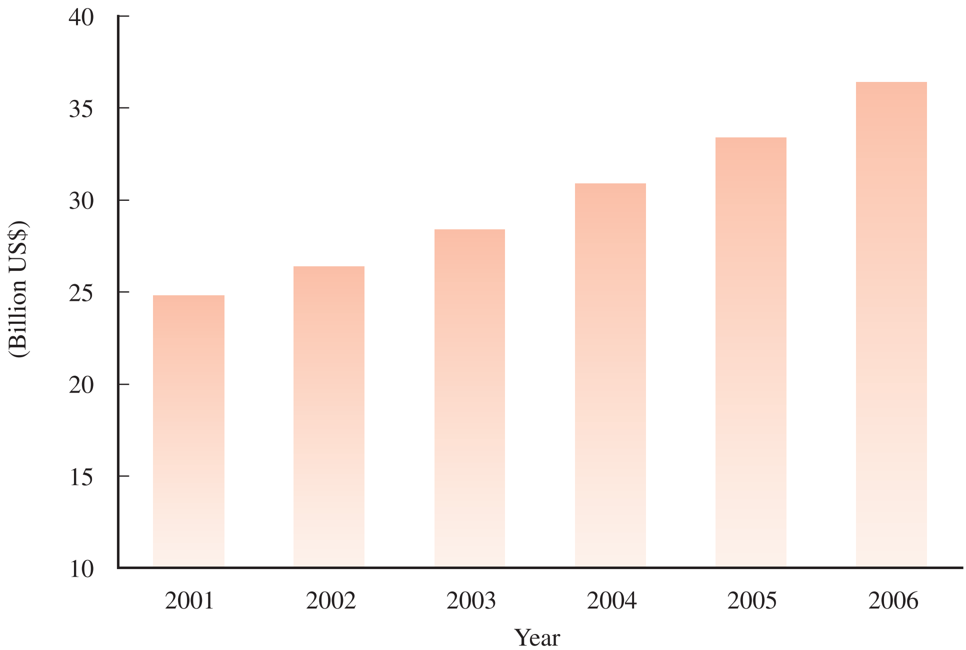
ARC Advisory Group further stated that growth in the worldwide process automation market is being driven by software and services. Total process automation software as an aggregate has the highest growth potential of all process automation product areas through 2006. This segment represents both the software and associated services provided by suppliers for implementation, after sales service and optimisation. In addition, project services are the key growth segment of the process automation market in the near future. The ability to provide a wide range of project services will be a necessary ingredient for survival for many major process automation suppliers in the future. Industries such as steel refining and petrochemicals are trying to improve efficiency by purchasing advanced forms of automation. Pharmaceuticals and food and beverages are also areas of healthy growth.

Factory automation

The worldwide market for automation products and services for discrete industries which reached US$25 billion in 2001, is expected to grow steadily at a CAGR of approximately 7.9 per cent. over the next five years, reaching over US$36 billion in 2006 (see Figure 1), according to ARC Advisory Group. Many factors such as the wide acceptance of PCs as an integration platform for HMI, logic solving, motion control, and vision systems, make implementation of automation easier for users and OEMs, resulting in an increasing use of automation across many discrete industries.

Figure 1

Automation Products and Services for Discrete Industries



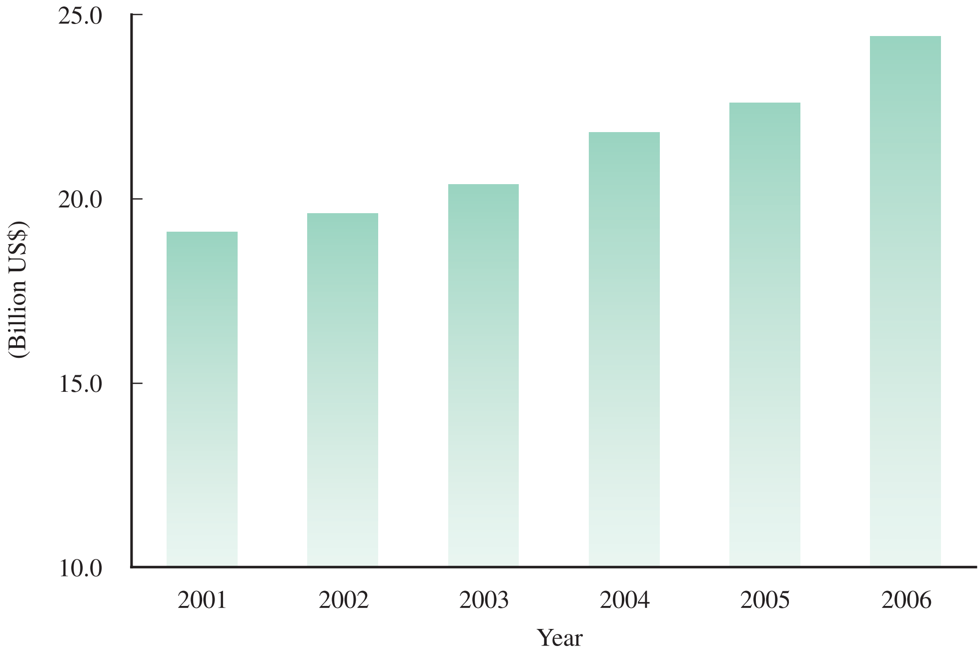
Source: ARC Advisory Group 2002

Building automation

The worldwide market for building automation and control systems is expected to grow at a CAGR of approximately 5 per cent. over the next five years, reaching US$24.4 billion in 2006, according to ARC Advisory Group (see Figure 2). The improvement in the technology of building automation and control systems: the safety and control features, the energy efficiency and cost reduction, the ability of facility managers to monitor building equipment performance at remote locations are some of the factors attributable to the growth in demand.

Figure 2

Total Building Automation Business Worldwide



Source: ARC Advisory Group 2002

THE PRC MARKET

History and development

The automation and control industry is a well-established industry in many developed countries boosted by various industrial and communication technologies. However, the automation and control industry is still at an emerging stage in the PRC as it lacks the capital and many of the technologies required for the future development of this industry.

It is the Directors' understanding that due to historical reasons and government policies, the PRC's industrial enterprises possess certain unique characteristics and requirements for automation and control. During the early 1980s, the PRC government decided to promote the development of advance technology in the PRC through importation of technologies from developed countries. It was hoped that through technology importation, domestic industries could understand such technologies and develop new technologies that were best suited to the PRC's own industrial requirements. Accordingly, most of the automation technology and control systems used in state-owned industries such as steel and oil refinery were imported from major foreign automation and control system providers.

Due to the limited access to market information as well as management's limited technical expertise when they made decisions on the types of equipment as well as the suppliers for importing automation and control systems, many of the systems were imported on an ad-hoc basis and could only satisfy the needs of certain stages of the manufacturing processes. In addition, the anti-monopoly policy adopted by the PRC authorities has also prohibited industries from relying on only one or two suppliers for providing complete automation solutions. As a result, the industrial enterprises in the PRC nowadays are facing the following difficulties:

- *Fragmented and incompatible systems prohibiting integration*

  The importation of automation and control systems aimed at meeting specific production requirements on an ad-hoc basis has led to fragmented production systems that consist of automation and control systems in different models and are sourced from different suppliers. Since most of the major overseas automation and control product manufacturers tend to develop their own proprietary control software for their automation and control systems, such systems are usually closed systems and the connections and standards of which are not compatible with or supported by systems manufactured by other manufacturers. Therefore, when the PRC industrial enterprises face the increasing demand to improve their efficiency by upgrading their production systems, they usually have to replace their entire automation and control systems which means a huge waste of resources. On the other hand, it is more economical to integrate different automation and control systems so as to facilitate a more efficient automated production process.

  One apparent example is the development of fieldbus control systems (FCS) which is increasingly used as a communication technology for transmitting signals and data for automation and control systems. Since the automation and control systems produced by different suppliers are "closed systems" which means they have their own communication standards, that causes difficulties to industrial enterprises who want to link up different systems from different suppliers. This becomes a major obstacle for those Chinese industrial enterprises which plan to integrate their existing fragmented automation and control systems and materialise the full benefits of complete automation, such as CIMS in order to achieve automation from the operation level to enterprise management level.

- *Outdated technology and expensive after-sale services of imported products*

Even though many of the automation and control systems are bought from reputable suppliers at a premium price, many products will usually be first introduced in their home countries and by the time they are imported into the PRC, most of them are already obsolete by international standards. For example, most of the IC chips adopted in DCS and PLC systems used by the industrial enterprises in the PRC have limited analytical functions and cannot be used for APC which requires large analytical capacity for complex mathematical models and process optimisation.

In addition, since most of the automation and control systems used in the PRC are imported, the costs for requesting support services from the overseas manufacturers such as system upgrade, repair and maintenance become prohibitive for PRC entrepreneurs.

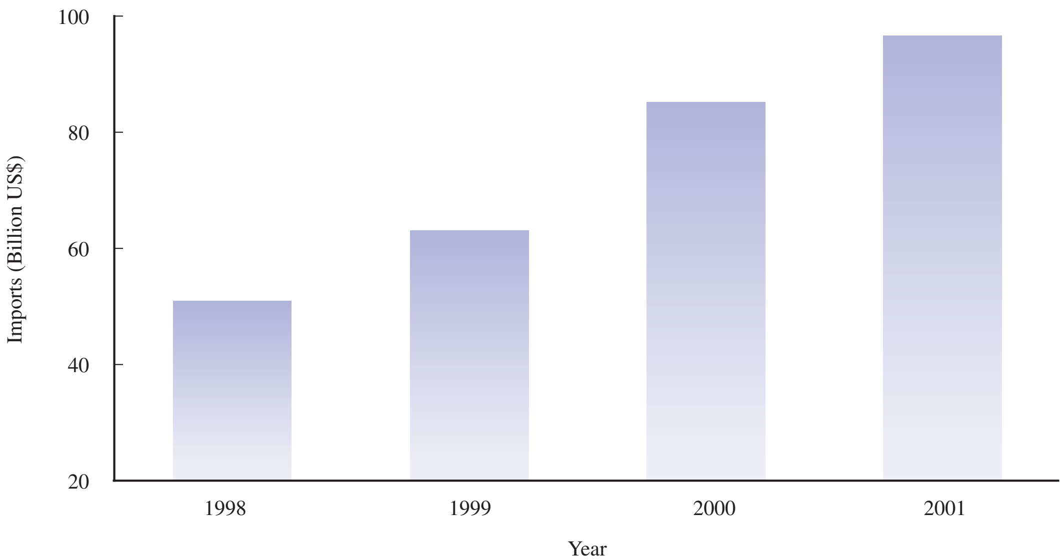
As a result, the Directors believe that there is an urgent need to develop automation and control systems that are best tailored for the unique requirements of industrial enterprises in the PRC in order to solve the difficulties faced by such enterprises.

Industrial automation

Since the industrial automation and control industry in the PRC is dominated by imports, the level of imports reflects the potential market size in the PRC. According to China's Customs Statistics, the category of machinery, electric equipment and accessories and others under which automation and control systems are included, has reached a record of approximately US$96 billion in 2001, representing a CAGR of approximately 24 per cent. over 1998. (see Figure 3) This shows a huge potential for automation and control systems in the PRC.

Figure 3

The PRC's Imports of Machinery, Electric Equipment and Accessories; Recorders; Videorecorder and Accessories



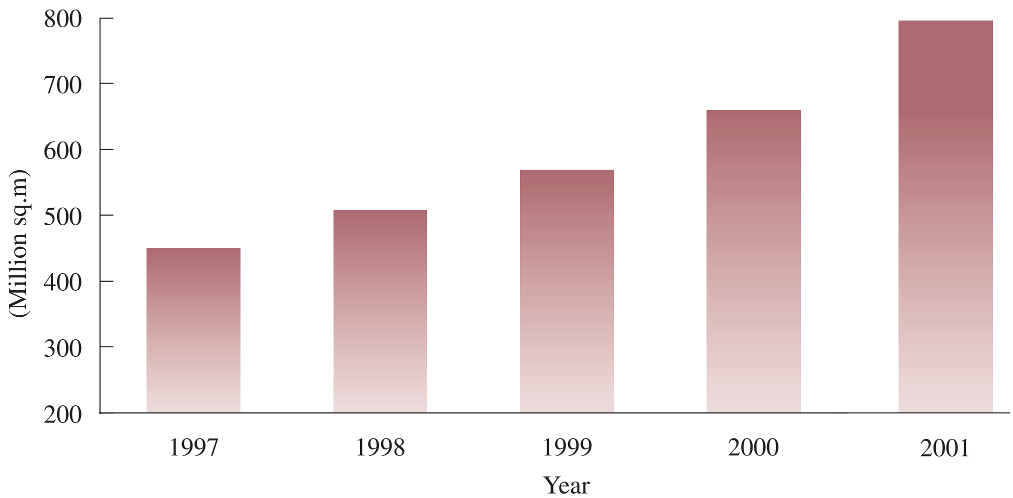
Source: PRC General Administration of Customs, China's Customs Statistics 2002

Building automation

The building automation and control systems will enjoy the benefits of the boom in the housing industry in the PRC. Real estate development in the PRC has recorded a CAGR of approximately 15 per cent. since 1997, as can be seen by the increase in floor space under construction statistics, according to the National Bureau of Statistics (see Figure 4).

Figure 4

The Total Floor Space Under Construction (1997-2001)



Source: China Statistical Year Book 2002

The proportion of investments in building automation and control as compared to total investments in building construction has increased from approximately five per cent. in the 1980s to approximately 15 per cent. in 1990s and total investments in building automation and control in the PRC reached approximately RMB10 billion.

GROWTH DRIVERS

Economic growth

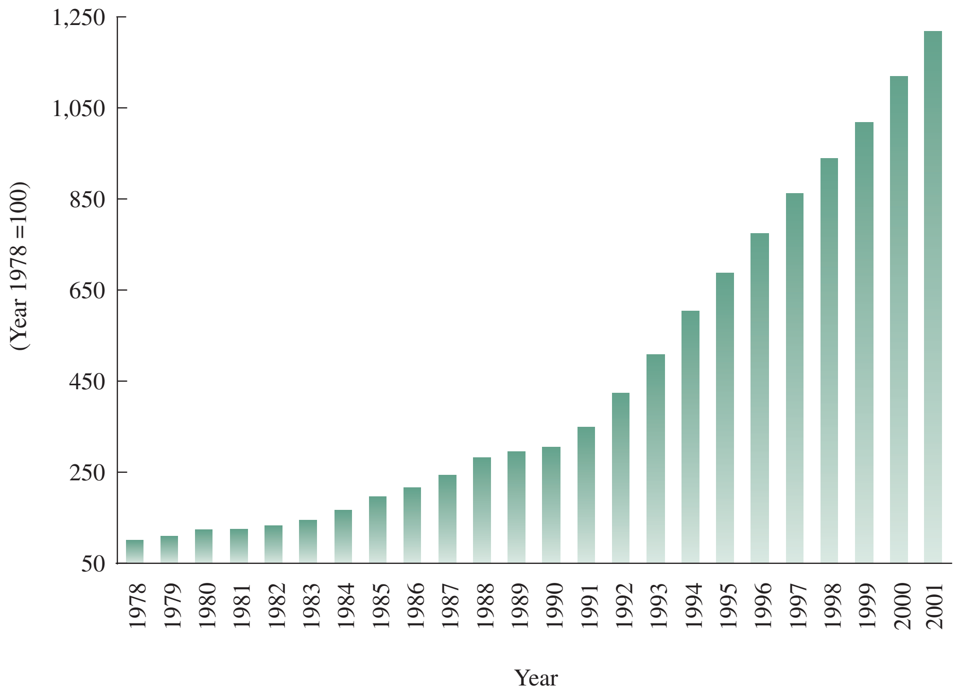
The GDP of the PRC is growing at an average annual rate of 9.3 per cent. in the last decade, boosted by internal and external demands. If the various major industries can benefit from the current economy, the market for automation may also grow subsequently. Internally, the entry of the PRC into the WTO has sped up its economic restructuring and industrial production. In addition, the opening up of the western provinces of the PRC may also boost the growth of industrial production in the PRC. The national industrial revenue of the PRC for the first half of 2002 was RMB4,850 billion, representing an increase of approximately 13.1 per cent. from the previous year. Foreign direct investments in fixed assets in the PRC for the same period also recorded a growth of 30.8 per cent. from the previous year.

Capital investments from major industries

Since the end-users of automation and control system products include all major industrial enterprises, the growth of these industries as well as the capital investments made by these industries for improving production efficiency and capacity are crucial to the demand for automation and control products. The industrial sector in the PRC has been enjoying strong growth in the past years (see Figure 5).

Figure 5

Growth Rate of Gross Domestic Output of Industrial Sector in PRC



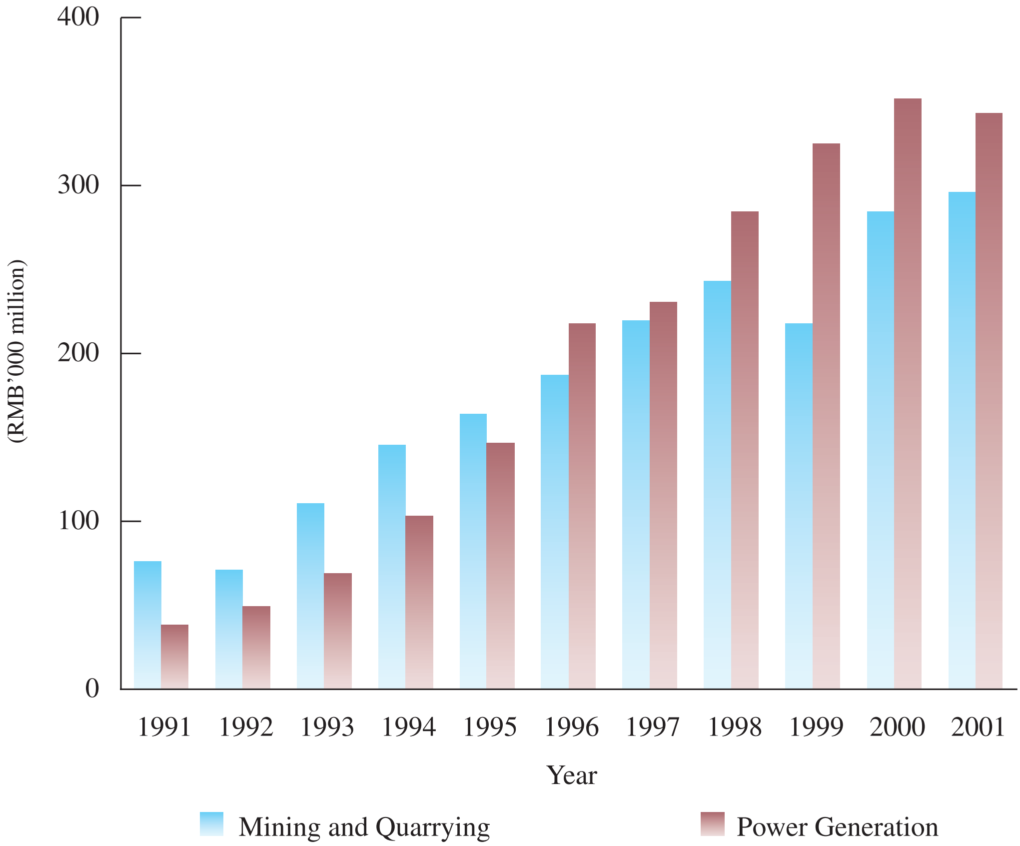
Source: China Statistical Yearbook 2002

Note: For the base year 1978, the index for the PRC industrial sector was set at 100.

Specifically, the automation and control products are used in various industries such as petrochemical, manufacturing and power generation industries. The capital investment for renovation and improvement made by mining and quarrying industry has increased by approximately 4 times from 1991 to 2001 while that for the power generation industry has increased by approximately 9 times for the same period (see Figure 6).

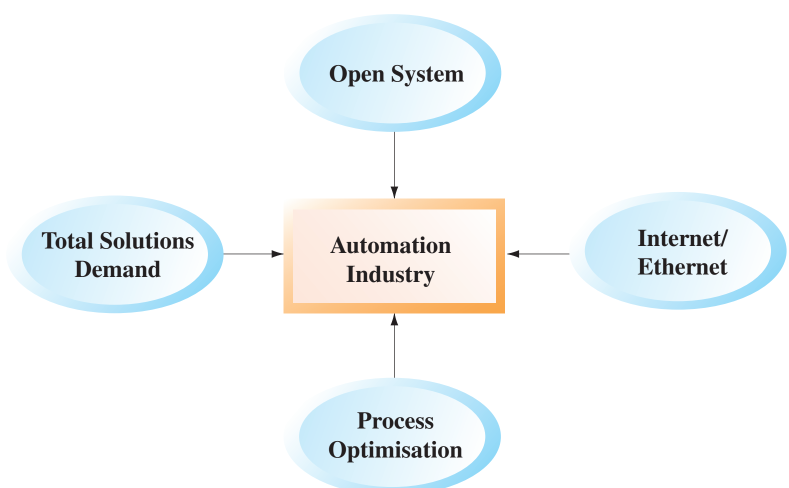
Figure 6

Capital Spending for Renovation and Improvement by Major Industries in the PRC
(中國主要行業更新改造新增固定資產)



Source: China Statistical Yearbook 2002

MAJOR TRENDS FOR THE AUTOMATION INDUSTRY



Demand for open system

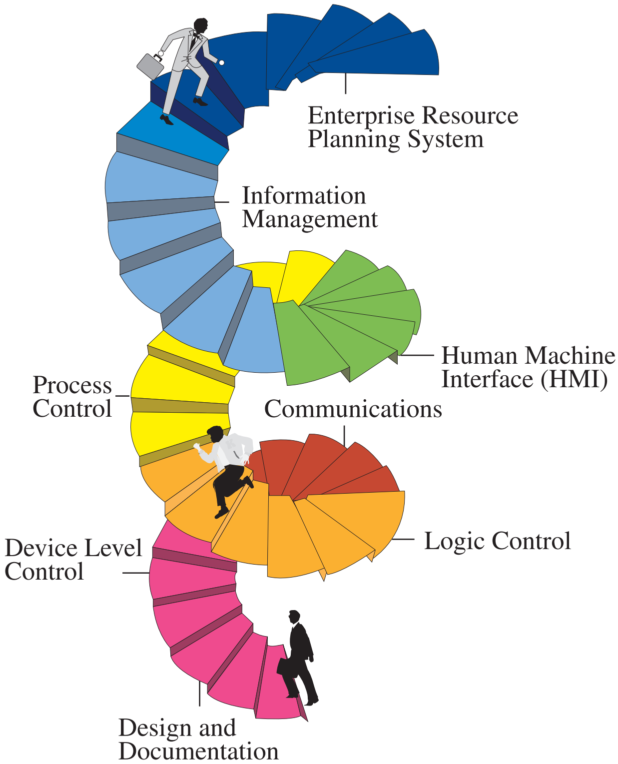
In light of the rapid pace of technological development, customers are seeking open systems with the capacity to be compatible with different types of products and services which comprises a wide range of computer hardware platform and third party software. Open control systems are hubs which link systems for control, instrumentation and supervision of industrial process. An open system allows access of information at any point in the enterprise, from the plant level to the enterprise management level. The development of FCS is one step in the trend for open system since FCS allows a common communication standard for data transmission. Building upon an open control system, process optimisation and control of part of the process can be achieved to improve customers' efficiency, quality, safety and cost.

Ethernet and internet integration

The integration of Ethernet into the automation and control system market is growing every year. Since Ethernet uses the common TCP/IP standard for data transmission, FCS which adopts Ethernet as its communication standard will be able to provide an open system for process automation. Ethernet connection offers remote monitoring and diagnostic of plant level operations i.e. supervisors could access information and perform control functions from remote locations. In other words, it renders a low-cost but efficient technology which is spreading into the different aspects of industrial production.

Fully integrated control systems and total solutions

The worldwide reach of customers' operations, and their increasingly pressing demand for fully integrated information systems has increased the need to provide customers with complete automation. According to Frost & Sullivan, a technology research corporation, CIMS are growing in importance. CIMS is an integrated system that encompasses all the activities in the production system from the planning and design of a product through the manufacturing system, including control. It is an attempt to combine existing computer technologies in order to manage and control the entire business operations of an enterprise. The Directors believe that the development of open control system which allows seamless connection between different control levels may boost the growth of CIMS.



A fully integrated automation and control system from the design stage to enterprise management level.

Advanced Process Control

Along with the trend for fully integrated control systems, APC is a hot topic for process industries. New constraints that process industries are facing nowadays such as increasing competition, legislation, environment and economic factors have prompted the process industries to ensure the best return on investment, while reducing pollution, improving quality and ensuring personal safety.

APC models the process step, measures actual performance and controls the process variables for optimal performance. The use of APC in process manufacturing can result in less process variability, less unnecessary downtime, fewer replacement parts, and higher yields. It also enables better accuracy in committing customer delivery dates due to more reliable manufacturing.

APC works under complex mathematical models used to optimise both yields and equipment maintenance schedules. The model is based on historical operating data. For example, during runtime operation, the APC software can constantly recommend ideal operational set points to operators at the beginning and end of each run, since equipment performance dynamically changes between cleanings. Rather than shutting down equipment on certain time intervals, APC can predict ideal shut down times for maintenance. Since the longer operating intervals create more asset utilisation, the technology of APC helps to maximise production throughput. The Directors believe that APC will become one of the major market trend for the automation industry.

Software capabilities determine the success

ERP is becoming increasingly important to manufacturing industries. ERP is a tall order, building a single software program that attempts to integrate all departments and functions across a company into a single computer system that can serve all those different departments' particular needs. The Directors are of the opinion that there is the need to develop software that allows ERP data to be communicated through the automated control system which controls the manufacturing process. Such software includes programming software, communications software, data-visualisation software and plant-floor/ERP interface.

Traditionally, the role of automation and control system suppliers was focused on supplying equipment which controlled and automated the physical processes to produce certain products and which is usually purchased as part of an engineered manufacturing or packaging line. However, automation and control system suppliers are nowadays more concerned with software capabilities, its growth as well as the integration of automation systems to ERP systems. Three reasons account for the trend. First, software offers higher growth and margin potential than traditional components. Second, vendors have to provide applications built on a software architecture that supports the links between plant-level systems and business applications such as ERP. The real advantages of ERP will not be realised without a plant-floor to top-floor solution for sharing plant data. The rapid growth of ERP software market thus represents a significant opportunity for automation vendors whose systems come with state-of-the-art software for implementing ERP. Third, manufacturers are increasingly obsessed with flexibility, time to market, and cycle time. The Directors believe that software that facilitates flexibility and speed will be most favoured by customers subject to time-based competition. It is believed that software will be the driving force in customer modernisation decisions, pulling in purchases of platforms and components of a control system.

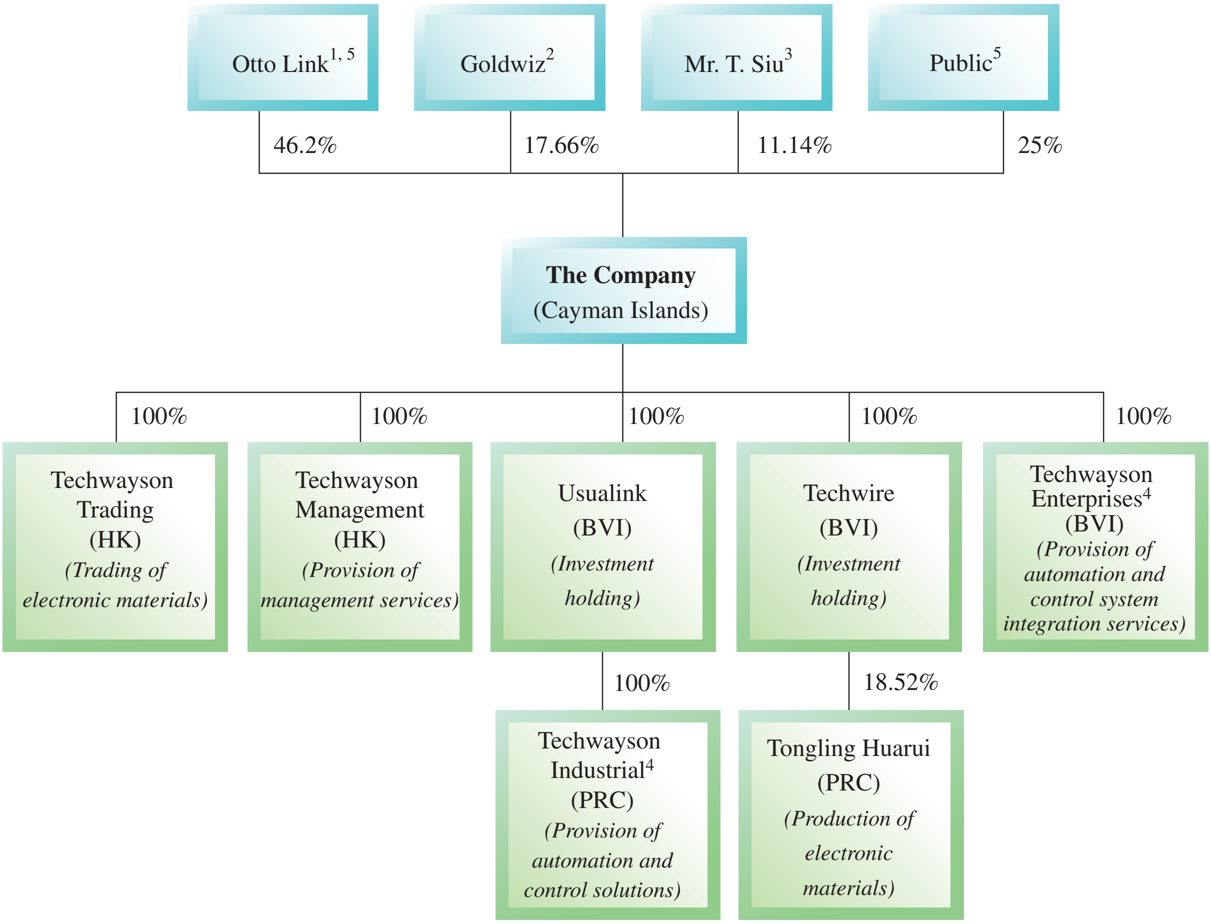
Market potential

Continuous Production Process industries such as oil refinery, petrochemical, electricity generation and environment protection etc occupy an essential role in mainland China's economy. The rapid economic growth of the PRC represents a significant opportunity for the industrial process automation technology. However, since the automation technology in the PRC still lags behind that of developed countries, the market of automation and control systems is dominated by foreign competitors. On the other hand, there is ample room for growth for the automation and control industry in the PRC and the government is providing strong support to develop the local industry. According to the "Realisation Scheme of Important Specialised Projects on High-Tech Industrialisation of Industrial Process Automation" (工業過程自動化高技術產業化重大專項實施方案), issued by Office for Development of High-Technology Industry of State Development Planning Commission of PRC（中國國家發展計劃委員會高技術產業發展公司）, the PRC government intends to put into place a project for the development of the local automation and control industry in order to increase the market share of local manufacturers to at least 50 per cent. The project also aims at developing domestic system, installation, software and instruments markets with RMB20 billion or above sales and a domestic market share of 30 per cent. in three years. Projected sales for the domestic markets will be RMB40 billion and 50 per cent. market share by the end of the tenth five-year plan (the "Plan") of the PRC.

According to the Ministry of Construction, information technology will play a significant role in reforming the traditional building industry in the Plan. Under the Plan, the PRC will speed up development in intelligent buildings and increase the domestic supply of intelligent building products so that the market share of domestic system integration software will reach 90 per cent. and that of domestic management and application software for building automation will amount to 80 per cent.. This provides a huge market for domestic building automation and control system providers.

GROUP STRUCTURE

The following chart sets out the shareholding structure and the companies in the Group as at the Latest Practicable Date:



Notes:

1. Otto Link is beneficially owned as to 80 per cent. by Dr. Sze and the remaining 20 per cent. by Mr. Tung who is also a Director.

2. Goldwiz is 100 per cent. beneficially owned by Goldwiz Holdings, the securities of which are listed on the Main Board.

3. Mr. T. Siu is a substantial shareholder of the Company.

4. These subsidiaries have been major contributors to the Group.

5. In order to comply with the minimum public float requirement as stated in rule 8.08(1) of the Listing Rules, Otto Link, the controlling shareholder, disposed of 6,300,000 Shares (equivalent to approximately 1.80 per cent. of the existing issued share capital of the Company) to 7 individual investors ("Disposal"). These 7 individual investors are independent third parties, and not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries nor are an associate of any of them. The Disposal was priced at an average price of HK$0.60 per Share (representing approximately 15 per cent. discount to the closing price of the Shares at HK$0.71 per Share on 23 December 2002) in order to increase the public float of the Company to 25 per cent. of the existing issued share capital of the Company. The Disposal was completed on 24 December 2002. Otto Link and Dr. Sze (who is beneficially interested in 80 per cent. of shares of Otto Link and is therefore deemed to be interested in the Shares held by Otto Link) had made corresponding notification for compliance with the SDI Ordinance.

BUSINESS STRATEGY

The Group is one of the leading PC-based open platform automation and control solution, hardware and software providers in the PRC and is principally engaged in the research, design, integration and supply of automation and control systems, components, software applications, products and services for industries and buildings. The Group generates most of its sales revenue from fixed price contracts of system integration services and system control equipment and software products. The Group's strategy is to become an established international total solution provider for automation and control systems focusing on a broad range of sectors including industries and buildings. The Group develops and supplies advanced-technology products, systems and services that can increase productivity, enhance comfort and safety and protect the environment in the form of a unique set of systems for automation and control known as TCS developed and integrated by the Group which is tailor-made for customers based on their individual requirements. The Directors believe that the Group's management team has extensive experience in the automation and control industry and an in-depth understanding of the requirements of major industries in the PRC for industrial automation and control and can leverage on such product knowledge and industry experience for developing building automation and control systems. As such, the Directors believe that the Group is well-positioned to further consolidate its position as a leading total solutions provider for industrial and building automation and control systems in the PRC by capitalising on the increasing demand for higher efficiency through automation from major industries as well as the demand for intelligent buildings in the PRC and to become an international total solutions provider for automation and control systems.

The Group has devised the following strategies to capitalise on growth opportunities brought about by the increasing demand for industrial and building automation and control in the PRC and overseas countries:

- continue its commitment on research and development by cooperation with research departments in various universities in the PRC which are renowned for their research on automation and control for different industries in order to further advance the technology used for TCS;

- continue to form strategic alliances with international or domestic technology partners in order to increase its adaptability of TCS in different industries and to enable the Group to become a total solutions provider for industrial and building automation and control systems;

- continue to expand geographically by strengthening the sales network in the PRC and to increase the geographical coverage in future by exporting products to Southeast Asia, Europe and the United States; and

- strengthen its sales and marketing capabilities by establishing strategic cooperation relationships with international industry players such as Rockwell and other industrial and commercial enterprises in the PRC in order to further enhance the credentials and reputation of the Group.

HISTORY AND DEVELOPMENT

The Group was founded by Dr. Sze and it commenced operations in Shenzhen in 1997 as an automation and control system integrator in order to meet the increasing demand for sophisticated industrial and building automation and control systems in the PRC. Dr. Sze has extensive experience in the integration of industrial automation and control systems and has been working as the general manager of a state-owned enterprise which specialised in industrial automation and control system integration. Dr. Sze has also been involved in the installation of automation and control system for various major industries in the PRC which include the steel industry, oilfields, the petrochemical industry and chemical industries. When the Group was established in September 1997, it was principally engaged in the integration of automation and control systems which mainly used hardware and software developed by overseas manufacturers of automation and control products. At the same time, the Group concentrated on the research and development of automation and control hardware and software of its own. In 1999, the Group successfully developed its own automation and control system known as TCS which is a PC-based open platform system and can be tailor-made in accordance with the specific requirements of customers.

As the Directors believe that the building automation market will experience rapid growth in the future with increasing demand for automation of buildings, in 2000, the Group has successfully expanded into the building automation and control sector by leveraging on its leading industry technology and product reputation and has designed tailor-made building automation and control systems for residential communities and buildings.

The Group has also expanded the product range to include factory automation with automation and control systems targeting at specialised machinery, such as injection moulding machines. The Directors intend to target these products for the Southeast Asian market. In addition, the Directors believe that such sales which are based on fixed period will benefit the Group with more stable income streams.

The Group acquired Techwire, which holds 18.52 per cent. equity interest in Tongling Huarui, in September 2001 by purchasing the entire issued share capital of Techwire, together with a loan of HK$31,020,325 due and owing by Techwire to the then sole shareholder of Techwire at a cash consideration of HK$31,000,000 and assuming a liability of a debt of HK$18,000,000 owed by Techwire to Tongling Economy Technology (Group) Corporation (銅陵經濟技術開發區(集團)總公司) representing the consideration payable by Techwire for the acquisition of 18.52 per cent. equity interest in Tongling Huarui.

The registered capital of Tongling Huarui is US$12,453,800 of which US$12,310,300 has been paid up. Apart from the Group, the remaining 81.48 per cent. of capital of Tongling Huarui is held by the following parties:

Shareholders	**Equity held**
Tongling Economy Technology (Group) Corporation	24.52%
Ever First Enterprises Limited	33.36%
Sino-Swiss Partnership Fund	22.48%
Cavitec AG (Switzerland)	1.12%
	81.48%

Tongling Huarui is primarily engaged in the production and sales of (i) epoxide woven glass fabric copper clad laminate (FR-4); and (ii) thin and rigid laminate used in multi-layer printed circuit board (PCB). Its products are mainly used in the production of electronic circuit board, radio, television, calculator, computer, communication device, automobile electronics and domestic appliances and sold to the domestic and overseas markets.

The Directors believe that the investment is in line with the Group's business plan in terms of co-operation and investment projects with strategic partners as outlined in the Prospectus and would enable the Company to achieve its stated strategy of improving technology in the design, development and quality of its products. In particular, the Directors are of the view that the Group would benefit from co-operating with Tongling Huarui in terms of obtaining first-hand information relating to the latest technology development and supply of laminate boards which may benefit the Group in developing reliable electronic circuits for its integrated system products and in maintaining its leading position in the automation industry. Tongling Huarui is one of the several manufacturers of high quality laminate boards in the PRC. With access to Tongling Huarui's products and know-how, the Group expects to develop higher quality controller modules for its automation and control systems.

The Group had purchased a piece of land (land parcel no. T205-0035) located at High-tech Industrial Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC, on which the Group planned to build its new office. The Group has engaged Shenzhen Investigation and Research Institute (深圳市勘察研究院) who possesses Certificate of Conformity of Quality System Certification (質量體系認證證書), Licence for Quality Inspection of Foundation Piling Project (基樁工程質量檢測許可證), Certificate of Surveying and Mapping Qualification (測繪資格證書), Project Investigation Certificate (工程勘察證書) and Investigation and Design Licence of Shenzhen (深圳市勘察設計許可證) to carry out the investigation work; Construction Design Academy of Harbin Industry University (哈爾濱工業大學建築設計研究院) who possesses Project Investigation Certificate (工程勘察證書), Project Design Certificate (工程設計證書) and Special Project Design Certificate (專項工程設計證書) to carry out the construction design work and Guangdong Yuantian Engineering Company (廣東省源天工程公司) who possesses Certificate of Construction Enterprise Qualification (建築業企業資質證書) to construct the building. An amount of RMB11,886,000 had been paid during the year ended 30 June 2002 which comprised land cost, building design fee and land inspection fee of approximately RMB1,648,000, RMB5,300,000 and RMB4,938,000 respectively.

Regarding the development of the building, there was a capital commitment of RMB115,500,000, which comprised RMB112,000,000 and RMB3,500,000 of construction fee and design fee respectively as at 30 June 2002.

As at 30 October 2002, RMB56 million of the construction fee committed as at 30 June 2002 had been paid. At the same date, the property under development and the capital commitment regarding the development of the building amounted to RMB67,886,000 and RMB59,500,000 respectively.

The construction of property is expected to be completed by first quarter of 2004 and it will be used for general administrative, research and development and assembling of finished-goods purposes. The Group intends to use two floors for research and development and training centre, one floor for general administrative purpose and the ground floor for storage. According to the state-owned land use rights grant contract, the Company is allowed to lease out part of the building, such that three to four floors will be leased out. The construction of property was in progress as at 30 June 2002. As at the Latest Practicable Date, the Group has applied to relevant PRC government departments for the Realty Title Certificate (房地產權證) and will apply for Constructions Licence (施工許可證) for the acquired land. The Group has not obtained the certificate or licence yet. The Group is expected to be benefited from the new office from reducing expenses on rental payment, enhancing the growth and image of the Group and reducing the outsourcing costs to contractors for manufacturing process and the Group expects to expand its research topics to develop products for different business sectors. The Group currently rents approximately 2,000 sq.m, of floor area as office for research and development and general administrative purposes. Upon completion of construction of the new building, approximately 6,000 sq.m among the total area of approximately 17,000 sq.m will be used for general administrative, research and development and assembling of finished-goods purposes. The remaining areas will be leased out for the current arrangement. The Group intends to utilise the remaining area as in line with the expansion plan of the Group's business in the future. The Directors confirmed that the establishment of the new office building is mainly to facilitate the growth and development of the Group. The Directors further confirmed that the leasing out of part of the office building is not a change of the Group's business nature.

After listing on GEM, the Group has established a number of wholly-owned subsidiaries. Techwayson Management was established in Hong Kong on 14 February 2001 to engage in provision of management services to the Group. Techwayson Enterprises was established in the BVI on 22 March 2000 to engage in design and integration of automation and control system. Techwayson Trading was established in Hong Kong on 19 August 2002 to engage in general trading of automation and control systems. Techwire was incorporated in the BVI on 28 February 2001 as an investment holding company to hold 18.52 per cent. equity interest in Tongling Huarui.

The following are consolidated financial statements of the Group for the years ended 30 June 2000, 2001 and 2002 and the unaudited consolidated results of the Group for the three months ended 30 September 2002 extracted from the First Quarterly Report:

Consolidated income statements

	Note	For the three months ended 30 September 2002 (unaudited) *RMB'000*	Year ended 30 June 2002 (audited) *RMB'000*	2001 (audited) *RMB'000*	2000 (audited) *RMB'000*
Turnover	*1*	8,270	143,269	130,961	27,778
Materials and equipment		(349)	(75,517)	(45,948)	(11,697)
		7,921	67,752	85,013	16,081
Other revenue	*1*	6	7,542	3,715	26
Staff costs		(1,352)	(7,519)	(7,224)	(2,299)
Depreciation and amortisation		(209)	(5,896)	(1,104)	(742)
Impairment loss on software development costs		–	(6,000)	–	–
Provision for product warranty costs		(8)	(84)	(5,504)	(1,174)
Other operating expenses		(2,649)	(7,405)	(12,912)	(2,430)
Profit from operations		3,709	48,390	61,984	9,462
Finance cost		(209)	(511)	–	–
Profit before taxation		3,500	47,879	61,984	9,462
Taxation		(389)	(2,849)	(1,547)	–
Profit attributable to shareholders		3,111	45,030	60,437	9,462
Earnings per Share – Basic		RMB0.89 cents	RMB12.87 cents	RMB19.63 cents	RMB3.38 cents

Note 1

Turnover and revenue consisted of:

	Three months ended 30 September 2002 (unaudited) *RMB'000*	Years ended 30 June 2002 (audited) *RMB'000*	2001 (audited) *RMB'000*	2000 (audited) *RMB'000*
Income from fixed price contracts*				
– Sales of system control equipment and software products	8,270	115,249	111,023	22,746
– Fees for system integration services	–	28,020	19,938	5,032
Total turnover	8,270	143,269	130,961	27,778
Reversal of warranty provision	–	6,909	–	–
Compensation received for termination of a project	–	–	3,286	–
Sundry income	–	511	–	–
Interest income	6	122	429	26
	6	7,542	3,715	26
Total revenue	8,276	150,811	134,676	27,804

* *The Group's revenue from fixed price contracts excludes the PRC value-added tax.*

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In the Prospectus, certain business objectives of the Group were stated. Set out below is a comparison of the business objectives of the Group for the two years ended 30 June 2002 as stated in the Prospectus and the actual business progress from 24 January 2001 and up to 30 June 2002 or, if applicable, the changes in such business objectives. The Directors confirm that the Group will continue with its overall business objective of becoming a leading total solutions provider for industrial and building automation and control systems in the PRC and no change in the nature of business is in contemplation.

Business objectives as stated in the Prospectus	**Actual business progress/change in business objectives (if any)**
For the six months ended 30 June 2001	
Product Research and Development	
1. Develop flammable controller modules for use in flammable gas working environments and to replace the existing modules which need to be segregated from explosive environments.	1. By the end of May 2001, the Group had developed the digital I/O modules and anti-explosive analog I/O modules for use in flammable gas working environments. Testings were completed on 28 February 2002.
2. Develop APC models and methods that will be incorporated in the TCS products for broader market coverage.	2. The Group has developed the energy-conservation APC application software which runs on TCS hardware to form industry-specific control systems, such as the blasting furnace burning control system and the locomotive control and monitoring system.
3. Intend to cooperate with various universities including Tsinghua University (清華大學), Zhejiang University (浙江大學), South China Polytechnic University (華南理工大學) and Huadong Polytechnic University (華東理工大 學) for the development of APC.	3. The Group had cooperated with Shanghai Jiaotong University (上海交通大學), which specialises in the research on industrial optimisation software application, for the development of APC application software in oil-refining control system. The Group had also entered into cooperation agreements with Tsinghua University (清華大學) as well as Guangxi University (廣西大學) for the research and development of special function modules and fuzzy logic controller modules respectively.

4.	Form partnership with the Baosteel Group and other large-scale state-owned enterprises for commercial implementation of APC technology in automation and control systems, and to jointly develop automation and control systems with APC functions to become showcase projects in order to attract potential customers.	4.	Instead of cooperating with Baosteel Information Industry Holdings, the Group has entered into a strategic partnership with Shanghai Electrical Automation Design Institute (上海電氣自動化設計研究所) to service the urban railway transit sector.
5.	Develop hot back up/redundancy controller modules and I/O modules with hot pluggable and auto-recognition functions (可帶電撥插的冗餘熱備份) to improve the quality and reliability of existing control system products.	5.	By the end of June 2001, the Group had successfully developed its hot back-up/redundancy controller modules and I/O modules with hot pluggable and auto-recognition functions.

Sales and Marketing

1.	Establish representative offices in PRC cities with high concentration of industries.	1.	The Group has entered into 4 distribution agency agreements focusing on major cities in the PRC including Chengdu, South China, Anhui and Hebei.
2.	Establish product image through large-scale advertising companies and various medias.	2.	The Group had actively participated in various industry exhibitions such as the Shenzhen Advanced Technology Achievement Trading Association (中國(深圳)高新技術成果交易會) and Shenzhen Technology Achievement Exhibition (深圳市科技成果展). In addition, the Group has advertised in various industry journals and newspaper.
3.	Establish a training center with the China Automation Society (中國自動化學會), and provide training courses on TCS system for customers.	3.	In May 2001, the Group had established a training center with the China Automation Society to provide training courses on TCS system to its customers.
4.	Sponsor the China Automation Society (中國自動化學會) in setting up an automation website: http://www.e-automation.com.cn.	4.	The Group is under negotiation with the China Automation Society to further extend the services including technical support and e-commerce for the website.

For the six months ended 31 December 2001

Product Research and Development

1. Specialisation of TCS products tailor-made for specialised industries.	1. The Group has completed enhancing its TCS with compatibility with other software by standardising the controlling functions of the Group's systems tailored for certain specific industries such that the installation and run-in time of the system will be shortened especially in traditional industries such as petrochemical, oil refining and steel refining.
2. Conduct testing and inspections on new TCS systems incorporated with flammable controller modules and hot back-up/redundancy characteristics.	2. Testings for the hot back-up/redundancy controller modules and those modules based on instrinsic safety (flammable safe) which had been developed by the Group at the end of June 2001 were completed on 10 January 2002.

Sales and Marketing

1. Enter into a strategic partnership with Baosteel Information Industry Holdings (寶鋼信息產業集團), which specialises in industrial and building automation and other IT services, and apply TCS systems with implemented APC functions on complex manufacturing and control process involving high-technology such as steel rolling, electric furnaces. Baosteel Information Industry Holdings is a subsidiary of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司), a major state-owned steel refining conglomerate in the PRC whose A shares are listed on the Shanghai Stock Exchange.	1. Instead of forming a strategic partnership with Baosteel Information Industry Holdings (寶鋼信息產業集團), the Group has entered into a strategic partnership with Qinghua Tongfang Corporation (清華同方股份有限公司) to provide services to the urban railway transit sector and with Shenzhen Auto Control Electric Limited（深圳市奧特電器有限公司）to provide building automation services. The Group has signed a Memorandum of Understandings with General Electric Company, a worldwide leader in Metro Railway, for the incorporation of a joint venture to be established in the PRC. The Group is seeking for the cooperative opportunities with GE Transportation Global Signaling Ltd. regrading the MRT projects in Shenzhen, Guangzhou and other cities in the PRC.

2. Broaden the range of products and services with the aim to improve the productivity of customers' manufacturing process.

2. Techwayson Industrial has signed a distributor agreement with Rockwell to become its distributor in Guangdong Province of the PRC, distributing its PLC driving products and electrical products.

Overseas Business Development

1. Conduct pilot projects targeted at specific industrial sectors in Hong Kong and Southeast Asian region.

1. Started discussions with counter partners in Hong Kong and North America for the supply of the Company's automation products in building automation and control systems and home automation systems. Market survey has been conducted to identify the best distribution channel and pricing strategy relating to this project. Negotiations with General Electric Company regarding the sales and application of the Group's train control system are already in progress.

2. Conduct testings of the Group's products to attain recognition certificates from various international industry standard accrediting organisations.

2. Testings have been postponed until the first half of 2003.

For the six months ended 30 June 2002

Product Research and Development

1. Upgrade TCS product technologies through developing automation and control systems that adopt CompactPCI bus technology.

1. The Group has conducted researches on CompactPCI on October 2001. Due to high equipment costs and unstable condition of CompactPCI bus technology, the Group had decided to stop this project on 28 March 2002. The Group does not intend to produce in bulk volume for the moment because of high equipment costs.

2. Conduct testings for the Group's automation and control systems with APC functions to achieve international standards

2. The Group has conducted internal tests on special control systems with APC functions for injection moulding machines.

Sales and Marketing

1. Implement hire-purchase plans for customers with a large production size in order to develop true partnership with customers. The Company will be paid monthly management and operation fees for automation and control systems that are leased out to customers.

1. As a result of adverse market situation, the plans have not yet been put into market.

2. Provide high quality after-sale services encompassing all activities including system design, delivery, installation, testing and inspection, system running and maintenance. It is hoped that the comprehensive services are beneficial for strengthening customer relationship.

2. The Group has implemented various after-sale services for the industrial and building automation business segments.

Overseas Business Development

1. Expand the sales network and volume in the Southeast Asian market and provide localised services.

1. The Group exports a special control system for use in injection moulding machines through customers' merchandising agents in the PRC. The Group intends to further expand the sales network and volume in overseas market.

2. Develop the North American market. The Company intends to use its competitive pricing strategy and localised services to enter into the North American market. Moreover, it will enter into joint ventures with well-established local companies in the North America in order to make use of their brand names for building up the Group's sales network.

2. The Group is planning to develop the North American market through local property developers, construction companies and system integrators to promote the Group's products with competitive pricing strategy in intelligent residential buildings and apartments.

BUSINESS

The Group is one of the leading automation and control system integrators and total solution providers in the PRC to have developed its own products and is principally engaged in the research, design, integration and supply of automation and control systems, components, software applications, products and services for industries and buildings.

TCS is a set of PC-based automation and control systems which adopts non-proprietary open operating platforms such as Windows NT and similar technologies so that parties across the organisation can collect data from or send commands to TCS through internet or intranet. In addition, the Group has also developed software applications and firmware which can support the operations of the CPUs deployed in the controllers and which can be tailor-made in accordance with the specific requirements of customers from different industries.

The Group's industrial automation and control system can be applied in a broad spectrum of industries including the production processes of iron and steel, oil drilling and exploration, petrochemical, cement manufacturing, as well as in the public utilities sector such as power generation. Apart from developing systems for automation in process industries, the Group has also developed automation and control systems targeting factory automation sector such as locomotives for rail transportation and other specialised machinery such as injection moulding machines. For customers of such injection moulding machines, the Group acts as their OEM manufacturer of automation and control systems for such specialised machinery. As there are still not many PRC companies engaged in this new product category in the market and the sector the Group focused on is very specialised, the Group is able to command a higher profit margin for the automation and control systems used at injection moulding machines. However, such level of margin has not taken into account the software development costs incurred for the research and development of this new product since the major costs accounted for were mainly the production costs for controllers. Apart from this, the Group has separately incurred costs of RMB14,837,000 included under software development costs to develop the relevant software, called the Special Function Unit Model (SFUM) system, which is applied on the new product. The Directors believe that with sales of these specialised machinery on a contract term basis, the Group is able to enjoy more stable revenue streams than those generated from project-by-project basis.

Building upon such an open control system and the Group's leading industry position, the Group has developed tailor-made building automation and control system targeting residential communities and buildings in the PRC. The BAS of the Group usually includes building monitoring system, safeguarding system and fire alarm system while these systems usually comprise the followings:

System	**Comprising**
Building monitoring system	Power saving system and environmental control system
Safeguarding system	Surveillance system, anti-theft system, car park control system, patrolling system
Fire alarm system	Fire extinguish and report systems

The cost structure of IAS basically is the same as the BAS. The cost structure of IAS mainly includes staff cost for the design, integration and testing of the industrial automation system and subcontracting costs for hardware supply. The cost structure of BAS mainly includes staff cost incurred in the design, integration and testing of the building automation and control system of properties estate. Since each of the BAS was tailor-made according to each client's specific requirement and was designed by the Group's experienced engineers who have strong expertise in the automation and control industry as well as the building structures in the PRC, the Group was able to charge higher premium on the products and system support services, especially on the consulting advice it provides to clients. The overall profit margin of BAS was about 40 per cent. due to the fact that the Group also signed contracts to supply equipment to the property estate customers with a lower profit margin. The Directors believe that given the emerging market characteristics of BAS and the Group's tailor-made solutions specified according to each client's needs utilising the Group's industry expertise, it is able to generate a higher profit margin.

The Group also intends to gain a headway in the emerging sector of railway transportation by providing environmental and machinery control systems (EMCS) for railway station automation. Capitalising on its product technology and in-depth industry expertise, the Directors believe that the Group has the capability to become an international total solutions provider for industrial and building automation and control systems.

PRODUCTS AND SERVICES

Products

TCS PPC11 Series

The TCS PPC11 controller series provides complete PLC and I/O control functions. This series provides 24Kbytes and 48Kbytes data storage space. It possesses on-line functions and allows functions such as programming, error checking, control and systems set up to be performed through the internet or Ethernet. This series of controllers also possesses functions such as peer-to-peer links for distributing control and sharing of resources, remote I/O control capacity, capacity to support Ethernet and TCP/IP connections and hot back-up/redundancy functions.

TCS PPC11

PPC11/PPC11/HS（雙機熱備份）

PPC 11/P

PPC11/GP

TCS PPC21 Series

The TCS PPC21 controller series consists of PC-based open controllers which enable end-users to program their own variables through sequence function chart, ladder logic and user defined function blocks in accordance with the IEC-1131-3 standard. The TCS PPC21 series provides the capability to link up through the Ethernet for data acquisition and control functions.

TCS PPC21

TCS PPC22 Series

The TCS PPC22 controller series consists of real-time PC-based controllers with WINDOWS as its operating platform. TCS PPC22 controllers can simultaneously provide PC and PLC functions. Customers can utilise a user defined function blocks programmed with C language to define the automation and control processes.

TCS PPC22

TCS PPC31 Series

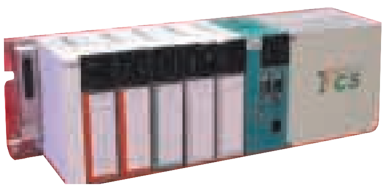
The TCS PPC31 controller series possesses functions which include, PLC and I/O control, on-line functions, internal Java Virtual Machine (a platform-independent engine used to run Java applets and applications) for the execution of programs written in Java and for cross-platform control functions, Internal Web server which can provide data acquisition capability through the Web and automatic warning system which can send warnings to relevant parties by e-mail.

TCS PPC31

TCS PC104 Series

The TCS PC104 controller series is a PC-based controller designed for industrial uses. This is an open platform controller where users can choose different models of CPU cards, I/O modules and supporting software according to their needs. The software supports C language programming which allows users to operate I/O modules in a complete PC-compatible environment.

TCS PC104



Services

Being a one-stop, complete automation and control systems provider, the Group also offers the following system integration and related technical support services:

System integration services

In an effort to meet the requirements of customers from various industries to automate their complex manufacturing process and their demands for solutions that integrate systems from the shop floor to the top floor, the Group's system integration services put control platforms, communications capabilities and visualisation options together and seamlessly integrate control and information throughout any enterprise, residential community and buildings. Services provided by the Group include:

- hardware, software and related instrumentation for industrial and building automation and control systems;
- professional support for implementing field control technology in industrial and building automation and control systems;
- open network strategy, which includes Ethernet and internet to bring to customers advanced network technology, greater system performance and higher productivity for communication throughout the enterprise, the residential community and the building; and
- other related technical information and implementation support for control systems.

Value-added support services

The Group intends to provide unrivaled quality and comprehensive support services for the automation and control systems it supplies and thus enhance its competitive advantage. Such support services include:

- *Overall control*

  The Group can provide overall automation and control system solution design that will improve customers' efficiency with minimum effort and investment. The Group's support services include functional requirements assessment, architectural requirements and software configuration;

- *Comprehensive engineering services*

  Field support, engineering assistance, conversion and upgrade services are a few of the technical support aspects offered by the Group to its customers. These services can range from the most basic product set-up, installation and testing of automation and control systems to sophisticated, comprehensive consulting and project management;

- *Training*

The Group offers a variety of training facilities for customers from standard training classes to fully customised performance solutions so as to provide them with hands-on practice and real-world simulation necessary to understand the full capacity and materialise the full benefits of the Group's products;

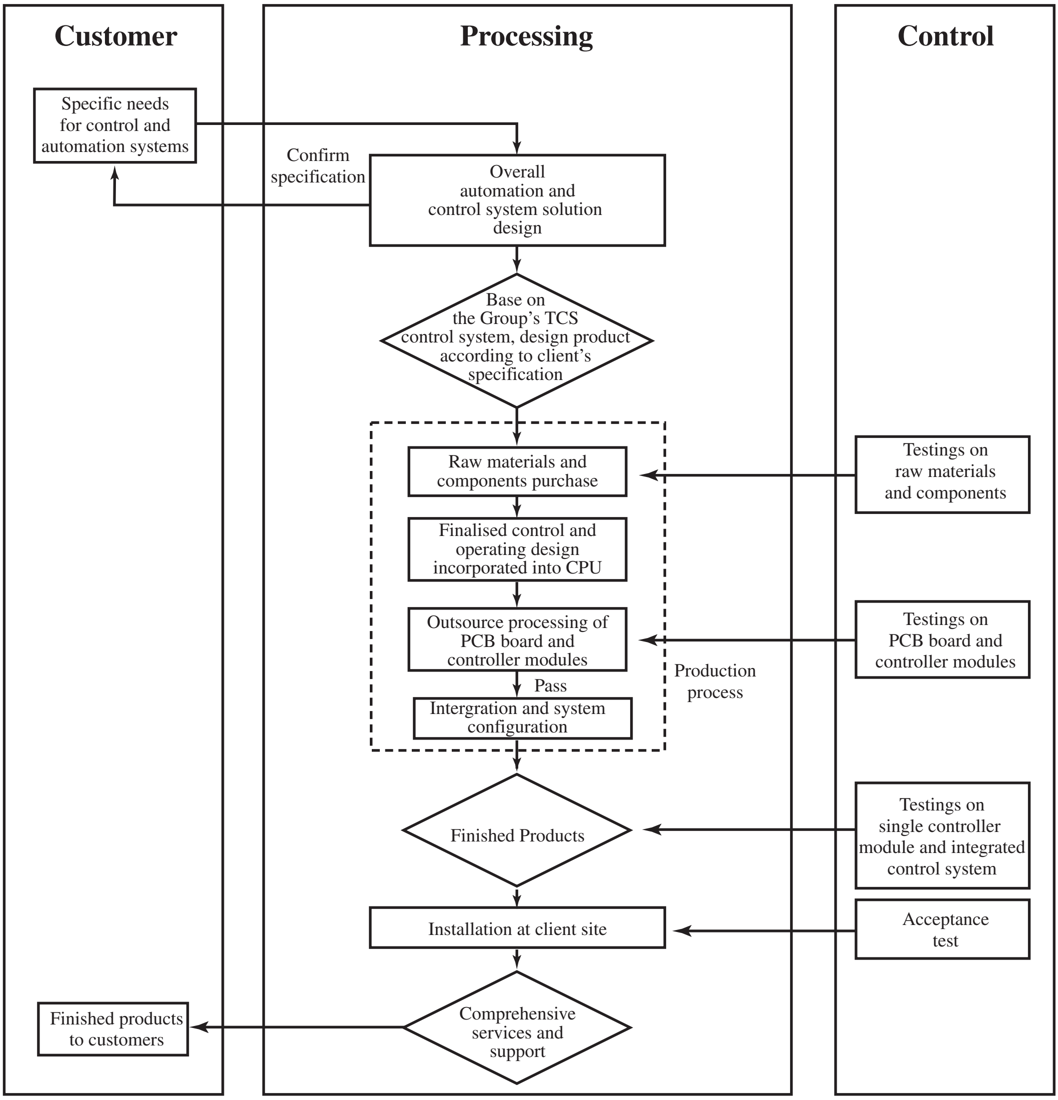
- *Technical maintenance*

The Group possesses comprehensive and rapid repair and exchange services that provide a quick exchange of replacement units to help reduce downtime of its customers automation and control systems. The Group normally offers one year warranty for its controller modules depending on the customers' requirement in addition to its experienced technical staff prepared to troubleshoot technical problems for customers;

- *Remote diagnosis technology*

The Group has introduced an online diagnosis system for companies seeking to enhance their predictive maintenance capabilities. Using internet-based online surveillance systems, customers can control remote monitoring and diagnosis functions which means better access to information to plant floor assets, more frequent monitoring of critical machinery and eventually the integration of plant floor asset management information throughout any enterprise.

Project Processing Cycle



SUPPLIERS

The largest supplier to the Group accounted for approximately 63 per cent., 47 per cent. and 36 per cent., respectively of the Group's total purchases in each of the three years ended 30 June 2000, 2001 and 2002, and the five largest suppliers to the Group accounted for approximately 95 per cent., 96 per cent. and 93 per cent., respectively, of the Group's total purchases for each of the three periods mentioned above. All settlement of the Group's purchases were made in RMB for each of the three years ended 30 June 2000, 2001 and 2002. The Group has around one year of relationship with the five largest suppliers of the Group.

The general suppliers mainly supplied components to the Group, such as UPS, printers, monitors, network adapters, hard disk and industrial computers. The contract manufacturers mainly manufactured controller modules that were designed by the Group. All of the suppliers of the Group were electronic instrumentation and control equipment suppliers.

Typically, when developing and implementing new product solutions, the Group chooses among a variety of raw materials and components from different instrumentation and control equipment suppliers to select the most appropriate product for the needs of the system applications. Raw materials refer to parts which will undergo further processing, including integrated circuits, electric resistance, electric capacitors and electric cables while component parts refer to printers, instrumentation and network equipments such as sensors and thermostats required for an automation and control system. The Group in the past did not experience any difficulty in sourcing instrumentation and controller components from its suppliers. Furthermore, the Directors believe that instrumentation and related components are readily available on the world market from a number of different suppliers. Even if any particular instrumentation and control equipment cease to be available to the Group, the Directors believe that the Group will be able to source instrumentation and control equipment with similar functions from alternative suppliers and that the Group does not have over-reliance on any particular supplier. The Group makes no direct purchase from overseas suppliers. All imported materials and components are purchased from the PRC distribution agents of such overseas suppliers.

Purchases are made on a job order basis. Once an order is received, the Group will decide on the raw materials and component parts required for the project and make purchases based on its customers' requirements. Certain raw materials will be purchased by the Group's contract manufacturers for processing. The Group provides the sample of the finished products, the designs of relevant component parts of the finished products, diagrams of positioning of inter-PCB, PCB format of printing, bill of materials and equipment for testing (which would be returned to the Group) to the Group's contract manufacturers who will then process the TCS tailored controllers and related modules. After production and respective testings on the finished products, they will be transported and installed at the customers' sites. The finished products can be exchanged within one year after delivery if any defects are found.

The processing value for each of the three years during the Trading Record Period for the 5 major processing parties of the Group is as follows:

Year ended 30 June	**RMB'000**
2000	–
2001	45,677
2002	70,097

The percentage of purchases from general suppliers and during the three years ended 30 June 2000, 2001 and 2002 is 100 per cent. and 0 per cent., 4 per cent. and 96 per cent., and 7 per cent. and 93 per cent. respectively. In 2000, the Group sourced from the general suppliers for production. For the two years ended 30 June 2001 and 2002, most of the Group's contract manufacturing costs were materials and labour costs. During these two fiscal years, the role of the Group was mainly sourcing the contract manufacturers for production.

Payment terms to the suppliers are classified into three categories. For the contract manufacturers who manufacture controller modules designed by the Group, approximately 50 per cent. of the respective total purchase will be paid within one week upon signing of contracts and the remaining 50 per cent. balance will be settled within two weeks of delivery. As an industry practice, suppliers usually do not object to a three to six months settlement period for the Group if the 50 per cent. balance cannot be settled within two weeks after delivery. For other raw materials and component parts, 20 to 25 per cent. of the respective total purchase will be paid within one week upon signing the contract, another 70 per cent of the respective total purchase will be paid upon delivery and the remaining 5 to 10 per cent. balance will be retained as a quality warranty which will be refunded to the suppliers if no default is found within three months. Again, as an industry practice, suppliers usually do not object a three to six months settlement period for the Group if the 70 per cent. balance cannot be settled within two weeks upon delivery. The Group generally pays its raw materials and component parts suppliers within three months after delivery of products and would only extend the payment period to six months when necessary. For products supplied under distributorship agreements, the Group pays the suppliers according to the respective payment schedules as specified in the distribution agency agreements. During the Trading Record Period, the settlement of payments by the Group has not been later than six months.

As at the Latest Practicable Date, none of the Directors, their associates or any shareholder who to the knowledge of the Directors owns more than five per cent. of the issued share capital of the Company had any interest in any of the Group's five largest suppliers for each of the three years ended 30 June 2000, 2001 and 2002, and all the suppliers are independent third parties.

QUALITY CONTROL POLICY

The Group initiates quality control procedures from the beginning of a project through to the completion of the installation of automated and control systems for its customers. Semi-products of the controller modules designed by the Group and manufactured by the Group's contract manufacturers are first subject to testings on production line to determine if quality standards are up to the levels set out for contract manufacturers. After the controller parts are assembled and put through testings for controlling functions, they are then subject to 72 hours of extreme temperatures (runtime temperature from 0ºC to 60ºC, storage temperature from -20ºC to 80ºC) and extreme humidity (from 15 per cent. relative humidity to 90 per cent. relative humidity) testing. Finally, they will have to undergo a pre-programmed all-position testing procedure conducted by computers before being delivered to customers. For building automation and control systems, test running of the entire system will be conducted on-site after installation.

The Group's contract manufacturers will be required to follow the procedure manuals and specifications of product requirements provided by the Group for producing products for the Group. Outputs will undergo double examinations before they are incorporated into the Group's final products.

Apart from the strong emphasis on product quality, the Group has been implementing quality programs for its management. Please refer to the sub-section headed "Awards and recognition" for details of awards in respect of the management of the Group. Currently, there are around 9 staff members responsible for the Group's quality control.

MAINTENANCE AND SUPPORT

The Group provides customer support services during project implementation and the warranty period. Depending on the customers' requirements, the Group grants 6 to 36 months warranties for control equipments, software products and system integration services. Any malfunctioned third party hardware such as the peripheral parts of a system ranging from operation stations to power source, will be exchanged free of charge by the Group within one year of installation or guaranteed in accordance with the warranty terms from the original third party hardware manufacturer. After one year of installations, the Group also provides on-going maintenance and support services for customers at a fee.

The customer support services of the Group also include customer support web pages at which solutions to those technical problems frequently encountered by customers are available. The Group provides a 24-hour technical support hotline service and responds to e-mail enquiries made by customers. The Group can perform remote diagnosis on the customers' systems. In addition, there will be guaranteed on-site maintenance within 48 hours of first call if necessary.

Although the Group had not incurred any material warranty cost historically, its management considers that additional provision for product warranty cost is appropriate for prudence concern. Therefore, based on historical experience and estimation of the Group's liability, which may be derived from warranties granted on system control equipment, software products and system integration services, the Group's management has provided general provision for product warranty costs of approximately RMB1,174,000, RMB5,504,000 and RMB84,000 which represents approximately 4.23 per cent., 4.20 per cent. and 0.06 per cent. of the Group's turnover during each of the three years ended 30 June 2002 respectively. The Group has recorded a significant decrease of warranty provision for the year ended 30 June 2002 as the utilisation of warranty provision remained at a low level with the improvement of the Group's products quality.

The warranty provision represents the management's best estimate of the Group's liability under 12 to 36 months warranties granted on system control equipment, software products and system integration services. Such level of liability is based on historical experience and the management's estimate of the level of future claims.

SALES AND MARKETING

The Group carries out its sales and marketing functions through its own marketing team as well as through cooperation with local distributors which are major control systems and instrumentation providers located in major cities of the PRC. The Group's own marketing team which comprises 20 sales and marketing staff is responsible for the marketing and promotion of the Group's TCS automation and control systems as well as originating large scale automation and control projects. While the Group's local distributors normally target at the small to medium sized projects.

The Group's marketing team and its local distributors will make initial contacts with potential customers by visiting them directly or by gathering the latest market information from the local design institutes for various major industries regarding potential customers and then collaborate with the project and product managers who negotiate and finalise the deal.

At the same time, the Group actively establishes its brand awareness by participating in various exhibitions and advertising in media like industry journals, newspaper and other publication. It also participates or hosts product seminars and conferences with major industry partners such as the China Instrumentation Association (中國儀器儀表學會) and the Guangdong Automation Association (廣東省自動化學會) in order to attract potential customers and provide the latest information on the Group's products to existing customers.

To complement the Group's product range and strengthen its sales network, the Group has been appointed as the distributor of Rockwell's PLC, driving and electrical products for Guangdong province of the PRC since 1 January 2002. The appointment has been renewed for a period of one year effective from 1 October 2002. Rockwell is one of the largest industrial automation system providers in the United States and offers a comprehensive product range for industry automation solutions. The Directors believe that the distributorship enables the Group to serve the topnotch sector of the industrial automation and control market by providing quality products and services. It will further help the Group building up its brand as a supplier of quality automation and control systems.

CUSTOMERS

The largest customer of the Group accounted for approximately 65 per cent., 34 per cent. and 65 per cent. of its turnover during the Trading Record Period respectively. During the same period, the Group's five largest customers accounted for 100 per cent., 99 per cent. and 99 per cent. of the Group's respective turnover and the Group's turnover was settled in RMB and Hong Kong dollar. Three out of the five largest customers are state-owned enterprises and sino-foreign joint venture companies in PRC and the other two are construction related companies. The Group has less than two years of relationship with the five largest customers of the Group. The Group derives a substantial portion of its revenues from large system contracts which directly led to the concentration of customers during the Trading Record Period. None of the Directors or their associates has any interest in any of the Group's five largest customers.

Subject to customers' specific requirements, the Group generally demands a deposit of approximately 10 to 20 per cent. of the total amount payable within 7 days of signing the contract for industrial automation systems. Within two months, the Group will deliver the hardware and charge up to approximately 80 per cent. of the total amount payable which customers will have to settle within seven days from the time of quality acceptance. After completion, the Group will issue billing for another five per cent. of the total amount payable which have to be settled within two weeks from the time of quality acceptance by the customer. The Group will allow one year after completion of installation of the entire system for customers to test run the system. Two weeks prior to the end of such period, the Group will issue billing for the remaining approximately five per cent. balance of the total amount payable, which is already provided in the sales contract as retention monies and recognised as income upon the completion of installation based on the policy on revenue recognition adopted by the Group as set out in the appendix I of this document. Customers then have to settle the balance within two weeks upon the issue of the invoice. Specific payment terms may be agreed by the parties of building automation system contracts. The Group's customers paid either by telegraphic transfer or by cheque during the Trading Record Period and the Group will continue to accept such payment methods for its new customers. As an industry practice, generally a fixed amount will be retained during the warranty period. As the bulk of the total contract sum will be paid by the customers within seven days from the time of quality acceptance of the system hardware, the Directors believe that the credit risk the Group faces is minimal. For sales of automation and control systems targeted at the specialised machinery, 60 per cent. of the total contract sum is paid within one week of contract signing as deposit, and the balance will be payable by instalments upon deliveries. There is no provision for bad debt for the three years ended 30 June 2002. As at the Latest Practicable Date, none of the Directors, their respective associates (as defined in the Listing Rules) and shareholders who to the knowledge of the Directors own more than five per cent. of the issued share capital of the Company had any interest in any of the customers of the Group for each of the three years ended 30 June 2000, 2001 and 2002.

INTELLECTUAL PROPERTY RIGHTS

The Directors consider that the intellectual property rights of the Group are material to the business and operations of the Group.

(a) Trademarks

As at the Latest Practicable Date, the Group had registered the following trademarks:-

Trademarks	Place of registration	Class	Registration Number	Registration Date
T&B	PRC	38	1691559	28 December 2001
Broadlink	PRC	38	1691558	28 December 2001
SmartHome	PRC	37	1619790	14 August 2001
WAYSON	PRC	9	1614466	7 August 2001
Techwayson	PRC	9	1614467	7 August 2001
TCS TCS	HK	9	B03635/A-B/2002	4 April 2002

Notes:

1. Items registered under Class 38 of the Trade Marks Law of the PRC include information transmission, computer terminal communication, computer auxiliary information and image transmission, information transmission equipment for hire, optical fibre communication and modem for hire.

2. Items registered under Class 37 of the Trade Marks Law of the PRC include construction information, pipelines laying and maintenance, indoor decoration and repair, indoor decoration, electrical equipment installation and repair, air-conditioning apparatus installation and repair, office machine and equipment installation, maintenance and repair, kitchen apparatus installation and repair computer hardware installation, maintenance and repair and lighting equipment installation and repair.

3. Items registered under Class 9 of the Trade Marks Law of the PRC include boiler control instruments, manometers, electrical measuring instrument, complete sets of electric inspecting apparatus, electric regulating apparatus, electric convertors, distribution consoles (electricity), control panels (electricity), machinery apparatus for computer operating instruments, automatic apparatus for power station.

4. Items registered under Class 9 of the Trade Marks Ordinance of Hong Kong are scientific, electric, weighing, measuring, signalling, checking (supervision) apparatus and instruments, computers, recorded computer programmes, data processing apparatus, automatic calculating machines, electro-dynamic apparatus for the remote control of signals, inductors, electronic test installations, automation installations for stations of electrical power supply, industrial automation control apparatus and instruments, boiler control instruments, pressure gauges, manometers, electric measuring devices, electrical regulating apparatus, voltage regulators, distribution consoles (electricity), control panels (electricity), mechanisms for counter-operated apparatus.

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks and the registration of which has not been granted yet:-

Trademarks	Place of registration	Class	Application number	Application date
TCS	PRC	9	2000067052	19 May 2000
Techwayson Techwayson	HK	9	200025857	25 November 2000

Notes:

1. Items applied for registration under Class 9 of the Trade Marks Law of the PRC include computer, recorded computer program, data processing apparatus, automatic measurer, electro-dynamic apparatus for the remote control of signals, measuring apparatus, inductors (electricity), complete sets of electric inspecting apparatus, automatic apparatus for power station and industrial automatic control system.

2. Items applied for registration or registered under Class 9 of the Trade Marks Ordinance of Hong Kong are scientific, electric, weighing, measuring, aligning, checking (supervision) apparatus and instruments, computers, recorded computer programmes, data processing apparatus, automatic calculating machines, electro-dynamic apparatus for the remote control of signals, measuring apparatus, inductors (electricity), electric test installations, automation installations for stations of electrical power supply, industrial automation control apparatus and instruments, boiler control instruments, pressure gauges and/or manometers, electric measuring devices, electric regulating apparatus, voltage regulators, distribution consoles (electricity), control panels (electricity), mechanisms for counter-operated apparatus.

(b) Patents

As at the Latest Practicable Date, the Group had applied for registration of the following patents and the registration of which has not been granted yet:–

Patents	Place of registration	Application number	Application date
Tailored Control System	PRC	00107544.6	18 May 2000
Controller Embedded With Advanced Process Control (APC) Software	PRC	00129789.9	12 October 2000
Real-Time Embedded Operating System Based Softlogic Controller	PRC	00129788.0	12 October 2000
Infra-Controller with Web-Server	PRC	00129787.2	12 October 2000

(c) Copyrights

As at Latest Practicable Date, the Group had registered the following copyrights:

Copyrights	Place of registration	Registration number	Registration date
Butterfly, Programming & Configuration Software for PPC21 Controller	PRC	2001SR0276	5 February 2001
Firefly, Configuration Software for PPC31 Controller	PRC	2001SR0277	5 February 2001
Dragonfly, Configuration Software for PPC11 Controller	PRC	2001SR0278	5 February 2001
TFIX, Monitoring and Control Software for TCS Tailored Control System	PRC	2001SR0279	5 February 2001

(d) Domain names

As at the Latest Practicable Date, members of the Group held the following domain names:–

Domain Name	Registration date
www.techwayson.com	25 April 2000
www.techwayson.com.cn	25 October 2001
www.i-control.com.cn	20 November 2001
www.e-automation.com.cn	12 August 2000
www.techwayson.com.hk	5 October 2000

RESEARCH AND DEVELOPMENT

The Group places great emphasis on research and development. Currently, there are around 31 staff members focusing on the research and development of (1) automation and control systems targeting at specialised machinery such as injection moulding machines (注塑機), air compressors, chiller machines (冷水機) and tube bending machines (彎管機); (2) upgrading the existing building automation and control system and (3) home automation and control system based on LonWorks bus solutions.

Apart from the cooperation agreement with Shanghai Hui Ming Automation Information Industry Company Limited (上海交通大學慧銘自動化信息產業有限公司) (Hui Ming), a business entity in which Shanghai Jiaotong University (上海交通大學) has invested, which has co-operated with the Group to develop APC software application for incorporating industrial optimisation capacity into the Group's TCS, the Group has also entered into cooperation agreements with the research institutes of various major universities in the PRC for the research and development of automation and control systems for injection moulding machines and fuzzy logic controller modules.

Furthermore, the Group had applied to the Shenzhen Science and Technology Bureau (深圳市科學技術局) for setting up the Shenzhen Automation Engineering Technology Research and Development Center (深圳市工業自動化工程技術研究開發中心) and for a research funding in support of the Group's continuous effort in developing new automation and control technologies on 5 April 2002. The granting of relevant approval is pending. The Directors believe that the setting up of the centre will be beneficial in building up recognition of the Group's leading industry position.

The Group had incurred research and development costs of RMB0.8 million, RMB30.5 million and RMB8.4 million during the respective year ended 30 June 2000, 2001 and 2002 of which research cost of RMB0.8 million, RMB2.8 million and RMB1.5 million had been charged to income statement and development costs of nil, RMB27.7 million and RMB6.9 million had been capitalised for the respective years.

Development cost is capitalised only to the extent to those incurred for specific projects which are deferred and where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product of process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

When there is any external or internal sources of information indicating that the capitalised development cost is impaired, impairment loss is recognised in the income statement in the period of occurrence. An impairment loss of nil, nil and RMB6 million had been recognised during the Trading Record Period. The impairment loss of RMB6 million recognised during the year ended 30 June 2002 represented software development cost of developing a system for Shenzhen MRT Phase 1 project that the Group failed in bidding during the year.

The cost capitalised and unimpaired as at 30 June 2002 included expenditure for the development of a SFUM system and an automotive control system which had been applied in the Group's products to generate revenue to the Group during the year ended 30 June 2002 and is under testing by potential customers. The testing is expected to be finished during the year ended 30 June 2003. The Directors are of the opinion that the related future revenue would exceed the cost. The Group has also cooperated with two independent parties in developing automation and control system modules for specialised industries such as railway system. The Directors believe that by cooperating with the relevant industry experts in some of the new research and development focuses, the Group would not only benefit from gaining knowledge of the latest industry trends but also having more resources for diversifying into new research topics.

COMPETITION

The Group operates in a highly competitive market which is subject to regular technological changes. For each of the Group's products, the Directors are aware of competition from similar products available in the market. There are also a number of system integrators in the PRC market who only integrate other companies' control systems and equipment for a fee. The Group faces and may face the following competition in respect of its automation and control products:

- PRC-based competitors of the Group who have focused on several specialised industry sectors or specific regions in the PRC and have adopted a low-price strategy in order to attract customers in the PRC; and

- large overseas automation and control system integrators and manufacturers whose products have a following in overseas markets and who sell their products in the Asia Pacific region.

However, the Directors believe that the Group is one of the few companies in the PRC who have developed its own open platform PC-based automation and control systems tailor-made for customers' requirements and who has extensive skill and knowledge for application in various major industries in the PRC. On the other hand, the Directors believe that while competition from the international players will become more intense with the PRC's accession into the WTO, the Group can still achieve win-win situation by entering into strategic cooperation relationships with these international players who are also trying to localise their sales and manufacturing functions in the PRC. The Directors further believe that one of the most important competitive strengths of the Group lies in the ability of its staff to master new technology and to put the technology into practical use to improve and enhance the Group's products and services offered to customers. As such, the Directors believe that the Group is well-equipped to compete in the markets in which it operates.

Please also refer to the paragraph headed "Competition" in the section headed "Risk Factors" of this document for further information regarding competition that the Group faces.

AWARDS AND RECOGNITION

In its effort of pursuing leading technologies and quality management, the Group has gained the following awards:

Awards	Awarded by	Date
Shenzhen Top 100 Technology Enterprises (深圳科技百強企業)	Shenzhen Committee of Appraisal and Evaluation Experts (深圳市評價專家委員會) Shenzhen Enterprise Evaluation Society (深圳市企業評價協會)	2001
1st Prize for Shenzhen-Advancement in Science and Technology (深圳市科學技術進步一等獎)	Shenzhen Municipal People's Government (深圳市人民政府)	2001
High Technology Enterprise (深圳市高新技術企業)	Shenzhen Science and Technology Bureau (深圳市科學技術局)	2001
ISO9001: 2000 Quality System Certificate	China Quality Certification Centre For Import and Export	2001
2nd Prize Award for Science and Technology in Guangdong Province (廣東省科學技術獎勵二等獎)	Guangdong Province People's Government (廣東省人民政府)	2002

FUTURE PLANS AND PROSPECTS

Industrial automation

The accession of the PRC into the WTO, the Go-West Campaign and Beijing's winning the hosting right of the 2008 Olympic Games will all drive the PRC industrial enterprises to improve the efficiency and quality of their manufacturing process or face severe competition, both internally or from overseas. In order to improve their efficiency, the Directors believe that most PRC industrial enterprises will seek to develop new automation and control systems or rebuild and upgrade their existing systems. Hence, theoretically, the demand for industrial automation and control products increase sharply with the above-mentioned driving factors. Furthermore, although the PRC automation and control market is dominated by the importation of products manufactured by major overseas manufacturers, most of them tend to develop their own control software for their proprietary systems, and the connections and communication standards of which are not compatible with or supported by systems manufactured by other manufacturers.

In light of this, PRC enterprises may face difficulties when they try to upgrade their existing systems. The Directors are of the opinion that, as the Group's TCS system utilises controller devices which may be connected through Ethernet running TCP/IP, TCS is an open system which offers the advantages of integration and sharing of resources and is best suited for adoption by industrial enterprises in the PRC which often use fragmented automation and control systems. Therefore, the Directors believe that the Group not only can develop a niche market in retrofitting and upgrading existing systems of customers who are usually small-to-medium size manufacturers in the PRC and are often unable to afford the expensive imported proprietary systems, but with the recognition of the concept of open control systems promoted by the Group, it can also develop into a full-blown total solution provider for both the newly-built and retrofit market of the PRC automation and control industry.

I. Process automation sector

In addition, the Group intends to further strengthen its efforts in product customisation for different specialised industries such as power generation and steel refining by standardising its automation and control systems targeting the specific needs of each process industry. The Directors believe that the shorter time required for system integration of these standardised products will speed up the application of the Group's products in various industries.

II. Factory automation sector

Apart from the traditional process industries, the Group intends to continue to develop the factory automation market by providing automation and control systems for specialised machinery such as injection moulding machines, chiller machines, air-compressors and tube bending machines. The Directors believe that while the market has been dominated by foreign products, there are tremendous business opportunities for the Group as a result of the increasing pressure for lower price and better quality due to keen competition. The Group therefore intends to continue to explore further business potentials of these products in the Southeast Asian market. The Directors believe that this new product segment will not only expand the Group's geographical coverage, but with sales based on fixed contract period instead of on project-by-project basis, the Group will be able to benefit from a more stable income stream.

Building Automation

With building automation system becoming one of the Group's major sources of income, the Group intends to capitalise on such success and continue to gain market share in the automation industry for residential communities and buildings. The Group also intends to cooperate with system integrators of building automation systems on the system integration part of a project so that the Group can focus on research and development of new technologies for building automation and control systems. The Directors believe that since the Group's open platform using Ethernet connection also matches with that of the standard commonly adopted in building automation and control systems and home automation systems, the Group is well-positioned to develop the building and home automation market as in the industrial automation market.

Furthermore, the Group intends to gain a headway in the emerging sector of railway transportation by providing environmental and machinery control systems (EMCS) for railway station automation. Also in the realm of building automation system, the EMCS brings together ventilation, central air-conditioning, lighting, platform door opening, fire control and escalator control under one centralised control system. The Directors believe that with an increasing number of major cities in the PRC going to construct their own metro railway systems, the Group can take advantage of such opportunities in the development of automation and control system for the railway sector. Specifically, the Group intends to participate in the competitive bidding for the EMCS of Shenzhen MTR Phase II construction project in 2003.

Along with the boom in the building automation market, the Directors believe that the Group can tap the home automation market which has become popular in the North American countries for a number of years. The Group intends to develop a home automation system that is able to control the communication, security and entertainment system through one centralised control system instead of separate control systems for each function commonly offered by overseas suppliers. The Directors believe that with its strong cost competitiveness relative to the overseas suppliers, the Group can establish its market share by targeting at the upmarket residential houses in North America, China as well as in Hong Kong.

USE OF PROCEEDS FROM THE PLACEMENT OF SHARES IN FEBRUARY 2001

The Company raised approximately HK$41.75 million of net proceeds through the placement of 70 million Shares at HK$0.78 per Share in February 2001. Set out below is the intended use of proceeds as stated in the annual reports of the Company for the years ended 30 June 2001 and 2002:

- approximately HK$19 million for the research and development of new control system technologies up to 31 December 2001;
- approximately HK$7 million for cooperation and investment projects with large-scale customers in the PRC up to 30 June 2001;
- approximately HK$7 million for marketing and promotional activities up to 30 June 2001;
- approximately HK$6 million for the geographical expansion of the Group up to 31 December 2001;
- approximately HK$2 million for establishing a training centre for the Group's customers up to 30 June 2001; and
- approximately HK$1 million for developing the e-automation.com.cn website up to 30 June 2001.

The Directors confirmed that the use of proceeds are in line with the overall business objectives and implementation plans as stated in the Prospectus. The Group's actual use of proceeds for the period since its listing in February 2001 and up to 30 June 2002 was as follows:

- approximately HK$19 million for the research and development of new control system technologies;
- approximately HK$15 million for cooperation and investment projects with large-scale customers in the PRC;
- approximately HK$2 million for marketing and promotional activities;
- approximately HK$1 million for the geographical expansion of the Group; and
- approximately HK$0.4 million for establishing a training centre for the Group's customers.

The Group will use the remaining unutilised net proceeds of approximately HK$3.75 million in accordance with its plans as set out in the Prospectus. The unutilised net proceed is caused by reallocation of sources of fund between the proceeds and the internal sources of funding in financing the Group's business plan. Due to the larger than expected scale of cooperation and investment projects in PRC, the Group has invested HK$7 million more than planned for cooperation and investment projects in industrial automation system, especially in copper clad laminate industry. The investment projects would enable the Group to achieve its stated strategy of improving its technology in the design, development and quality of its products. The Directors expect that there will be positive contributions to the future earnings of the Group for its financial year 2003.

DIRECTORS

Executive Directors

SZE Kwan (史珺) aged 37. Dr. Sze is the chairman, founder and managing director of the Company and was appointed as an executive director on 1 September 2000. He is the founder of the Group and is responsible for overall strategy and planning for the automation and control systems of the Group. Dr. Sze has 15 years of experience in automation and control having worked as the general manager of a state-owned enterprise which specialised in industrial automation and control system integration prior to establishing the Group and is the first to develop automation and control system that is tailor-made for customers' unique requirement which he named TCS. TCS is an automation system that was promoted as priority project by Chinese Hi-tech Industrialisation Cooperation Group (中國高新技術產業化協作組織) in 1999. At the same time, Dr. Sze is the vice-chairman of Shenzhen Instrumentation & Control Society (深圳市儀器儀表行業協會) and has obtained patents for various technological inventions he has developed. Dr. Sze graduated with a bachelor degree in electronic engineering from the Nanjiang Institute of Technology of China (中國南京工學院) in 1985 and a master degree in photo-electronics from East China Institute of Technology (華東工學院) in 1988. He also obtained a doctorate in photoelectric technology from the Shanghai Institute of Technical Physics of the Chinese Academy of Science (中國科學院上海技術物理研究所) in 1991.

LEE Tiong Hock (李長福), aged 62. Mr. Lee was appointed as an executive director of the Company on 1 September 2000. He has over 27 years of experience in commercial and investment banking. From 1987 to 1997, he served as the senior manager of marketing department of an international bank in Hong Kong and, concurrently, as general manager of its two deposit-take subsidiaries. During 1989 to 1997, he was engaged in corporate finance advisory business, and since then in private financial consultancy business in Hong Kong. He is currently an executive director of Goldwiz Holdings, a company listed on the Main Board. Mr. Lee is an Associate of The Chartered Institute of Bankers, London. Mr. Lee joined the Group in June 2000.

TUNG Fai (董輝) aged 40. Mr. Tung was appointed as an executive director of the Company on 1 September 2000. He is responsible for the overall strategic planning and financial management of the Company. Mr. Tung has more than 12 years of experience in investment management and is very experienced with the investment business environment in the PRC and Hong Kong. He holds a bachelor degree in economics from the Jiangxi Finance Institute in the PRC. Mr. Tung joined the Group in June 2000 and has been appointed as an authorised representative of the Company.

YE Wei Fa (葉維發), aged 44. Mr. Ye is an executive director of the Company. He was appointed as a Director on 20 June 2001. He is responsible for daily administration and operation of the subsidiary of the Company in Shenzhen of Mainland China. Mr. Ye has more than 15 years of experience in administration and operation management. Prior to joining the Company in September 2000, he was a managerial staff in the office of Shenzhen Municipal Government.

Non-executive Director

LIN Gongshi (林功實), aged 64. Mr. Lin is a non-executive director of the Company. He was appointed as a Director on 27 November 2000. He is a professor at the Economic Faculty of Tsinghua University (清華大學) in the PRC. Mr. Lin has more than 10 years of experience in the academic research on marketing and has developed extensive network with various influential corporations, hi-tech companies, sino-foreign joint ventures and chain supermarkets. He has also published a number of theses and case studies which were all highly received both in the academic and business areas.

Independent Non-executive Directors

WEE Soon Chiang, Henny (黃循強), aged 56. Mr. Wee was appointed as an independent non-executive director of the Company on 7 September 2001. Mr. Wee graduated from the University of Newcastle in Australia with a Bachelor of Commerce (Accounting) in 1970 and qualified as a Chartered Accountant (Australia) in 1975. He is currently the proprietor of Messrs. Henny Wee & Co., a firm of Certified Public Accountants.

WONG Kam Kau, Eddie (王鑑球), aged 54. Mr. Wong was appointed as an independent non-executive director of the Company on 7 September 2001. Mr. Wong graduated from the Chinese University of Hong Kong. He is a fellow member of the Chartered Institute of Secretaries and Life Management Institute. He is currently a director of Jithra Limited, Hornby Asia Limited, Belmont Capitals Limited and Belmont Corporate Services Limited.

SENIOR MANAGEMENT

YANG Jun (楊俊), aged 35. Dr. Yang is an engineer of the research and development department of Techwayson Industrial. He graduated with a bachelor degree in automation from TangShan Engineering Technology Institute (中國唐山工程技術學院) in 1988 and a master degree in industrial automation from Dong Bei University (中國東北大學) in 1994. He also obtained a doctorate in the National Laboratory of Steel-Rolling and Continuous Casting Automation (軋鋼及連鐵自動化國家重點實驗室) of Dong Bei University in 1997. Dr. Yang has received training on the testing of TDC3000 and DCS control system from the Honeywell Inc. in the United States and from General Electric, Siemens and AB on PLC and DCS control system. Prior to joining the Group in October 1999, Dr. Yang participated in various design and development projects on the control system for blast furnace in the southwest part of the PRC and has gained more than 12 years of experience in computer, and the integration of control systems and their research and development.

LI Sheng Li (李勝利), aged 36. Ms. Li is a quality control manager of Techwayson Industrial. She graduated with a bachelor degree in industrial automation from Beijing Iron and Steel Technology Institute (北京鋼鐵學院). Ms. Li has more than 10 years of experience in automation and control system and the quality control of related products. Prior to joining the Group in March 2000, she was the administration director of Beijing Shougang Co., Ltd. (北京首鋼公司重型機械公司) and Shenzhen Guangci Medical Equipment Co., Ltd. (深圳廣慈醫療設備有限公司), a sales manager of SDG Optical Fiber Co., Ltd (深

圳市特發光纜有限公司) and business development manager of Shenzhen Optilink Technology Co., Ltd. (深圳市英海威光電子通信有限公司), where she was responsible for management, sales and product quality control, from 1989 to 2000.

XIE Lan Ping (謝蘭平), aged 38. Mr. Xie is a finance manager of Techwayson Industrial. He graduated with a bachelor degree in industrial finance from An Hui Finance & Trade Institute (安徽財貿學院). Mr. Xie has more than 10 years of experience in financial management and auditing. Prior to joining the Group in March 2000, he worked in Tongling Audit Bureau & Public Accountants (銅陵市審計局及審計事務所) and was the finance manager of Shenzhen Cofry Cereals Oils and Foodstuffs Co., Ltd. (深圳市高富瑞進出口(集團)有限公司) from 1987 to 1999.

ZHANG Xiao Dong (張曉東), aged 31. Mr. Zhang is an engineer of the research and development department of Techwayson Industrial. He graduated with a bachelor degree in Electronic Engineering from DaQing Petroleum Institute (大慶石油學院) and a master degree in industrial electric automation from Jilin University of Industry (吉林工業大學). Mr. Zhang has extensive experience in research and development of automation and control system. Prior to joining the Group in September 2000, Mr. Zhang has participated in a number of research projects including the CIMS project for the gold ore of Paishan Lou of Liaoning Province (遼寧省排山樓), a project selected by the PRC government as a priority project and has published a number of theses in international technical magazines.

COMPANY SECRETARY

LI Chi Yuen (李志遠), aged 35. Mr. Li is the financial controller, company secretary and authorised representative of the Company. He has more than 10 years of experience in finance, auditing, taxation and accounting. Prior to joining the Company in October 2000, Mr. Li had been the finance manager of several international companies in Hong Kong. Mr. Li is also an associate member of Hong Kong Society of Accountants and Chartered Institute of Management Accountants.

AUDIT COMMITTEE

The Group established an audit committee with written terms of reference in compliance with the requirements of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the board of directors of the Company.

The following sets out the members of the Group's audit committee:

Name	Position in the audit committee	Position in the board of Directors
Wee Soon Chiang, Henny	Chairman	Independent non-executive Director
Wong Kam Kau, Eddie	Member	Independent non-executive Director

STAFF

As at the Latest Practicable Date, the Group employed a total of 79 full-time employees. A breakdown of employees by their functions is as follows:

	Hong Kong	PRC	Total
Sales and marketing	–	20	20
Professional services and technical support	–	12	12
Research and development	–	20	20
Finance and administration	9	18	27
Total	9	70	79

RELATIONSHIP WITH STAFF

The Group recognises the importance of training its staff. Apart form on-the-job training, the Group regularly provides internal and external training for its staff to enhance their technical or product knowledge.

The Group has not experienced any significant problems with its employees or disruption in its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

PENSION SCHEME

Currently, the Group's PRC employees have all enrolled in the mandatory central provision scheme operated by the PRC government. The Group's subsidiaries in the PRC contribute approximately seven per cent. to 12 per cent. of the basic salary of their employees in the PRC to a state-sponsored retirement plan for the employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to the retired employees.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group's Hong Kong employees have all enrolled in the mandatory provident fund scheme. The Group contributes a monthly amount to a professionally managed fund equivalent to five per cent. of the total salary of its full time employees (up to a maximum of HK$1,000 for each employee). Each employee in Hong Kong is required to contribute five per cent. of his or her total salary (up to a maximum of HK$1,000 for each employee) to the scheme and may elect to make voluntary contributions.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme pursuant to which full time employees, including executive directors, of the Company and its subsidiaries may be granted an option to subscribe for Shares. Summary of the key terms of the Share Option Scheme are set out under the section headed "Share Option Scheme" in appendix IV to this document. In connection with the Introduction and in order to comply with the Listing Rules, the Group will, subject to approval of the shareholders of the Company, adopt the New Share Option Scheme to replace the Share Option Scheme. The principal terms of the New Share Option Scheme are summarised in appendix IV to this document under the section headed "Summary of Terms of New Share Option Scheme". As at the date hereof, no option has been granted under the Share Option Scheme and under the New Share Option Scheme. The Directors confirmed that the Company has no present intention to grant any option under the Share Option Scheme on or before the adoption of the New Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the following persons, other than a director or a chief executive of the Company, will be directly or indirectly interested in 10 per cent. or more of the Shares then in issue and are substantial shareholders of the Company as defined in the Listing Rules:

Name	**Number of Shares**	**Approximate percentage of holding** *(%)*
Otto Link[1, 4]	161,700,000	46.20
Goldwiz	61,824,000	17.66
Goldwiz Holdings[2]	61,824,000	17.66
Mr. T. Siu[3]	38,976,000	11.14

Notes:

1. Otto Link is an investment company owned as to 80 per cent. by Dr. Sze who is the chairman of the Company and 20 per cent. by Mr. Tung who is also a Director.

2. Goldwiz Holdings is the holding company of Goldwiz which holds 100 per cent. of the issued share capital of Goldwiz and is therefore deemed to be interested in the 61,824,000 Shares held by Goldwiz.

3. Mr. T. Siu is a substantial shareholder of the Company.

4. In order to comply with the minimum public float requirement as stated in rule 8.08(1) of the Listing Rules, Otto Link, the controlling shareholder, disposed of 6,300,000 Shares (equivalent to approximately 1.80 per cent. of the existing issued share capital of the Company) to 7 individual investors ("Disposal"). These 7 individual investors are independent third parties, and not connected with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries nor are an associate of any of them. The Disposal was priced at an average price of HK$0.60 per Share (representing approximately 15 per cent. discount to the closing price of the Shares at HK$0.71 per Share on 23 December 2002) in order to increase the public float of the Company to 25 per cent. of the existing issued share capital of the Company. The Disposal was completed on 24 December 2002. Otto Link and Dr. Sze (who is beneficially interested in 80 per cent. of shares of Otto Link and is therefore deemed to be interested in the Shares held by Otto Link) had made corresponding notification for compliance with the SDI Ordinance.

The authorised and issued share capital of the Company are as follows:

Authorised:		*$*
1,000,000,000	Shares	100,000,000
Issued share capital		
350,000,000	Shares in issue as at the Latest Practicable Date	35,000,000

Assumptions

It takes no account of any Shares which may be issued under the exercise of options which may be granted under the Share Option Scheme, the New Share Option Scheme or of any Shares which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares granted to the Directors as described below or otherwise.

Share Option Scheme

The Company has adopted the Share Option Scheme, the principal terms of which are summarised in the paragraph headed "Share Option Scheme" in appendix IV to this document. In connection with the Introduction and in order to comply with the Listing Rules, the Group will, subject to approval of the shareholders of the Company, adopt the New Share Option Scheme to replace the Share Option Scheme. The principal terms of the New Share Option Scheme are summarised in appendix IV.

General Mandate to Issue Shares

A general unconditional mandate will be proposed to be granted to the Directors at the Extraordinary General Meeting to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

1. 20 per cent. of the total nominal amount of the share capital of the Company in issue as at the date of the Extraordinary General Meeting; and

2. the total nominal amount of the share capital of the Company purchased by the Company (if any) pursuant to the general mandate for the purchase of Shares granted to the Directors referred to below.

This mandate will expire:

– at the end of the Company's next annual general meeting; or

– at the end of the period within which the Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or

– when varied, revoked or revised by an ordinary resolution of the shareholders of the Company in general meeting;

whichever occurs first.

General Mandate to Repurchase Shares

A general unconditional mandate will be proposed to be granted to the Directors at the Extraordinary General Meeting to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of up to 10 per cent. of the aggregate nominal amount of the Shares in issue as at the date of the Extraordinary General Meeting.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules.

This mandate, if approved, will expire:

(i) at the end of the Company's next annual general meeting; or

(ii) at the end of the period within which the Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or

(iii) when varied, revoked or revised by an ordinary resolution of the shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate and a summary of the relevant Listing Rules, please see the paragraph headed "Further information about the Company – Repurchase by the Company of its own Shares" in appendix IV to this document.

INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had loan payable of approximately RMB18,695,000 comprising interest-bearing and non-interest bearing loan of RMB16,695,000 and RMB2,000,000 respectively.

Disclaimer

Apart from loan payable and normal trade payables, the Group did not have outstanding at the close of business on 31 October 2002 any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Apart from the utilisation of trust receipt facilities of RMB8.3 million subsequent to 31 October 2002, the Directors have confirmed that there have not been any material changes in the indebtedness and contingent liability of the Group since 31 October 2002.

Disclosure under Practice Note 19 of the Listing Rules

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 October 2002, the Group's total current assets were approximately RMB68.5 million, comprising inventories of approximately RMB8.3 million, trade receivables of approximately RMB13.4 million, prepayments, deposits and other current receivables of approximately RMB42.8 million and cash and bank deposits of approximately RMB4.0 million. The changes in total current asset as compared with the Group's total current assets as at 30 June 2002, comprise: (i) the increase of the inventories due to the purchase of raw material for an industrial automation system project to be delivered in November 2002, which the Directors confirmed, has been delivered subsequently; (ii) the increase in prepayment, deposits and other current receivables due to the a purchase of raw material for an industrial automation system to be delivered in December 2002, which the Directors confirmed will be delivered by end of December; (iii) the decrease of cash and bank deposit are due to the cash utilisation in the purchase of raw material for an industrial automation system research project and payment of RMB56 million for building construction; and (iv) the decrease of trade receivables are due to the decrease of sales during the period.

As at 31 October 2002, the Group's total current liabilities were approximately RMB33.2 million, comprising trade payables of approximately RMB13.9 million, accrued liabilities of approximately RMB11.9 million, current portion of loan payable of approximately RMB4.5 million and taxation payable of approximately RMB2.9 million.

Financial resources

In the past, the Group financed its operations by means of equity funding, loans from shareholders and Directors, loans payable and funds generated from its business operations. As at 31 October 2002, apart from loans payable and normal trade payables, the Group did not have any other borrowings which would require cash outlay for settlement.

The Directors intend to finance the Group's future operations and capital expenditure principally through internally generated cashflows supplemented by bank financing or the raising of funds in international capital and debt markets, or through a combination of these methods, whichever the Directors may consider appropriate in the circumstances.

As at 31 October 2002, Techwayson Trading had been granted two banking facilities amounting to HK$10,000,000 and US$1,500,000 with the effective date on 26 September 2002 and 21 October 2002 respectively, which were secured by fixed deposits of 30 per cent. on the facilities amount and corporate guarantees by the Company.

Commitments and contingent liabilities

As at 31 October 2002, the Group had operating lease commitments of approximately RMB3,623,000. As at the same date, the Group had contracted for approximately RMB62.3 million in capital commitment, which amount has not been provided for in the financial statements. The commitment included RMB2.8 million of software development cost contracted in July 2002 and RMB59.5 million which had been included in capital commitment of RMB115.5 million as at 30 June 2002. The commitment amount of RMB115.5 million as at 30 June 2002 comprised amounts of RMB112 million and RMB3.5 million for construction and design of a building respectively, and out of which RMB56 million was settled in July 2002. The property is expected to be used for general administrative, research and development and assembling of finished-goods purposes. The contracted party is unrelated to the Group. The construction is in progress and payments will be made by reference to the stage of completion and will be financed by internal resources of the Group.

As at 31 October 2002, the Group had no contingent liabilities.

Non-inclusion of profit forecast

Most of the Group's sales revenue are generated on a project-by-project basis and the Group's revenue may vary over time, as such, the Directors and the Sponsors consider that it is not possible to forecast the operating results of the Group for the year ending 30 June 2003 to the level of accuracy and reliability required for inclusion in a listing document. Accordingly, no profit forecast is included in this document.

TRADING RECORD

The following is a summary of the audited consolidated results of the Group for each of the three years ended 30 June 2002 ("Trading Record Period") extracted from the accountants' report, the text of which is set out in appendix I to this document. The audited consolidated results of the Group were prepared as if the Group's current existing structure had been in place throughout the Trading Record Period. Furthermore, the unaudited consolidated results of the Group for the three months ended 30 September 2002 are extracted from the First Quarterly Report. The Main Board's listed issuers are not required to publish quarterly reports. However, it is the Directors' current intention to continue to issue quarterly results after the Introduction.

	For the three months ended 30 September	**For the year ended 30 June**		
	2002	**2002**	**2001**	**2000**
	(unaudited)	(audited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	8,270	143,269	130,961	27,778
Materials and equipment	(349)	(75,517)	(45,948)	(11,697)
	7,921	67,752	85,013	16,081
Other revenue	6	7,542	3,715	26
Staff costs	(1,352)	(7,519)	(7,224)	(2,299)
Depreciation and amortisation	(209)	(5,896)	(1,104)	(742)
Impairment loss on software development costs	–	(6,000)	–	–
Provision for product warranty costs	(8)	(84)	(5,504)	(1,174)
Other operating expenses	(2,649)	(7,405)	(12,912)	(2,430)
Profit from operations	3,709	48,390	61,984	9,462
Finance cost	(209)	(511)	–	–
Profit before taxation	3,500	47,879	61,984	9,462
Taxation	(389)	(2,849)	(1,547)	–
Profit attributable to shareholders	3,111	45,030	60,437	9,462
Earnings per share – Basic *(Note 1)*	RMB0.89 cents	RMB12.87 cents	RMB19.63 cents	RMB3.38 cents

Notes:

1. The calculation of basic earnings per Share for each of the three years ended 30 June 2002 and the three months ended 30 September 2002 is based on the consolidated profit attributable to shareholders of the relevant years and period and on the respective weighted average number of approximately 280,000,000, 307,808,000, 350,000,000 and 350,000,000 Shares in issue during the years and period.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

All of the Group's turnover during the Track Record Period mainly was derived by Techwayson Industrial, a subsidiary operated in the PRC and was incorporated on 18 September 1997.

For the year ended 30 June 2000, Techwayson Industrial completed its business formation and operated on full scale. During the year, the Group recorded a turnover of approximately RMB27.8 million for the year ended 30 June 2000, representing an increase of approximately 418.9 per cent. compared to the prior year.

For the year ended 30 June 2001, due to positive feedback on the quality and function of the products from its customers, Techwayson Industrial recorded a turnover of approximately RMB131.0 million, representing approximately 371.5 per cent. increase as compared to the year ended 30 June 2000.

For the year ended 30 June 2002, the Group recorded a turnover of approximately RMB143 million, representing a 9.4 per cent. increase as compared to the year ended 30 June 2001. The increase in sales was due to the successful implementation of the Group's expansion strategy to building automation market. The high gross profit margin for the Track Record Period is mainly due to the fact that there are not many PRC companies engaged in the industry of automation and control systems with low costs of production.

Year ended 30 June 2000

Turnover

For the year ended 30 June 2000, the turnover of the Group amounted to approximately RMB27,778,000, an increase of about 418.9 per cent. compared with the year ended 30 June 1999. The increase in sales was due to positive feedback on the quality and functions of the products from its customers. The improved product image and recognition of good product quality resulted in a substantial increase in the size of orders from its customers.

Furthermore, the Group had increased efforts in the function of marketing by participating in various exhibitions and technical seminars promoting the Group's products to potential customers. As a result, the product image of TCS was enhanced.

Gross profit derived from fixed price contracts

The gross profit derived from fixed price contracts (after deduction of related materials and equipment costs) was mainly contributed from the sales of system control equipment and software products. For the year ended 30 June 2000, the gross profit derived from fixed price contracts of the Group was approximately RMB16,081,000, representing an increase of approximately 442.0 per cent. over the year ended 30 June 1999. The increase in gross profit derived from fixed price contracts was resulted from the increase in sales.

For the year ended 30 June 2000, the gross profit margin derived from fixed price contracts of the Group was approximately 57.9 per cent.. The increase in the gross profit margin derived from fixed price contracts was resulted from the management's effort to reduce the production costs such as outsourcing the contract manufacturers for production and increase in sales of high gross margin products, such as TCS PPC21 series and TCS PPC31 series.

Other revenue

For the year ended 30 June 2000, the other revenue of the Group amounted to RMB26,000, representing a decrease of approximately 71.7 per cent. over the year ended 30 June 1999. Interest income was the sole item included in other revenue during the two years ended 30 June 2000.

Operating expenses

For the year ended 30 June 2000, the total operating expenses of the Group amounted to approximately RMB6,645,000, representing approximately 23.9 per cent. of the turnover of the Group and an increase of approximately RMB3.40 million or approximately 104.7 per cent. over the same period last year.

The increase in total operating expenses was mainly accounted by the higher rental expenses and provision for product warranty cost. The operating lease rental of premises rented by the Group increased by approximately 445 per cent. during the period due to a substantially larger office premises as a result of business expansion. The second item that constituted the increase was the provision for product warranty cost which has surged by approximately 341 per cent. during the period as a result of increased turnover for the year ended 30 June 2000.

Taxation

No Hong Kong profits tax has been provided for the year ended 30 June 2000 as the Group had not generated any assessable profits in Hong Kong.

Techwayson Industrial, a wholly owned subsidiary of the Company was an enterprise established and operated in a special economic zone of the PRC and was subject to Mainland China enterprise income tax (EIT) at a rate of 15 per cent.. However, it is exempted from EIT for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50 per cent. reduction in EIT for the next three years. The tax exemption period was from 1 January 1999 to 31 December 2000.

Profit attributable to shareholders

Profit attributable to shareholders increased by approximately RMB9.62 million to approximately RMB9.46 million for the year ended 30 June 2000 from a loss of approximately RMB0.16 million over the previous year. Such increase was primarily due to a substantial increase in turnover coupled with the improvement in gross profit margin derived from fixed price contracts.

Liquidity and capital resources

Since its inception, the Group has financed its operations by means of equity funding, shareholders' loans and funds generated from business operations. As at 30 June 2000, apart from loans from shareholder, amount due to Directors, loan payable and normal trade payables, the Group did not have any other borrowings which would require cash outlay for settlement.

As at 30 June 2000, the Group's total current assets were approximately RMB29.6 million, comprising inventories of approximately RMB375,000, due from a related company of approximately RMB3.6 million, trade receivables of approximately RMB7.8 million, prepayments, deposits and other current receivables of approximately RMB2.2 million and cash and bank deposits of approximately RMB15.7 million.

As at 30 June 2000, the Group's total current liabilities were approximately RMB14.7 million, comprising trade payables of approximately RMB51,000, loan payable of approximately RMB3.0 million, due to Directors of approximately RMB6.9 million, accrued liabilities of approximately RMB4.7 million.

Year ended 30 June 2001

Turnover

For the year ended 30 June 2001, the Group recorded a turnover of approximately RMB130,961,000, representing approximately 371 per cent. increase as compared to the year ended 30 June 2000. The substantial increase in sales of industrial automation system was due to the continuous positive feedback on the quality and functions of the products from its customers. With an established product image and recognition of quality product, the Group was able to enjoy more sizable orders from current and new customers. As a result, the Group received a number of re-orders and referral orders from two of its existing customers on IAS projects of manufacturing industry, amounting approximately to RMB102 million which compromise the increment of the total turnover of the business for the year.

Furthermore, the Group continued to participate in various large-scale and nationwide exhibitions, technical forums and seminars to promote and market the Group's products to potential customers.

Gross profit derived from fixed price contracts

For the year ended 30 June 2001, the gross profit derived from fixed price contracts (after deduction of related materials and equipment costs) was approximately RMB85,013,000, representing an increase of approximately 428.7 per cent. over the year ended 30 June 2000.

For the year ended 30 June 2001, the gross profit margin derived from fixed price contracts (after deduction of related materials and equipment costs) of the Group was approximately 64.9 per cent.. The continuous increase in the gross profit margin was resulted from the management's effort to reduce production costs such as the sub contracting cost of the instrumentation and control equipment, and increase in sales of high profit margin products such as TCS PPC21, TCS PPC22 and TCS PPC31 Series.

Other revenue

For the year ended 30 June 2001, the other revenue of the Group amounted to RMB3,715,000, representing an increase of approximately 14,188.5 per cent. over the year ended 30 June 2000.

The increase was mainly due to the compensation of RMB3,286,000 received from the termination of a cooperation agreement on developing a new industrial automation system project with an independent PRC company. Interest income increased by 1,550 per cent. to RMB429,000 as the Group deposited unutilised net proceeds raised from listing on GEM in February 2001 in banks to earn interest.

Operating expenses

For the year ended 30 June 2001, the total operating expenses of the Group amounted to approximately RMB26,744,000, representing approximately 20.4 per cent. of the turnover of the Group and an increase of approximately RMB20,099,000 or approximately 302.5 per cent. over the year ended 30 June 2000.

The increase in operating expenses was primarily resulted from the increase in staff costs, depreciation and amortisation, provision for product warranty costs and other operating expenses to approximately RMB7,224,000, RMB1,104,000, RMB5,504,000 and RMB12,912,000 respectively for the year ended 30 June 2001, representing an increase of approximately 214.2 per cent., 48.8 per cent., 368.8 per cent. and 431.4 per cent. respectively compared to that reported in the year ended 30 June 2000. The product warranty costs is made in the period in which the related sales are recognized. The increase of product warranty costs for the year ended 30 June 2001 is mainly due to an increase in the related sales by 371 per cent., as compared to the fiscal year 1999/2000.

The increase in other operating expenses for the year ended 30 June 2001 was mainly due to rising in donation (RMB318,000), travelling (RMB523,000), entertainment (RMB855,000), research and development cost (RMB1,966,000), operating lease rentals of premises (RMB2,069,000), advertising and promotion costs (RMB1,509,000), loss on disposal of investment in securities (RMB1,524,000) and loss on disposal of fixed assets (RMB522,000).

Taxation

The Company was exempted from taxation in the Cayman Islands until 2020.

No provision for Hong Kong profits tax had been made as the Group had no assessable profits for the year ended 30 June 2001.

Pursuant to Mainland China laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Shenzhen Tax Bureau, Techwayson Industrial was entitled to a 50 per cent. reduction on EIT at an effective rate of 7.5 per cent. for the period from 1 January 2001 to 31 December 2003.

Moreover, according to Rules for Further Support to High-technology Enterprises in Mainland China, enterprises that are qualified as high-technology enterprises are entitled to further tax holidays on EIT. Subsequently, Techwayson Industrial is regarded as a high-technology enterprise and will, subject to the approval from Mainland China Tax Bureau, be exempted from EIT for two years starting from the first year of profitable operations after offsetting prior year losses and a 50 per cent. reduction on EIT for the next five years. As a result, Techwayson Industrial was subject to EIT of 7.5 per cent. in the next eight years until 31 December 2008. The Mainland China Tax Bureau later shortened the tax reduction period after the tax exemption period. Techwayson Industrial is now subject to EIT of 7.5 per cent. for three years until 31 December 2003, and the other three years until 31 December 2006 provided it will still be a High-Tech enterprise.

The taxation provided for the year ended 30 June 2001 was RMB1,547,000 which was far lower than 7.5 per cent. of the relevant year's profit as Techwayson Industrial was exempted from EIT for the first half of the year ended 30 June 2001. The taxation was thus provided based on the taxable profit derived by Techwayson Industrial for the second half of the year only.

Profit attributable to shareholders

For the year ended 30 June 2001, profit attributable to shareholders increased by approximately RMB50,975,000 to approximately RMB60,437,000, representing approximately 538.7 per cent. increase as compared with the corresponding year in 2000. Such increase was primarily due to a substantial increase in turnover coupled with the improvement in gross profit margin derived from fixed price contracts (after deduction of related materials and equipment costs).

The Group's profit attributable to shareholders exceeded the forecast profit of approximately RMB56 million as stated in the Prospectus. The variance was mainly due to the Group's effective control over its operating expenses during the year.

Earnings per Share for the year ended 30 June 2001 rose to RMB19.63 cents from RMB3.38 cents for the corresponding year ended 30 June 2000.

Liquidity and capital resources

For the year ended 30 June 2001, the Group financed its operations by means of equity funding, shareholders' loans and funds generated from business operations. The Group had significantly increased its operating expenses as a result of its increased turnover during the year. Increase in its operating expenses was largely funded from the Group's cash resources and cash from operations.

As at 30 June 2001, the Group had current assets of approximately RMB111.4 million, which principally comprised cash and bank balances of approximately RMB56.6 million, trade receivables of approximately RMB35.9 million, inventories of approximately RMB0.51 million, other receivable of approximately RMB17.5 million and prepayments and deposits and other current assets of approximately RMB0.95 million.

As at 30 June 2001, the Group's current liabilities were approximately RMB15.5 million, comprising trade payables of approximately RMB0.9 million, accruals and other payables of approximately RMB6.1 million, warranty provision of approximately RMB6.9 million and taxation payable of approximately RMB1.5 million.

Year ended 30 June 2002

Turnover

For the year ended 30 June 2002, the Group recorded a turnover of approximately RMB143,269,000, representing approximately 9.4 per cent. increase as compared to the year ended 30 June 2001. The increase in sales was due to the Group's successful expansion into the building automation market.

Starting from the financial year ended 30 June 2002, the Group has given more focus on developing the new markets including the BAS sector and the automation and control systems for specialised machinery (e.g. injection moulding machines), which are not only more profitable but would also reduce the fluctuations in the Group's revenue as a result of the project-by-project nature of IAS contracts. Consequently, the Group has secured fewer contracts for IAS during the year and thus revenue contributed to IAS segment dropped. Profit margin for IAS segment for the year ended 30 June 2002 dropped since turnover for the segment was mainly sourced from the contract with Shenzhen West Electricity Company Limited (深圳西部電力有限公司) amounting to RMB19,280,000 which represented about 92.92 per cent. of the total turnover in this segment of the business for the year. As the contract mainly involved the supply of control equipment which was mostly sourced from Siemens, it bore a lower gross profit ratio of 18.02 per cent. and the overall margin was consequently dragged down.

Gross profit derived from fixed price contracts

For the year ended 30 June 2002, the gross profit derived from fixed price contracts (after deduction of related materials and equipment costs) was approximately RMB67,752,000, representing a decrease of approximately 20.3 per cent. over the year ended 30 June 2001.

For the year ended 30 June 2002, the gross profit margin derived from fixed price contracts of the Group was approximately 47.3 per cent.. The gross profit margin of IAS and BAS for the year ended 30 June 2002 were approximately 60 per cent. and 40 per cent. respectively. The drop was due to a price cut in the Group's IAS products which were under keen competition from more new products produced by international suppliers. The overall profit margin of BAS was about 40 per cent.. However, some additional service items and equipment, such as CCTV, were provided to the properties estate customers with a lower profit margin, such that the gross profit margin of BAS decreased and was lower than that of IAS.

Other revenue

Despite no compensation from an agreement as the same period of last year, other revenue increased by 103.0 per cent. to RMB7,542,000 in the year ended 30 June 2002.

The increase was mainly due to the reversal of unutilised warranty provision of RMB6,909,000 during the year because the warranty period of the relevant projects had been expired as at 30 June 2002 and the Group reduced its warranty provisions since the utilisation of such provision remained at a low level with the improvement of the Group's product quality.

Operating expenses

For the year ended 30 June 2002, the total operating expenses of the Group amounted to approximately RMB26,904,000, representing approximately 18.8 per cent. of the turnover of the Group and an increase of approximately RMB160,000 or approximately 0.60 per cent. over the same period last year.

Although there was a decrease in marketing expenses to approximately RMB419,000 for the year ended 30 June 2002, representing a decrease of approximately 77.6 per cent. compared to that reported in the previous year, the increase in depreciation and amortisation and impairment loss on software development costs which were approximately RMB4,792,000 and RMB6,000,000 respectively, resulted in an increase in total expenses. The substantial increase in depreciation and amortisation was due to amortising the software development cost, approximately RMB4,946,000 (2001: nil).

The increase in the impairment loss on software development costs recognised during the year was due to the written off of costs incurred to develop a system for the tender of Shenzhen MRT Phase I project, which the Group failed to secure the tender eventually. The impairment costs was determined to be incurred in the fourth quarter of the year.

The decrease in other operating expenses of RMB5,507,000 for the year ended 30 June 2002 was mainly due to decrease in research and development costs (RMB1,236,000), operating lease rentals of premises (RMB1,050,000), advertising and promotion costs (RMB1,451,000), loss on disposal of investment in securities (RMB1,524,000).

Taxation

The Company was exempted from taxation in the Cayman Islands until 2020.

No provision for Hong Kong profits tax had been made as the Group had no assessable profits for the year ended 30 June 2002.

As described above, Techwayson Industrial was entitled to a 50 per cent. reduction on Foreign enterprise income tax at an effective rate of 7.5 per cent. until 31 December 2003, and also a 50 per cent. reduction on Foreign enterprise income tax from 1 January 2004 to 31 December 2006 provided it will still be a High-Tech enterprise.

Techwayson Enterprises, incorporated in the BVI and operated in the PRC, was provided for Foreign enterprise income tax at a rate of 33 per cent. on its taxable profit, which was deemed as 10 per cent. on its income. For the year ended 30 June 2002, Techwayson Enterprise has entered into two contracts with Lake Grace Limited and Smart Glory Venture Limited to provide building automation system services respectively.

Foreign enterprise income tax of Techwayson Enterprises has been provided for at 10 per cent. of the PRC-sourced gross income multiplied by the appropriate tax rate. The Directors considered that this is the most appropriate basis applicable to this case, whose basis has been confirmed by the PRC tax consultant. Should the PRC tax bureau not agree with the basis and that another basis is used, the maximum tax exposure would then be RMB8,929,000, which is RMB7,977,000 more than the Enterprise

Income Tax (EIT) provided for the year ended 30 June 2002. The final profits will be due for reporting to the Tax Bureau within four months after 31 December 2002 i.e. on or before 30 April 2003. Accordingly, provision for tax penalty is not necessary. The executive Directors have given an indemnity against, inter alia, the additional tax should the later basis be used and charged against the Techwayson Enterprises as referred to under the sub-section "Estate duty and tax indemnity" of appendix IV to this document.

The taxation of the Group provided for the year ended 30 June 2002 was RMB2,849,000, with an effective tax rate of about 6.0 per cent. on the Group's profit before taxation, as the taxable profit of Techwayson Enterprises was lower than its actual profit during the year ended 30 June 2002.

Profit attributable to shareholders

For the year ended 30 June 2002, profit attributable to shareholders reduced by approximately RMB15,407,000 to approximately RMB45,030,000, representing approximately 25.5 per cent. decrease as compared with the year ended 30 June 2001. Such decrease was primarily due to the decrease in profit margin derived from fixed price contracts (after deduction of related materials and equipment costs).

Earnings per Share for the year ended 30 June 2002 declined to RMB12.87 cents from RMB19.63 cents for the year ended 30 June 2001.

Liquidity and capital resources

As at 30 June 2002, approximately 90.5 per cent. of the Group's debt was denominated in Hong Kong Dollars, unsecured and interest bearing at LIBOR plus 0.5 per cent.. The Group had not been granted any banking facilities nor given any guarantee for the two years ended 30 June 2001 and 2002. The incomes of the Group were denominated either in Hong Kong Dollar or RMB and the proportion is shown as a table below:

	Turnover denominated in	
Year ended 30 June	**HK dollar**	**RMB**
2000	–	100.0%
2001	–	100.0%
2002	19.3%	80.7%

The Group had adequate recurring cash flows to meet maturing borrowings. The Group adhered to a prudent policy on financial risk management and the management of currency and interest rate exposures. Hence the Group's exposure to fluctuations in the exchange rate was considered to be minimal and there was seldom any need to make use of financial instruments for hedging purposes.

The borrowing maturity profiles of the Group as at 30 June 2002 is analysed as follows:

	As at 30 June 2002 (Audited) *RMB'000*
Repayable within one year	5,578
Repayable after 1 year but within 2 years	2,385
Repayable after 2 years but within 5 years	7,155
Over 5 years	5,962
	21,080

Included in the above, a total borrowing of RMB19,080,000 was a loan from Tongling Economy Technology (Group) Corporation ("TETGC") (銅陵經濟技術開發區(集團)總公司), which was unrelated to the Group. The loan was originally due by Techwire to TETGC representing a consideration payable by Techwire by instalments under an agreement between Techwire and TETGC dated 7 September 2001 for the acquisition of 18.52 per cent. equity interest in Tongling Huarui. The loan was assumed by the Group on acquisition of Techwire on 26 September 2001. There was no security and guarantee provided for the loan.

The total consideration for the acquisition was HK$49 million (approximately RMB 51.94 million), of which HK$31 million (approximately RMB32.86 million) was settled in cash by the Group whilst the balance of HK$18 million (approximately RMB19.08 million) representing the taking up of the liability by the Group of the term-loan owed by Techwise to TETGC. The term loan is repayable under 16 instalments in 8 years with an interest rate of LIBOR plus 0.5 per cent..

As at 30 June 2002, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 9.9 per cent.. The Directors believe that the gearing ratio is at acceptable level for the Group and the Group would be able to create sufficient financial resources to discharge its debt.

Other than those disclosed in the Prospectus under the section headed "Business Objectives and Future Prospects", there has been no material change in the Group's future plan for material investments and acquisition of material capital assets as at 30 June 2002.

Three months ended 30 September 2002 (unaudited result)

As stated on the First Quarterly Report, for the three months ended 30 September 2002, the Group has recorded a turnover of approximately RMB8,270,000 representing a 26 per cent. increase as compared to the same period last year. The Group's turnover increased due to the sales of the Company's proprietary software for controlling system.

For the three months ended 30 September 2002, profit attributable to shareholders increased by approximately RMB2,343,000 to approximately RMB3,111,000, representing a 305 per cent. increase as compared with the corresponding period in year 2001. Such increase was primarily due to increase in profit derived from fixed price contracts after deduction of related materials and equipment costs.

Earnings per Share for the three months ended 30 September 2002 increased to RMB0.89 cents, from RMB0.24 cents for the corresponding period in 2001.

For the three months ended 30 September 2002, the Group's principal business remained in providing industrial automation systems and building automation systems in the PRC. Based on its management accounts for the three months ended 30 September 2002, the Group recorded an unaudited turnover of approximately RMB8.27 million, representing approximately 26 per cent. increase from the unaudited turnover of approximately RMB6.55 million for the three months ended 30 September 2001. Due to seasonal effect, the three months ended 30 September 2002 results cannot reflect the whole results for the year ending 30 June 2003. During the period, unaudited net profit was approximately RMB3.11 million, or a net profit margin of approximately 37.6 per cent..

Debtors' turnover

Debtors' turnover days for the three years ended 30 June 2000, 2001 and 2002 are 102, 100 and 126 days respectively and are considered as stable during the year ended 30 June 2000 and 2001 while the increase during the year ended 30 June 2002 was due to keen competition in the market. As a result, the Group had to grant longer credit period to keep customers in their account.

Creditors' turnover

Creditors' turnover days for the three years ended 30 June 2000, 2001 and 2002 are 6, 7 and 35 days respectively. The increase for the year ended 30 June 2002 was because the Group delayed payment of RMB 7.3 million to an IAS raw material supplier within acceptable period and it is expected to be settled by January 2003. In addition, due to the keen competitive atmosphere in the markets, the suppliers and subcontractors had to grant longer credit period to the Group for keeping as their accounts.

Stock turnover

Stock turnover days for the three years ended 30 June 2000, 2001 and 2002 are 5, 1 and 4 days respectively. The fluctuation was insignificant.

Credit policy and bad debt policy

Customers are normally required to settle the debts within two weeks upon issue of invoices. As the bad debt rate was low in the Group's history, no general policy on bad debt has been set. Provision is made against trade receivables to the extent that they are considered to be doubtful.

Banking facilities

The Group has not been granted any banking facilities for the three years ended 30 June 2002. Subsequent to the year-end date of 2002, the Group has been granted two banking facilities amounting to HK$10,000,000 and US$1,500,000 with the effective dates on 26 September 2002 and 21 October 2002 respectively.

PROPERTY INTERESTS

Hong Kong

Property interest rented and occupied by the Group in Hong Kong

The Group's office in Hong Kong is located at Room 1810 on 18th Floor, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong. The Group occupies a lettable area of approximately 1,005 sq.ft. Such premises is leased from an independent third party for a term of two years commencing from 15 February 2002 to 14 February 2004.

The Group also leased the office units at Rooms 1509-1510 on 15th Floor, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong. The Group occupies a lettable area of approximately 2,837 sq.ft. Such premises are leased from an independent third party for a term of two years commencing from 16 September 2002 to 15 September 2004.

The PRC

Property interest held for development by the Group in the PRC

The Group has entered into a State-owned Land Use Rights Grant Contract with Shenzhen City Planning and Land Resources Bureau (深圳市規劃與國土資源局) on 31 January 2002 for the acquisition of a parcel of land with an area of approximately 8,159 sq.m. located at High-tech Industrial Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC. Pursuant to the said contract, the property will be granted with the land use rights for a term of 50 years commencing from 31 January 2002 to 30 January 2052 for high-tech industrial park use. The Group is in the process of applying for the Realty Title Certificate (房地產權証) but such certificate has not yet been granted as at the Latest Practicable Date. Please refer to the paragraph headed "Licence for development and construction and title to land" in the section headed "Risk Factors" of this document.

Property interest rented and occupied by the Group in the PRC

The Group also rented two premises with a total area of approximately 1,983.6 sq.m. in Nanshan District of Shenzhen City, Guangdong Province, the PRC for office, technology research and production uses.

Details relating to the Group's property interests in Hong Kong and the PRC are set out in appendix II to this document.

Property valuation

The property interests of the Group have been valued as no commercial value on 30 November 2002 by Sallmanns (Far East) Limited, an independent valuer. The text of the letter with a summary of values and valuation certificates of these property interests prepared by Sallmanns (Far East) Limited are set out in appendix II to this document.

Dividends

The statutory accounts of Techwayson Industrial are prepared in accordance with the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP"). The dividends which Techwayson Industrial can legally distribute are determined by reference to the profits reflected in the PRC statutory accounts. These profits may differ from those reflected in the consolidated accounts of the Group which are prepared in accordance with HK GAAP. The dividends to be distributed by the Group will be determined based on the lower of profits determined under HK GAAP and PRC GAAP.

No dividends has been paid or declared by the Company since its incorporation.

The Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the financial year ending 30 June 2003. The declaration, payment and amount of future dividends will be at the discretion of the board of Directors and will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial condition, contractual restrictions and such factors as the board of Directors may deem relevant.

DISTRIBUTABLE RESERVES

As at 31 October 2002, the Company's reserves available for distribution to the shareholders of the Company amounted to RMB72,141,000.

WORKING CAPITAL

Directors' opinion of the working capital

The Directors are of the opinion that, after taking into account the existing financial resources and banking facilities available to the Group including its internally generated funds, the remaining net proceeds from the placement of Shares in February 2001, the Group has sufficient working capital for its present requirements.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible and intangible assets of the Group as at 30 June 2002 as shown in the accountants' report set out in appendix I to this document, adjusted as described below:

	RMB'000
Audited combined net assets of the Group as at 30 June 2002	172,229
Less: Intangible asset-software development cost	(23,691)
Deficit arising from revaluation of land included in property under development *(Note 2)*	(1,648)
The Group's unaudited profit for the four-month ended 31 October 2002 *(Note 3)*	1,520
Add: unaudited amortisation of software development cost for the four-month ended 31 October 2002	1,649
Adjusted net tangible assets	150,059
Adjusted net tangible asset value per Share *(Note 1)*	RMB42.87 cents

Notes:

1. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 350,000,000 Shares in issue upon Introduction but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the New Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares.

2. Pursuant to the revaluation of the Group's properties (see appendix II to this document), revaluation deficit of approximately RMB1,648,000, representing the land cost included in property under development as at 30 June 2002, arose. Such a revaluation deficit will not be recorded in the Group's financial statements as the Group accounts for properties at cost less accumulated depreciation and impairment. The deficit arose due to the valuation report set out in appendix II to this document not attributing any commercial value to the property because the transferability of the property, the realty title certificate of which is in the process of application, is unknown. The property will still incur an annual depreciation of approximately RMB34,000 from the year in which the land is put in use.

3. For the four months ended 31 October 2002, the Group recorded a profit of approximately of RMB1.5 million, representing a 50% decrease as compared to the first quarterly results ended 30 September 2002. The decrease in profit was due to the seasonal effect on revenue in the month of October.

NO MATERIAL ADVERSE CHANGE

Apart from the utilisation of trust receipts facilities of RMB8.3 million subsequent to 31 October 2002, the Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Company or its subsidiaries since 30 June 2002 (being the date to which the latest audited financial statements of the Group were made up).

FOREIGN EXCHANGE

The Group earns revenue and incurs costs and expenses mainly in RMB during the Trading Record Period. This will continue to be the case following the Introduction of the Shares on the Main Board. The Group's accounts will be stated in RMB whilst the payment of dividends by the Company will be in HK dollars. The amount of dividends paid by the Company will be translated into RMB for inclusion in the Group's accounts. The Group did not utilise any financial instruments for hedging purpose in the past and does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of RMB to other foreign currencies. The Directors believe that having regard to the working capital position of the Group, the Group is able to meet its future foreign exchange liabilities, if any, as they become due.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the independent reporting accountants, Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants, Hong Kong.

CCIF

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

30 December 2002

The Directors
Techwayson Holdings Limited
JS Cresvale Securities International Limited
CAF Securities Company Limited

Dear Sirs

We set out below our report on the financial information relating to Techwayson Holdings Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for each of three years ended 30 June 2000, 2001 and 2002 (the "the Relevant Period") for inclusion in the introduction document of the Company dated 30 December 2002 ("the Introduction Document").

The Company was incorporated in the Cayman Islands on 1 September 2000 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. Through a reorganisation ("the Reorganisation"), as detailed in the prospectus dated 31 January 2001, which was completed on 16 January 2001, the Company became the holding company of the Group, details of which are set out in note 1 to the consolidated financial statements under Section I below, to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Growth Enterprise Market ("the GEM") of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The shares of the Company were listed on GEM of the Stock Exchange with effect from 8 February 2001. The Company has proposed to withdraw its listing on the GEM of the Stock Exchange so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

During the years ended 30 June 2000, 2001 and 2002, except for the Reorganisation, the Company incorporated Techwayson Managements Limited on 14 February 2001, and acquired Techwayson Enterprises Limited and Techwire Enterprises Limited on 21 February 2001 and 26 September 2001 respectively, details of which are set out in note 1 to the consolidated financial statements under Section I below.

Techwayson Industrial Limited, a subsidiary established and operated in Mainland China, has adopted 31 December as its financial year end date for statutory reporting purposes, which is different from the Group's financial year end date of 30 June. The statutory financial statements of Techwayson Industrial Ltd, prepared in accordance with the accounting principles and financial regulations applicable to enterprises established in Mainland China, were audited by Shenzhen Yuandong Accountants Office, certified public accountants. Shenzhen Zhong Peng Certified Public Accountants and Shenzhen Zhong Xi Certified Public Accountants in Mainland China for the years ended 31 December 1999, 2000 and 2001 respectively. For the purposes of this report, we have performed an independent audit, in accordance with the Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants ("HKSA"), of the financial statements of Techwayson Industrial Limited for the year ended 30 June 2002. We and Arthur Anderson & Co. have audited the financial statements of Techwayson Industrial Limited for the years ended 30 June 2000 and 2001 in accordance with the Auditing Standards and Guidelines issued by the HKSA.

We acted as auditors of the companies comprising the Group for the year ended 30 June 2002 except for Techwayson Industrial Limited and have audited the financial statements of the Group for the year ended 30 June 2002 in accordance with the Auditing Standards and Guidelines issued by the HKSA; and we and Arthur Anderson & Co. acted as joint auditors of the companies comprising the Group for the years ended 30 June 2000 and 2001 except for Techwayson Industrial Limited and have audited the consolidated financial statements of the Group for the years ended 30 June 2000 and 2001 in accordance with the Auditing Standards and Guidelines issued by the HKSA.

No audited financial statements for each of the financial year ended 30 June have been prepared for Techwayson Trading Limited as it was incorporated after 30 June 2002.

No audited financial statements for each of the financial year ended 30 June have been prepared for Usualink Development Limited, Techwayson Enterprises Limited and Techwire Enterprises Limited since their respective dates of incorporation up to the date of this report. There are no statutory requirements for preparing audited financial statements for such companies.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2002.

The financial information as set out in this report has been prepared from the audited financial statements or, where appropriate, management accounts of the companies comprising the Group on the basis set out in note 1 to the consolidated financial statements under Section I below.

For the purpose of this report, we have examined the audited consolidated financial statements of the Group for the years ended 30 June 2000, 2001 and 2002 in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" issued by the HKSA.

The directors of the Company are responsible for the preparation of the financial statements of the Group for the years ended 30 June 2000, 2001 and 2002 which give a true and fair view. The directors of the respective companies within the Group are responsible for the preparation of the respective financial statements which give a true and fair view. In preparing these financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

In our opinion, the consolidated financial statements of the Group, for the purpose of this report gives a true and fair view of the consolidated results and cash flows of the Group for the years ended 30 June 2000, 2001 and 2002, and of the consolidated financial position of the Group as at 30 June 2000, 2001 and 2002, the financial information of the Company gives a true and fair view of the financial position of the Company as at 30 June 2001 and 2002.

I. CONSOLIDATED FINANCIAL STATEMENTS

The following are consolidated financial statements of the Group as at and for the years ended 30 June 2000, 2001 and 2002, prepared on the basis set out in Notes 1 and 3 below:

Consolidated income statements

		For the year ended 30 June		
		2002	**2001**	**2000**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*5*	143,269	130,961	27,778
Materials and equipment		(75,517)	(45,948)	(11,697)
		67,752	85,013	16,081
Other revenue	*5*	7,542	3,715	26
Staff costs		(7,519)	(7,224)	(2,299)
Depreciation and amortisation		(5,896)	(1,104)	(742)
Impairment loss on software development costs		(6,000)	–	–
Provision for product warranty costs		(84)	(5,504)	(1,174)
Other operating expenses		(7,405)	(12,912)	(2,430)
Profit from operations		48,390	61,984	9,462
Finance cost	*7*	(511)	–	–
Profit before taxation	*8*	47,879	61,984	9,462
Taxation	*10*	(2,849)	(1,547)	–
Profit attributable to shareholders		45,030	60,437	9,462
Earnings per Share – Basic	11	RMB12.87 cents	RMB19.63 cents	RMB3.38 cents

No separate statement of recognised gains and losses is presented because there was no recognised gains or losses other than the profit attributable to shareholders.

Consolidated balance sheets

		As at 30 June		
		2002	**2001**	**2000**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Fixed assets	*12*	2,990	3,543	4,578
Property under development	*13*	11,886	–	–
Software development costs	*14*	23,691	27,710	–
Investments in securities	*15*	51,940	–	–
Total non-current assets		90,507	31,253	4,578
CURRENT ASSETS				
Inventories	*16*	1,594	512	375
Prepayments, deposits and other current assets		1,328	951	2,167
Other receivable	*17*	–	17,490	–
Trade receivables	*18*	49,552	35,918	7,784
Due from a related company	*4*	–	–	3,573
Cash and bank deposits		70,547	56,568	15,677
Total current assets		123,021	111,439	29,576
CURRENT LIABILITIES				
Trade payables	*19*	(7,341)	(887)	(51)
Accruals and other payables		(9,282)	(6,113)	(3,321)
Warranty provision	*20*	(84)	(6,946)	(1,442)
Receipts in advance		(775)	–	–
Loans payable-current portion	*21*	(5,578)	–	(3,000)
Due to directors	*4*	–	–	(6,934)
Taxation payable		(2,737)	(1,547)	–
Total current liabilities		(25,797)	(15,493)	(14,748)
NET CURRENT ASSETS		97,224	95,946	14,828
TOTAL ASSETS LESS CURRENT LIABILITIES		187,731	127,199	19,406
NON-CURRENT LIABILITIES				
Loans from shareholders	*4*	–	–	(10,745)
Loans payable	*21*	(15,502)	–	–
NET ASSETS		172,229	127,199	8,661
Representing:				
SHARE CAPITAL	*22*	37,100	37,100	–
RESERVES	*24*	135,129	90,099	8,661
SHAREHOLDERS' EQUITY		172,229	127,199	8,661

Consolidated cash flow statements

		Years ended 30 June		
		2002	**2001**	**2000**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	*25(a)*	48,356	50,701	5,029
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest received		122	429	26
TAXATION				
Mainland China enterprise income tax paid		(1,659)	–	–
INVESTING ACTIVITIES				
Additions of fixed assets		(952)	(2,204)	(2,612)
Proceeds from disposal of fixed assets		295	1,267	–
Increase in property under development		(11,886)	–	–
Increase in software development costs		(6,927)	(27,710)	–
Decrease/(increase) in other receivable		17,490	(17,490)	–
Additions to investments in securities		–	(9,842)	–
Proceeds from disposal of investments in securities		–	8,318	–
		(1,980)	(47,661)	(2,612)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		44,839	3,469	2,443
FINANCING ACTIVITIES	*25(c)*			
Proceeds from issue of shares		–	57,876	–
Shares issuance expenses		–	(13,617)	–
Inception of new loan		2,000	–	3,000
Repayment of loan		(32,860)	(3,000)	–
(Repayment to)/advance from directors		–	(6,934)	6,934
Loans from shareholders		–	3,097	745
		(30,860)	37,422	10,679
INCREASE IN CASH AND BANK DEPOSITS		13,979	40,891	13,122
CASH AND BANK DEPOSITS, BEGINNING OF YEAR		56,568	15,677	2,555
CASH AND BANK DEPOSITS, END OF YEAR		70,547	56,568	15,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

On 16 January 2001, the Company became the holding company of Usualink Development Limited and Techwayson Industrial Limited pursuant to a group reorganisation (the "Reorganisation") through share exchanges. The Reorganisation involved companies under common control, and the Company and these subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements for the year ended 30 June 2001 have been prepared as if the Company had been the holding company of these subsidiaries throughout the year ended 30 June 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at 30 June 2000 and for the year then ended has been presented on the same basis.

Results of subsidiaries incorporated or acquired by the Company subsequent to the Reorganisation are accounted for under acquisition basis of accounting, from the date of incorporation, if incorporated by the Company, or from the effective date of acquisition up to the effective date of disposal. Accordingly, the results of Techwayson Management Limited, Techwayson Enterprises Limited and Techwire Enterprises Limited are accounted for in the consolidated financial statements under the acquisition basis of accounting as from 14 February 2001 (date incorporated by the Company), 21 February 2001 and 26 September 2001 (effective date of acquisition).

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries (all these companies are private limited companies or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private limited company):

Name	Place of incorporation/ operation and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Usualink Development Limited	British Virgin Islands/British Virgin Islands 17 March 2000	US$1,250	100%	—	Investment holding
Techwayson Industrial Limited *	Mainland China/ Mainland China 18 September 1997	HK$10,000,000	—	100%	Design, supply and integration of automation and control systems
Techwayson Management Limited	Hong Kong/ Hong Kong 14 February 2001	HK$10,000	100%	—	Provision of management services
Techwayson Enterprises Limited (Formerly known as Topart Development Limited)	British Virgin Islands/ Mainland China 22 March 2000	US$100	100%	—	Design and integration of automation and control systems
Techwire Enterprises Limited	British Virgin Islands/British Virgin Islands 28 February 2001	US$100	100%	—	Investment holding
Techwayson Trading Limited	Hong Kong/ Hong Kong 19 August 2002	HK$10,000	100%	—	Trading of IAS products

* Techwayson Industrial Limited ("TIL") was incorporated in Mainland China on 18 September 1997 as a domestic enterprise with a registered capital of RMB10,000,000. Effective 30 May 2000, TIL was changed from a domestic enterprise to a wholly foreign owned enterprise and its registered capital was increased from RMB10,000,000 to HK$10,000,000 (equivalent to approximately RMB10,619,000). TIL has an operating period of 15 years from September 1997 to September 2012.

2. PRINCIPAL ACTIVITIES

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. The Company has proposed to withdraw its listing on GEM so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, supply and integration of automation and control systems.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Statements 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 conform with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Report included in Listing Documents. The consolidated financial statements have been prepared under the historical cost convention and in accordance with the audited consolidated financial statements of the Group for the year ended 30 June 2000, 2001 and 2002. The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June. Except for the companies involved in the Reorganisation as disclosed in Note 1, the results of subsidiaries acquired or disposed of subsequent to the Reorganisation are included in the consolidated income statement from the date of incorporation, if incorporated by the Company or from the effective date of acquisition up to the effective date of disposal , as appropriate.

All significant intercompany transactions and balances are eliminated on consolidation.

(b) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of acquisitions of subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill in respect of subsidiaries is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisition of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(c) Subsidiaries

A subsidiary is a company in which the Company directly or indirectly, controls more than 50 per cent. of its voting power or issued share capital or controls the composition of its board.

(d) Turnover and revenue recognition

Turnover comprises revenue generated from fixed price contracts.

The Group enters into contracts with customers whereby the sales of system control equipment and software products and the provision of related system integration services are bundled together in one contract. The contract price is allocated between the sales of system control equipment and software products and the provision of related system integration services and revenue is recognised in accordance with the accounting policies described in (i) and (ii) below. Advance payments received from customers are recorded as receipts in advance.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

(i) Sales of system control equipment and software products

Revenue from sales of system control equipment and software products is recognised when the installation work is completed and the customer has accepted the goods together with the risks and rewards of ownership.

(ii) Provision of system integration services

Revenue from the provision of system integration services is recognised by reference to the stage of completion of the system integration work at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed. In instances where the stage of completion is not identifiable, revenue from the provision of system integration services is recognised on a straight–line basis over the period in which the system integration work is performed.

The Group prepares project timetables for all contracts signed with its customers. Revenue from provision of system integration services is recognised over the period of service set out in the project timetable. Project timetables are reviewed regularly. The effect of changes in the project timetable on the amount of revenue recognised is accounted for in the period in which the change is made.

(iii) Interest income

Interest income is recognised on a time-proportion basis on the principal outstanding and at the rate applicable.

(e) Segment reporting

In accordance with the Group internal financial reporting, the Group has determined that business segments be presented as the reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of software development costs, inventories and receivables and mainly exclude investment securities. Segment liabilities comprise operating liabilities and exclude items such as corporate borrowings.

(f) Advertising and promotion

Costs of advertising and promotion are expensed as incurred.

(g) Staff retirement benefits

Costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

(h) Software development costs

Research expenditures are written off as incurred. Software development costs are also written off as incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Deferred software development costs are amortised on a straight-line basis over a period of not more than three years in which the related products or processes are expected to be sold or used, starting from the commencement of sales or the utilisation of the product or process.

(i) Product warranty

The Group provides for estimated warranty costs in the period in which the related sales are recognised. Such provision is based upon historical experience and management's estimate of the level of future claims. Claims exceeding amounts previously provided are recognised as an expense in the period in which the claims become known.

(j) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Fixed assets are depreciated at rates sufficient to write off their cost less residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20% or over the lease term, if shorter
Equipment	18% to 20%
Furniture	18%
Motor vehicles	18%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the company.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(k) Property under development

Property in the course of construction are carried at cost, less any identified impairment loss. Cost includes development and construction expenditure incurred and borrowing costs and other costs directly attributable to the development.

(l) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method and includes costs of materials and, in the case of work-in-progress and finished goods, also direct labour. Net realisable value is based on estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Investment in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(p) Provision and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(q) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

(r) Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). Transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of individual companies.

The Group prepares consolidated financial statements in Renminbi. On consolidation, the assets and liabilities of group companies with functional currencies other than Renminbi are translated into Renminbi at the rate of exchange in effect at the balance sheet date, while income and expense items are translated at the applicable average rates of exchange prevailing during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustment. There were no material cumulative translation adjustments during the years ended 30 June 2000, 2001 and 2002.

4. RELATED PARTY TRANSACTIONS

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(i) The Group entered into the following transaction with a related party:

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Share of operating expenses charged to Albordy Industrial Limited (Formerly known as Broadlink Technology Limited)*	–	2,391	2,385

* *Albordy Industrial Limited is beneficially owned by Dr. Sze Kwan, a director of the Company.*

During the year ended 30 June 2000, the Group provided office premises and administrative services to Albordy Industrial Limited (Formerly known as Broadlink Technology Limited) which agreed to share common expenses by reference to the respective number of research and engineering staff employed. On 30 June 2000, Albordy Industrial Limited agreed to moved out. However it moved out in phases during the period from 1 July 2000 to 31 January 2001, and a reimbursement had been obtained for such period and was included in the income statement for the year ended 30 June 2001. The Company confirmed that the removal was completed on 31 January 2001.

In the opinion of the Company's directors, the above transaction was conducted in the usual course of business and on normal commercial terms.

(ii) Details of the amount due from a related company are:

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Albordy Industrial Limited (Formerly known as Broadlink Technology Limited)	–	–	3,573
Maximum balance outstanding during the year	–	4,241	3,573

The amount due from Albordy Industrial Limited was unsecured, non-interest bearing and was fully settled during the year ended 30 June 2001.

(iii) Details of the amounts due to directors were:

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Dr. Sze Kwan	–	–	6,920
Mr. Tung Fai	–	–	14
	–	–	6,934

The amounts due to directors were unsecured, non-interest bearing and were fully settled during the year ended 30 June 2001.

(iv) Details of loans from shareholders were:

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Otto Link Technology Limited	–	–	6,105
United Power Investments Limited	–	–	4,640
	–	–	10,745

As at 30 June 2000, Otto Link Technology Limited and United Power Investments Limited own 60 per cent. and 40 per cent. respectively of Usualink Development Limited, the holding company of the Group prior to the reorganisation.

Loans from shareholders were unsecured and non-interest bearing. On 27 November 2000, loans from shareholders of approximately RMB13,842,000, which included the balance of approximately RMB10,745,000 as at 30 June 2000, were capitalised as share capital of Usualink Development Limited, a subsidiary of the Company.

5. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	Years ended 30 June		
	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*
Income from fixed price contracts *			
– Sales of system control equipment and software products	115,249	111,023	22,746
– Fees for system integration services	28,020	19,938	5,032
Total turnover	143,269	130,961	27,778
Reversal of warranty provision	6,909	–	–
Compensation received for termination of a project	–	3,286	–
Sundry income	511	–	–
Interest income	122	429	26
	7,542	3,715	26
Total revenue	150,811	134,676	27,804

* *The Group's revenue from fixed price contracts excludes Mainland China value-added tax.*

Sales to the top five customers accounted for approximately 100 per cent., 99 per cent. and 99 per cent. of the Group's turnover for the years ended 30 June 2000, 2001 and 2002 respectively.

6. BUSINESS SEGMENTS

For management purpose, the Group's turnover is divided into two business segments: sales of system control equipment and software products and provision of system integration services and was further detailed into two parts: Industrial automation services and Building automation services, which have been regarded as the Group reporting format during the years ended 30 June 2000, 2001 and 2002.

Industrial automation is divided into factory automation and control and process automation and control.

Factory automation and control refers to operations which manufacture individual items used mainly within the automotive, packaging and consumer goods industries. Products mainly consist of items such as programmable logic controllers (PLCs), robots, drives and standardised solutions.

Process automation and control refers to the continuous control solutions applied in processes where the main objective is to control the continuous production of products including raw oil, electricity and paper at preferred levels. Its products consist of process automation systems, distributed control systems (DCSs), control instrumentation and analytical products such as meters.

Building automation services comprise product lines and application solutions particularly targeted at building industries. Product lines for this market include security and alarm, ventilating, heating, fire protection, gas warning, air conditioning and access control systems.

All the Group's turnover is arisen from Mainland China and therefore, no secondary reporting format is prepared.

Segment information about these businesses for the years ended 30 June 2000, 2001 and 2002 is presented below:

	Building automation Years ended 30 June			Industrial automation Years ended 30 June			Consolidated Years ended 30 June		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE									
Sales of system control equipment and software products	66,530	–	–	54,571	114,309	22,746	121,101	114,309	22,746
System integration	27,628	–	–	1,449	19,938	5,032	29,077	19,938	5,032
	94,158	–	–	56,020	134,247	27,778	150,178	134,247	27,778
SEGMENT RESULT									
Sales of system control equipment and software products	6,412	–	–	28,565	70,621	11,634	34,977	70,621	11,634
System integration	27,265	–	–	1,426	17,678	4,447	28,691	17,678	4,447
	33,677	–	–	29,991	88,299	16,081	63,668	88,299	16,081
Sundry income							633	429	26
Unallocated expenses							(15,911)	(26,744)	(6,645)
Profit from operations							48,390	61,984	9,462
Finance cost							(511)	–	–
Profit before taxation							47,879	61,984	9,462
Taxation							(2,849)	(1,547)	–
Profit after taxation							45,030	60,437	9,462
BALANCE SHEET									
ASSETS									
Segment assets									
Sales of system control equipment and software products	301	–	–	58,565	56,497	7,770	58,866	56,497	7,770
System integration	15,635	–	–	336	25,133	389	15,971	25,133	389
	15,936	–	–	58,901	81,630	8,159	74,837	81,630	8,159
Unallocated assets							138,691	61,062	25,995
Consolidated total assets							213,528	142,692	34,154
LIABILITIES									
Segment liabilities									
Sales of system control equipment and software products	64	–	–	8,892	8,787	51	8,956	8,787	51
System integration	1,151	–	–	461	2,431	–	1,612	2,431	–
	1,215	–	–	9,353	11,218	51	10,568	11,218	51
Unallocated liabilities							30,731	4,275	25,442
Consolidated total liabilities							41,299	15,493	25,493
OTHER INFORMATION									
Software development costs incurred									
Sales of system control equipment and software products	–	–	–	6,927	27,710	–	6,927	27,710	–
System integration	–	–	–	–	–	–	–	–	–
	–	–	–	6,927	27,710	–	6,927	27,710	–
Amortisation of software development costs									
Sales of system control equipment and software products	–	–	–	4,946	–	–	4,946	–	–
System integration	–	–	–	–	–	–	–	–	–
	–	–	–	4,946	–	–	4,946	–	–
Impairment loss on software development costs									
Sales of system control equipment and software products	–	–	–	6,000	–	–	6,000	–	–
System integration	–	–	–	–	–	–	–	–	–
	–	–	–	6,000	–	–	6,000	–	–

7. FINANCE COST

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Interest on other borrowing wholly repayable after 5 years	511	–	–

8. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Staff costs (including directors' emoluments) (a)	7,519	7,224	2,299
Less: Amount included in research and development expenditures	(1,286)	(1,449)	(261)
	6,233	5,775	2,038
Operating lease rentals of premises	2,024	3,074	1,005
Research and development expenditures	1,549	2,785	819
Advertising and promotion costs	419	1,870	361
Loss recognised for impairment in value of fixed assets	222	–	571
Depreciation of fixed assets	950	1,104	742
Amortisation of software development costs	4,946	–	–
	5,896	1,104	742
Loss on disposal of fixed assets	38	868	346
Loss on disposal of investments in securities (b)	–	1,524	–
Auditors' remuneration	408	583	400

Notes:

(a) Staff costs include provision for staff welfare and bonus fund of approximately RMB284,000, RMB578,000 and RMB468,000 for the years ended 30 June 2000, 2001 and 2002 respectively provided by Techwayson Industrial Limited, a wholly-owned subsidiary established in Mainland China. As stipulated by regulations in Mainland China, the provision for staff welfare and bonus fund is determined at the discretion of the board of directors of Techwayson Industrial Limited. The fund can be utilised for the provision of special bonus and for the collective welfare of the employees of the Company.

(b) During the year ended 30 June 2001, the Group disposed of investments in securities with a carrying value of RMB9,842,000, resulting in a loss of RMB1,524,000.

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Fees for executive directors	–	–	–
Fees for non–executive directors	257	–	–
Other emoluments for executive directors			
– Basic salaries and allowances	1,205	579	109
– Bonus	65	–	–
– Contributions to pension scheme	31	10	13
	1,558	589	122
Analysed into:			
Executive Director			
A	551	212	–
B	94	218	122
C	398	159	–
D*	258	–	N/A
E*	–	–	N/A
F*	N/A	–	N/A
Non-Executive Director			
G*	–	–	N/A
H*	–	–	N/A
I*	85	–	N/A
J*	86	N/A	N/A
K*	86	N/A	N/A
	1,558	589	122

* These directors joined or left the Group during the years ended 30 June 2000, 2001 and 2002.

No directors has waived any emoluments during the years ended 30 June 2000, 2001 and 2002. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the years ended 30 June 2000, 2001 and 2002.

(b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries and allowances	1,816	1,154	444
Bonus	38	–	–
Contributions to pension scheme	55	29	53
	1,909	1,183	497
Number of directors	2	2	1
Number of employees	3	3	4
	5	5	5

During the years ended 30 June 2000, 2001 and 2002, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation of loss of office.

The emoluments of all of the five highest paid individuals (including directors and other employees) for the years ended 30 June 2000, 2001 and 2002 fall within the band of nil to RMB1,060,000 (equivalent of HK$1,000,000).

(c) Notional adjustments:

Each of the executive directors of the Company has entered into a service agreement with the Company for a term of two years subsequent to 30 June 2002. The annual remuneration and benefits in kind for the four executive directors under these service agreements in aggregate will amount to approximately RMB2,039,000 with effect from 1 December 2002. Had the service agreements been in effect since 1 July 1999, the combined results of operations of the Group would be as follow:

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Notional directors' emoluments under service contracts	2,039	2,039	2,039
Directors' emoluments paid	(1,558)	(589)	(122)
	481	1,450	1,917
Less: Tax effect*	–	–	–
	481	1,450	1,917

* No taxation was provided during the years ended 30 June 2000, 2001 and 2002 (see Notes 10(b) and (c)).

10. TAXATION

Taxation consisted of:

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Current taxation			
– Mainland China enterprise income tax	2,849	1,547	–

(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

No Hong Kong profits tax has been provided for as the Group had no assessable profit for the years ended 30 June 2000, 2001 and 2002.

(c) Mainland China enterprise income tax

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

Techwayson Industrial Limited, being a High-Tech enterprise and a wholly-owned subsidiary established and operating in a special economic zone of Mainland China, is subject to Mainland China enterprise income tax (EIT) at a rate of 15 per cent.. However, it is exempted from EIT for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50 per cent. reduction for the next eight years. The tax exemption period expired on 31 December 2000 and thereafter, the company is subject to EIT 7.5 per cent. until 31 December 2008. The Mainland China Tax Bureau later shortened the tax reduction period after the tax exemption period. As a result, Techwayson Industrial is subject to EIT of 7.5 per cent. for 3 years until 31 December 2003, and the other three years until 31 December 2006 provided it still be a High-Tech enterprise.

Techwayson Enterprises Limited, a wholly-owned subsidiary established in B.V.I. and operated in Mainland China, had provided for FEIT at 10 per cent. of the PRC-sourced gross income multiplied by the appropriate tax rate.

There was no significant unprovided deferred taxation for the years ended 30 June 2000, 2001 and 2002.

11. EARNINGS PER SHARE

The calculations of basic earnings per share for the years ended 30 June 2000, 2001 and 2002 are based on the consolidated profit attributable to shareholders of RMB9,462,000, RMB60,437,000 and RMB45,030,000 respectively and the respective weighted average number of 280,000,000, 307,808,000 and 350,000,000 shares in issue during the years.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the years ended 30 June 2000, 2001 and 2002.

12. FIXED ASSETS

	Leasehold improvements *RMB'000*	Equipment *RMB'000*	Furniture *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost					
At 1 July 1999	542	3,576	80	–	4,198
Additions	297	1,604	308	403	2,612
Disposals	(542)	–	–	–	(542)
At 30 June 2000	297	5,180	388	403	6,268
Additions	310	1,362	157	375	2,204
Disposals	–	(2,650)	(71)	—	(2,721)
At 30 June 2001	607	3,892	474	778	5,751
Additions	80	478	–	394	952
Disposals	–	(368)	–	–	(368)
At 30 June 2002	687	4,002	474	1,172	6,335
Accumulated depreciation					
At 1 July 1999	88	475	10	–	573
Provision for the year	138	553	15	36	742
Disposal	(196)	–	–	–	(196)
Impairment loss recognised	–	571	–	–	571
At 30 June 2000	30	1,599	25	36	1,690
Provision for the year	189	711	81	123	1,104
Disposal	–	(573)	(13)	–	(586)
At 30 June 2001	219	1,737	93	159	2,208
Provision for the year	189	524	70	167	950
Disposals	–	(35)	–	–	(35)
Impairment loss recognised	–	222	–	–	222
At 30 June 2002	408	2,448	163	326	3,345
Net book value					
At 30 June 2000	267	3,581	363	367	4,578
At 30 June 2001	388	2,155	381	619	3,543
At 30 June 2002	279	1,554	311	846	2,990

13. PROPERTY UNDER DEVELOPMENT

	Land cost	Development cost	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 July 1999	–	–	–
Additions during the year	–	–	–
At 30 June 2000	–	–	–
Additions during the year	–	–	–
At 30 June 2001	–	–	–
Additions during the year	1,648	10,238	11,886
At 30 June 2002	1,648	10,238	11,886

The property under development is located in Mainland China and the Group is in the process of obtaining the land use right certificate for the medium term leasehold land.

14. SOFTWARE DEVELOPMENT COSTS

	RMB'000
Costs	
At 1 July 2000	–
Addition	27,710
At 30 June 2001	27,710
Additions	6,927
At 30 June 2002	34,637
Accumulated amortisation and impairment	
At 1 July 2000	–
Amortisation for the year	–
At 30 June 2001	–
Amortisation for the year	4,946
Impairment loss for the year	6,000
At 30 June 2002	10,946
Net book value	
At 30 June 2000	–
At 30 June 2001	27,710
At 30 June 2002	23,691

The directors of the Company are of the opinion that the software under development will generate adequate revenue and profit (after considering normal selling costs) in the foreseeable future to recover the related development costs.

15. INVESTMENTS IN SECURITIES

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Investment securities			
Equity securities – Unlisted	51,940	–	–

Investment securities represent the Group's 18.52 per cent. holding of the registered capital of Tongling Huarui Electronic Materials Company Limited, a company incorporated in Mainland China.

16. INVENTORIES

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	627	403	136
Finished goods	967	109	239
	1,594	512	375

No inventory was stated at net realisable value as at 30 June 2000, 2001 and 2002.

17. OTHER RECEIVABLE

In February 2001, the Group entered into a co-operation agreement with a third party business associate (the "Project Partner"), a private company operating in Mainland China, to jointly develop a new automation system. Total development costs were estimated to be approximately RMB49,184,000 and each of the Group and the Project Partner was required to contribute approximately RMB24,592,000. The Group fully paid its contribution to the Project Partner during the year ended 30 June 2001. The co-operation agreement was subsequently cancelled in June 2001 due to default payment by the Project Partner. In connection with the termination of the agreement, the Project Partner agreed to refund the entire contribution made by the Group of approximately RMB24,592,000 and to pay compensation of approximately RMB3,286,000 to the Group. As at 30 June 2001, the Group had an unsettled balance outstanding from the Project Partner of approximately RMB17,490,000, which was fully settled subsequent to 30 June 2001.

18. TRADE RECEIVABLES

Trade receivables consisted of:

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	48,019	30,918	6,610
Retention monies receivable*	1,533	5,000	1,174
	49,552	35,918	7,784

* *Retention monies are receivable upon expiry of the product warranty period, which is generally one year after completion of the contract.*

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

Aging analysis of trade receivables at the year-end dates is as follows:

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
0 - 60 days	33,655	31,092	7,784
61- 90 days	168	–	–
Over 90 days	15,729	4,826	–
	49,552	35,918	7,784

The amounts due over 60 days shown above had been fully settled subsequent to the year-end date.

19. TRADE PAYABLES

Aging analysis of trade payables at the year-end dates is as follows:

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
0 - 60 days	7,295	820	51
61 - 90 days	1	–	–
Over 90 days	45	67	–
	7,341	887	51

20. WARRANTY PROVISION

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
At 1 July	6,946	1,442	268
Provision during the year	84	5,504	1,174
Utilisation of provision	(37)	–	–
Unused amounts reversed during the year	(6,909)	–	–
At 30 June	84	6,946	1,442

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

21. LOANS PAYABLE

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Other loans, unsecured			
Interest bearing	19,080	—	—
Non-interest bearing	2,000	—	3,000
	21,080	—	3,000

The maturity of the above loans is as follows:

On demand or within one year	5,578	—	3,000
More than one year, but not exceeding two years	2,385	—	—
More than two years, but not exceeding five years	7,155	—	—
More than five years	5,962	—	—
	21,080	—	3,000
Less: Amounts due within one year shown under current liabilities	(5,578)	—	(3,000)
	15,502	—	—

The non-interest bearing loan payable of RMB3,000,000 as at 30 June 2000 was due to a former shareholder of Techwayson Industrial Limited, a wholly-owned subsidiary. The loan was fully settled during the year ended 30 June 2001.

The non-interest bearing loan of RMB2,000,000 from Shenzhen Finance Bureau as at 30 June 2002 is repayable within 1 year.

The interest bearing loan of RMB19,080,000 from Tongling Economy Technology (Group) Corporation as at 30 June 2002 bore interest at LIBOR plus 0.5 per cent. p.a. and is repayable in 16 equal instalments over a period of 8 years.

22. SHARE CAPITAL

Movements of share capital were:

	Number of shares	Amount
		RMB'000
Authorised – ordinary shares of RMB0.106 each (equivalent of HK$0.1)		
Upon incorporation of the Company (a)	3,900,000	413
Increase in authorised share capital (b)	996,100,000	105,587
As at 30 June 2001	1,000,000,000	106,000
As at 30 June 2002	1,000,000,000	106,000
Issued and fully paid – ordinary shares of RMB0.106 each (equivalent of HK$0.1)		
Issue of shares upon incorporation (a)	2,500	–
Issue of shares arising from the Reorganisation (c)	7,500	1
Issue of shares through a placing (d)	70,000,000	7,420
Capitalisation of share premium (e)	279,990,000	29,679
As at 30 June 2001	350,000,000	37,100
As at 30 June 2002	350,000,000	37,100

(a) Upon incorporation on 1 September 2000, the Company had authorised share capital of HK$390,000, divided into 3,900,000 shares of HK$0.10 each. On the same date, 1,500 shares were allotted and issued as fully paid. On 21 September 2000, the Company further allotted and issued 1,000 shares of HK$0.10 each, credited as fully paid.

(b) On 22 January 2001, the Company's authorised share capital was increased from HK$390,000 to HK$100,000,000, by the creation of 996,100,000 shares of HK$0.10 each ranking pari passu with the then existing shares in all respects.

(c) On 16 January 2001, the Company allotted and issued 7,500 shares of HK$0.10 each, credited as fully paid, in exchange for the acquisition by the Company of the entire issued share capital of Usualink Development Limited, the then holding company of the Group.

(d) On 6 February 2001, 70,000,000 shares of HK$0.10 each were issued at HK$0.78 per share through a placing, resulting in cash proceeds (net of share issuance expenses) of approximately HK$41,754,000 (equivalent to approximately RMB44,259,000).

(e) Immediately after the aforementioned placing, share premium of approximately HK$27,999,000 (equivalent to approximately RMB29,679,000) was capitalised for the issuance of 279,990,000 shares of HK$0.10 each on a pro-rata basis to the Company's shareholders immediately before the placing.

As at 30 June 2000, the share capital shown on the consolidated balance sheet represents the share capital of Usualink Development Limited, the then holding company of the Group prior to the Reorganisation (see Note 1).

23. EMPLOYEE SHARE OPTIONS

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10 per cent. of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's board of directors and will not be less than the highest of (i) the nominal value of the Company's shares, (ii) the average of the closing price of the shares quoted on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the grant date and (iii) the closing price of the shares on the grant date. No option has been granted since the adoption of the share option scheme.

24. RESERVES

	Share premium *RMB'000*	General reserve funds (Note (a)) *RMB'000*	Capital reserve (Note (b)) *RMB'000*	(Accumulated deficit) Retained profit *RMB'000*	Total *RMB'000*
At 1 July 1999	–	–	–	(801)	(801)
Transfer from retained profit to reserve	–	1,303	–	(1,303)	–
Profit attributable to shareholders	–	–	–	9,462	9,462
At 30 June 2000	–	1,303	–	7,358	8,661
Premium on issue of shares (Note 22.d)	50,456	–	–	–	50,456
Share issuance expenses (Note 22.d)	(13,617)	–	–	–	(13,617)
Capitalisation of share premium (Note 22.e)	(29,679)	–	–	–	(29,679)
Capitalisation of shareholders' loans by a subsidiary	–	–	13,842	–	13,842
Effect of Reorganisation	–	–	(1)	–	(1)
Profit attributable to shareholders	–	–	–	60,437	60,437
Transfer from retained profit to reserve	–	4,006	–	(4,006)	–
At 30 June 2001	7,160	5,309	13,841	63,789	90,099
Profit attributable to shareholders	–	–	–	45,030	45,030
At 30 June 2002	7,160	5,309	13,841	108,819	135,129

Notes:–

(a) As stipulated by regulations in Mainland China, Techwayson Industrial Limited is required to appropriate 10 per cent. of after-tax profit (after offsetting prior year losses) to a general reserve fund until the balance of the fund reaches 50 per cent. of its share capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior year losses, or for the issuance of bonus shares on the condition that the general reserve fund shall be maintained at a minimum of 25 per cent. of the share capital after such issuance.

Prior to 30 May 2000, Techwayson Industrial Limited was a domestic enterprise in Mainland China and required to appropriate 5 per cent. of its after-tax profit (after offsetting prior year losses) to a public welfare fund. The public welfare fund can be utilised for capital items for the collective benefit of the Company's employees such as construction of dormitories, canteens and other staff welfare facilities. Effective 30 May 2000, Techwayson Industrial Limited was changed from a domestic enterprise to a wholly foreign owned enterprise and the company was no longer required to maintain a public welfare fund. During the year ended 30 June 2001, the board of directors of Techwayson Industrial Limited determined to transfer the public welfare fund brought forward of RMB434,000 and appropriate after-tax profit for the year ended 30 June 2001 of RMB4,006,000 to the general reserve fund. As a result, the balance of the general reserve fund has reached 50 per cent. of the share capital of Techwayson Industrial Limited and the board of directors has determined that no further appropriation is necessary unless there is an increase in share capital of the company.

(b) Capital reserve represents effect of the Reorganisation and capitalisation of shareholders' loans by a subsidiary.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	Years ended 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	47,879	61,984	9,462
Interest income	(122)	(429)	(26)
Interest expenses	511	–	–
Loans payable waived	(22)	–	–
Depreciation of fixed assets	950	1,104	742
Amortisation of software development costs	4,946	–	–
Goodwill written off	22	–	–
Impairment loss on software development costs	6,000	–	–
Loss recognised for impairment in value of fixed assets	222	–	571
Loss on disposal of fixed assets	38	868	346
Loss on disposal of investments in securities	–	1,524	–
(Increase)/decrease in inventories	(1,082)	(137)	8,503
(Increase)/decrease in prepayments, deposits and other current assets	(377)	1,216	(2,126)
Increase in trade receivables	(13,634)	(28,134)	(6,037)
Decrease/(increase) in due from a related company	–	3,573	(3,573)
Increase/(decrease) in trade payables	6,454	836	(4,027)
Increase/(decrease) in accruals and other payables	2,658	2,792	1,912
(Decrease)/increase in warranty provision	(6,862)	5,504	1,174
Increase/(decrease) in receipts in advance	775	–	(1,892)
Net cash inflow from operating activities	48,356	50,701	5,029

(b) Acquisition of a subsidiary

During the year ended 30 June 2002, the Group acquired 100 per cent. interest in Techwire Enterprises Limited. The fair value of assets acquired and liabilities assumed were as follows:

	RMB'000
Investment in securities	51,940
Amount due to a shareholder	(32,882)
Other loan	(19,080)
	(22)
Goodwill on acquisition	22
	–

The subsidiary acquired during the year utilised RMB32,860,000 for financing activities, but had no significant impact in respect of the Group's net operating cash flows, tax, net returns on investments and servicing of finance, or investing activities.

The subsidiary acquired during the year made no significant contribution to the Group's turnover and the profit attributable to the shareholders for the year.

(c) Analysis of changes in financing:

	Share capital and share premium *RMB'000*	**Loans payable** *RMB'000*	**Due to directors** *RMB'000*	**Loans from shareholders** *RMB'000*	**Total** *RMB'000*
At 1 July 1999	10,000	–	–	–	10,000
Loan payable	–	3,000	–	–	3,000
Advance from directors	–	–	6,934	–	6,934
Loans from shareholders	–	–	–	745	745
Non-cash transaction (Note 25(d))	(10,000)	–	–	10,000	–
At 30 June 2000	–	3,000	6,934	10,745	20,679
Issue of shares through a placing	57,876	–	–	–	57,876
Share issuance expenses	(13,617)	–	–	–	(13,617)
Effect of Reorganisation (Notes 1 and 22)	1	–	–	–	1
Repayment of loan	–	(3,000)	–	–	(3,000)
Repayment to directors	–	–	(6,934)	–	(6,934)
Loans from shareholders	–	–	–	3,097	3,097
Capitalisation of shareholders' loans (Note 25(d))	–	–	–	(13,842)	(13,842)
At 30 June 2001	44,260	–	–	–	44,260
On acquisition of a subsidiary	–	51,962	–	–	51,962
Repayment of loan	–	(32,860)	–	–	(32,860)
Amount waived	–	(22)	–	–	(22)
Loans obtained	–	2,000	–	–	2,000
At 30 June 2002	44,260	21,080	–	–	65,340

(d) Non-cash transactions

On 6 April 2000, the former shareholders of Techwayson Industrial Limited ("TIL"), a wholly-owned subsidiary, agreed to transfer their interests in TIL to Usualink Development Limited ("Usualink"), the then holding company of the Group, at an aggregate consideration of RMB10,000,000. The former shareholders of TIL agreed not to demand repayment of such indebtedness in cash, with the entire amount to be capitalised as share capital of Usualink. Such indebtedness of RMB10,000,000 by Usualink to the former shareholders of TIL was subsequently assigned to Otto Link Technology Limited and United Power Investments Limited, the then shareholders of Usualink. On 27 November 2000, such indebtedness, together with other loans from shareholders totalling RMB13,842,000 were capitalised as share capital of Usualink.

26. COMMITMENTS

(a) Capital commitments

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Authorised and contracted for			
– Purchase of fixed assets	–	–	74
– Software development costs	–	6,927	–
– Property under development	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:

	As at 30 June		
	2002	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,337	1,917	2,367
Between two and five years	1,432	2,046	3,858
	2,769	3,963	6,225

27. PENSION SCHEMES

From 1 December 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5 per cent. of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. The statutory contributions made by the Group are not forfeitable under this scheme.

As stipulated by rules and regulations in Mainland China, Techwayson Industrial Limited is required to contribute to a state-sponsored retirement plan at a defined contribution amount for all of its employees at rates of 7 per cent. to 12 per cent. of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. Contributions made by the Group are not forfeitable under this scheme.

During the years ended 30 June 2000, 2001 and 2002, the aggregate employer's contributions made by the Group amounted to approximately RMB155,000, RMB278,000 and RMB217,000 respectively.

II. FINANCIAL INFORMATION ABOUT THE COMPANY

The following are the balance sheets of the Company as at 30 June 2001 and 2002:

		As at 30 June	
		2002	**2001**
	Note	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS			
Investment in subsidiaries	*1*	132,348	95,350
CURRENT ASSETS			
Cash and bank deposits		30	16,097
Total current assets		30	16,097
CURRENT LIABILITIES			
Accruals and other payables		(3,690)	(583)
Loan payable – Current portion	*2*	(3,578)	—
Total current liabilities		(7,268)	(583)
NET CURRENT (LIABILITIES)/ASSETS		(7,238)	15,514
TOTAL ASSETS LESS CURRENT LIABILITIES		125,110	110,864
NON-CURRENT LIABILITIES			
Loan payable	*2*	(15,502)	—
NET ASSETS		109,608	110,864
Representing:			
SHARE CAPITAL		37,100	37,100
RESERVES	*3*	72,508	73,764
SHAREHOLDERS' EQUITY		109,608	110,864

The balance sheet as at 30 June 2000 is not presented as the Company was incorporated after 30 June 2000.

NOTES TO THE FINANCIAL STATEMENTS

1. INVESTMENT IN SUBSIDIARIES

	As at 30 June	
	2002	**2001**
	RMB'000	*RMB'000*
Unlisted shares, at cost	67,627	67,627
Due from subsidiaries	65,084	27,734
Due to a subsidiary	(363)	(11)
	132,348	95,350

All balances with subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

Details of the subsidiaries are set out in Note 1 to the consolidated financial statements set out in Section I above.

2. LOAN PAYABLE

	As at 30 June	
	2002	**2001**
	RMB'000	*RMB'000*
Other loan	19,080	–

The maturity of the above loans is as follows:

On demand or within one year	3,578	–
More than one year, but not exceeding two years	2,385	–
More than two years, but not exceeding five years	7,155	–
More than five years	5,962	–
	19,080	–
Less: Amounts due within one year shown under current liabilities	(3,578)	–
	15,502	–

The loan is unsecured, bearing interest at LIBOR plus 0.5 per cent. p.a. and repayable in 16 equal instalments over a period of 8 years.

3. RESERVES

	Share premium *RMB'000*	Contributed surplus* *RMB'000*	(Accumulated deficit) *RMB'000*	Total *RMB'000*
At 1 July 2000	–	–	–	–
Premium on issue of shares	50,456	–	–	50,456
Share issuance expenses	(13,617)	–	–	(13,617)
Capitalisation of share premium	(29,679)	–	–	(29,679)
Effect of the Reorganisation	–	67,614	–	67,614
Loss attributable to shareholders	–	–	(1,010)	(1,010)
At 30 June 2001	7,160	67,614	(1,010)	73,764
Loss attributable to shareholders	–	–	(1,256)	(1,256)
At 30 June 2002	7,160	67,614	(2,266)	72,508

* Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation on 16 January 2001.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 30 June 2001 and 2002, the Company's reserves available for distribution to shareholders amounted to RMB73,764,000 and RMB72,508,000 respectively computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB7,160,000 and contributed surplus of RMB67,614,000, less accumulated deficit for the years ended 30 June 2001 and 2002 of RMB1,010,000 and RMB2,266,000 respectively, which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

4. DIRECTORS' EMOLUMENTS

Under the arrangement currently in force the aggregate remuneration of the directors of the Company payable for the year ending 30 June 2003 is estimated to be approximately RMB1,615,000.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2002. In addition, no dividend has been declared or paid by the Company or any of the companies now comprising the Group subsequent to 30 June 2002.

Yours faithfully

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
Hong Kong
Chan Wai Dune, Charles
Practising Certificate Number P00712

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this document received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuations as at 30 November 2002 of the property interests of the Group.

Sallmanns
Professional valuation and consultancy
www.sallmanns.com

15/F Trinity House
165-171 Wanchai Road
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

30 December 2002

The Directors
Techwayson Holdings Limited
Room 1810 on 18th Floor
Harbour Centre
No. 25 Harbour Road
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests of Techwayson Holdings Limited (hereinafter referred to as the "Company"), and its subsidiaries (hereinafter together referred to as the "Group") have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property interests as at 30 November 2002.

Our valuations of the property interests are our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of the valuation assuming:-

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

Our valuations have been made on the assumption that the owner sells the property interests on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the property interests.

The property interests in Groups II and III which are rented by the Group have no commercial value due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents or the insufficient proof of legal title to the property interests.

In valuing the property interests in Hong Kong and the PRC, we have complied with all the requirements contained in the Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant property interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar property interests, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have relied to a considerable extent on the information provided by the Group and the legal opinion of the Group's PRC legal advisers, Chen & Co. regarding ownership and legal use of the property interests. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, occupations, lettings, rentals, site and floor areas and all other relevant matters.

We have been shown copies of various title documents and tenancy agreements relating to the property interests that are held/rented by the Group. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the property interests or any material encumbrances that might be attached to the property interests.

We have inspected the exterior and, where possible, the interior of the property interests included in the attached valuation certificate, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been made, and in the course of our inspection we did not note any apparent serious defects. We are not, however, able to report that the property interests are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their value.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated in this report are in Hong Kong Dollars. The exchange rate used in converting the value of property No. 1 in Group I into Hong Kong Dollars, being RMB1.055=HK$1 as at the date of valuation, i.e. 30 November 2002 and no significant fluctuation in such exchange rate has been found between the date of valuation and the date of this letter.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
SALLMANNS (FAR EAST) LIMITED
Paul L. Brown
BSc. FRICS FHKIS
Director

Note : Paul L. Brown is a Chartered Surveyor who has 19 year's experience in the valuation of properties in the PRC and 22 years property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I – PROPERTY INTEREST HELD FOR DEVELOPMENT BY THE GROUP IN THE PRC

No.	Property	Open Market Value in existing state as at 30 November 2002 *HK$*
1.	Land Parcel No. T205-0035 located at High-tech Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
	Sub-total:	Nil

GROUP II - PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Open Market Value in existing state as at 30 November 2002 *HK$*
2.	Portion of Level 1 West Wing South Building Block 24 Hi-tech Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
3.	Portion of Level Two Strength Building Hi-tech Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	No commercial value
	Sub-total:	Nil

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

No.	Property		Open Market Value in existing state as at 30 November 2002 *HK$*
4.	Room 1810 on 18th Floor, Harbour Centre No. 25 Harbour Road Wanchai Hong Kong		No commercial value
5.	Rooms 1509-1510 on 15th Floor, Harbour Centre No. 25 Harbour Road Wanchai Hong Kong		No commercial value
		Sub-total:	Nil
		Total:	No commercial value

GROUP I – PROPERTY INTEREST HELD FOR DEVELOPMENT BY THE GROUP IN THE PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30 November 2002 *HK$*
1.	Land Parcel No. T205-0035 located at High-tech Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises a parcel of land with a site area of approximately 8,159 sq.m. The property was granted with the land use rights for a term of 50 years commencing from 31 January 2002 to 30 January 2052 for high-tech industrial park use.	The property is currently vacant. It is planned to be developed into a research and development centre with a maximum gross floor area of approximately 15,263 sq.m.	No commercial value (See Notes 1-3)

Notes:

1. Techwayson Industrial Ltd. is a wholly-owned subsidiary of the Company.

2. Pursuant to a State-owned Land Use Rights Grant Contract - Shen Di He Zi (2002) No. 3011 and a Supplementary Contract made between Techwayson Industrial Ltd. and Shenzhen City Planning and Land Resources Bureau on 31 January 2002 and 1 November 2002 respectively, the land use rights of the subject land of the property was granted to 德維森實業(深圳)有限公司 Techwayson Industrial Ltd. for a term of 50 years commencing from 31 January 2002 to 30 January 2052 for high-tech industrial park use at a total consideration of RMB2,027,572. However, the Realty Title Certificate for the subject land of the property is currently under application.

3. According to a Planning Permit of Construction Land – Shen Gui Tu Gui Xu Zi No. 01-2002-0113 issued by Shenzhen City Planning and Land Resources Bureau on 7 August 2002, the main planning and design parameters of the proposed Techwayson Research and Development Centre are listed out as follows:

(i)	Plot Ratio	:	≤2.2
(ii)	Site Coverage	:	≤35%
(iii)	Building Height	:	≤24 m
(iv)	Gross Floor Area Permitted	:	15,263 sq.m.
(v)	Car Parking Spaces	:	70

4. According to a Shenzhen City Planning and Land Resources Bureau Realty First Registration Announcement – Di No. NS 2002-15 (the "Announcement") issued by Shenzhen City Planning and Land Resources Bureau on 23 December 2002, the application for the registration of the land use rights of the property has been preliminarily approved and the Realty Title Certificate will be issued after the expiry of an objection period of 30 days commencing from the date of the Announcement.

5. As confirmed by Techwayson Industrial Ltd. and according to the Announcement, the Realty Title Certificate for the subject land of the property is currently under application and will be issued at the end of January 2003. In the valuation of this property, we have not attributed any commercial value because the transferability of the property, whose Realty Title Certificate is in the process of application, is unknown. However, for indicative purposes, the open market of the value of the subject land of the property, with an area of approximately 8,159 sq.m., as at the date of valuation is approximately HK$2,500,000 based on the assumptions that Techwayson Industrial Ltd. has already obtained the Realty Title Certificate and the land use rights of the property can be freely transferred, sublet or mortgaged by Techwayson Industrial Ltd. according to the conditions stated in the State-owned Land Use Rights Grant Contract.

6. We have been provided with a legal opinion on the legality of the ownership/title to the property issued by the Group's PRC legal advisers, Chen & Co., which contains, inter alia, the following information:—

   (i) According to a certification document issued by Shenzhen City Planning and Land Resources Bureau Nanshan Branch on 5 December 2002, Techwayson Industrial Ltd. has paid up the land use rights premium, land development fee and urban public infrastructural fees in the total amount of RMB2,027,572,

   (ii) As confirmed by Techwayson Industrial Ltd., the Realty Title Certificate of the Property is currently under application.

   (iii) There will be no legal impediment for Techwayson Industrial Ltd. to obtain the Realty Title Certificate for the property. After the registration of the land use rights and obtaining the Realty Title Certificate for the property, Techwayson Industrial Ltd. will be entitled to freely transfer, let or mortgage the property in accordance with the PRC laws.

GROUP II – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30 November 2002 *HK$*
2.	Portion of Level 1 West Wing South Building Block 24 Hi-tech Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises portion of Level 1 in a 6-storey factory building of reinforced concrete structure completed in 1992. The gross floor area of the property is approximately 619.6 sq.m. (6,669 sq.ft.). According to a tenancy agreement and a supplementary agreement both dated 16 March 2002, the property is leased to 德維森實業（深圳）有限公司Techwayson Industrial Ltd. (the "Tenant") from 深圳安惠實業集團, an independent third party, for a term of 1 year commencing from 16 March 2002 to 15 March 2003 at a monthly rental of RMB18,588 exclusive of utility charges, cleaning charges and management fee.	The property is currently occupied by the Group for office use.	No commercial value

Notes:

1. Techwayson Industrial Ltd. is a wholly-owned subsidiary of the Company.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by Group's PRC legal advisers, Chen & Co., which contains, inter alia, the following information:—

   The tenancy agreement is valid, binding and enforceable under the PRC laws.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30 November 2002 *HK$*
3.	Portion of Level Two Strength Building Hi-tech Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	The property comprises an office level in a 6-storey office building of reinforced concrete structure completed in 1997. The gross floor area of the property is approximately 1,364 sq.m. (14,682 sq.ft.) According to a tenancy agreement dated 27 December 2000, the property is currently leased to 德維森實業(深圳)有限公司 Techwayson Industrial Ltd. (the "Tenant") from 深圳思創光電信息技術有限公司 (the "Landlord"), an independent third party, for a term of 4 years commencing from 27 December 2000 to 27 December 2004. The monthly rental for the first two years is RMB50 per sq.m exclusive of air-conditioning charges, management fee and utility charges. Pursuant to the tenancy agreement, the monthly rental will be adjusted on the 3 and 4 year subject to market condition. The rent free period is for a term of 60 days commencing from 27 December 2000.	The property is currently occupied by the Group for office, technology research and production uses.	No commercial value

Notes:

1. Techwayson Industrial Ltd. is a wholly-owned subsidiary of the Company.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by Group's PRC legal advisers, Chen & Co., which contains, inter alia, the following information:—

   The tenancy agreement is valid, binding and enforceable under the PRC laws.

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30 November 2002 *HK$*
4.	Room 1810 on 18th Floor, Harbour Centre No. 25 Harbour Road Wanchai Hong Kong	The property comprises an office unit on a 39-storey composite building erected over a 2-Level car parking podium. The building is of reinforced concrete structure with curtain wall cladding completed in 1983. According to the information provided, the lettable area of the unit is approximately 93.37sq.m. (1,005 sq.ft.) According to a tenancy agreement dated 10 August 2000 and a supplementary agreement dated 31 January 2002, the property is currently leased to Usualink Development Limited (the "Tenant") from Coraland Limited (the "Landlord"), an independent third party for a term of two years commencing from 15 February 2002 to 14 February 2004 at a monthly rental of HK$27,600 exclusive of rates and services charges. After the end of the first year, i.e. from 15 February 2003 and during the second year of the tenancy, the Tenant shall have an option to terminate this tenancy by giving the Landlord 2 calendar months' prior written notice and the tenancy will be terminiated on the expiration of the said notice or paying the Landlord a lump sum equivalent to 2 months' rent in lieu of notice.	The property is currently occupied by the Group for office use.	No commercial value

Notes:

1. Usualink Development Limited is a wholly-owned subsidiary of the Company.

2. According to the record at the Land Registry, the registered owner of the property is Coraland Limited.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30 November 2002 *HK$*
5.	Rooms 1509-1510 on 15th Floor Harbour Centre No. 25 Harbour Road Wanchai Hong Kong	The property comprises an office unit on a 39-storey composite building erected over a 2-Level car parking podium. The building is of reinforced concrete structure with curtain wall cladding completed in 1983. According to the information provided, the lettable area of the property is approximately 263.6 sq.m. (2,837 sq.ft.) According to a tenancy agreement dated 30 September 2002, the property is currently leased to Techwayson Management Limited (the "Tenant") from Xipho Development Company Limited (the "Landlord"), an independent third party for a term of two years commencing from 16 September 2002 to 15 September 2004 at a monthly rental of HK$57,591.1 exclusive of rates and service charges. The rent free periods are from 16 September 2002 to 15 November 2002 and from 16 July 2004 to 15 September 2004.	The property is currently occupied by the Group for office use.	No commercial value

Notes:

1. Techwayson Management Limited is a wholly-owned subsidiary of the Company.

2. According to the record at the Land Registry, the registered owner of the property is Xipho Development Company Limited.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 September 2000 under the Companies Law. The Memorandum of Association (the "Memorandum") and the Articles of Association which are proposed to be adopted by the Company at the Extraordinary General Meeting (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles are proposed to be adopted by the Company at the Extraordinary General Meeting. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the

Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares.

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles) and the provisions of the Companies Ordinance (Chapter 32, Laws of Hong Kong) in relation to summary financial reports and the Companies (Summary Financial Reports of Listed Companies) Regulation (Chapter 32M, Laws of Hong Kong) as if the Company were a company incorporated in Hong Kong, the Company may send to such person who has sent or is treated by section 141CB of the Companies Ordinance (Chapter 32, Laws of Hong Kong) to have sent a notice of intent to the Company that he agrees to be sent a copy of the summary financial statement as aforesaid, a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominees(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 12 September 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix IV. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company under the Companies Law on 1 September 2000. The Company has established a place of business in Hong Kong at Room 1810, 18th Floor, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong and on 20 November 2000, it was registered in Hong Kong as an oversea company in Hong Kong under Part XI of the Companies Ordinance. Mr. Tung has been appointed as the agent of the Company for the acceptance of service of process. As the Company was incorporated in the Cayman Islands, it operates subject to Cayman Islands law and to its constitution which comprises the Memorandum and Articles. A summary of various provisions of its constitution and relevant aspects of Cayman Islands company law is set out in appendix III to this document.

2. Changes in share capital of the Company

(A) On 16 January 2001, an aggregate of 7,500 Shares were allotted and issued, credited as fully paid, to Otto Link, Goldwiz, Mr. T. Siu, Mr. K. F. Siu and Streetwise as detailed below as consideration for the acquisition by the Company of and in exchange for the 1,250 shares of US$1.00 each representing the entire issued share capital of Usualink:–

Name of shareholder	**No. of Shares**
Otto Link	4,500
Goldwiz *Note*	1,656
Mr. T. Siu *Note*	1,044
Mr. K. F. Siu *Note*	150
Streetwise *Note*	150

Notes:

The Shares are issued and allotted by the Company to Goldwiz, Mr. T. Siu, Mr. K. F. Siu and Streetwise at the direction of United Power Investments Limited by way of off-setting a shareholders' loan in the sum of HK$4,000,000 due by United Power and distribution of dividend in specie of HK$1,233,624.40 by United Power Investments Limited to Goldwiz, Mr. T. Siu, Mr. K. F. Siu and Streetwise in proportion to their respective shareholding in United Power.

(B) On 22 January 2001, the authorised share capital of the Company was increased from HK$390,000.00 to HK$100,000,000.00 by the creation of 996,100,000 additional Shares, such new Shares to rank pari passu in all respects with the then existing Shares.

(C) On 6 February 2001, 70,000,000 Shares were allotted and issued at HK$0.78 per Share through an initial public offering by way of placing, and a total of 279,990,000 Shares, credited as fully paid, were allotted and issued to holders of Shares whose names appeared on the register of members of the Company at the close of business on 22 January 2001 on a pro-rata basis by capitalising approximately HK$27,999,000.00 in the share premium account of the Company.

(D) As at the Latest Practicable Date, the authorised share capital of the Company is HK$100,000,000.00 divided into 1,000,000,000 Shares and the issued share capital of the Company is HK$35,000,000.00 divided into 350,000,000 Shares fully paid or credited as fully paid, with 650,000,000 Shares remaining unissued. Other than pursuant to any options which may be granted under the New Share Option Scheme if the same is approved by the shareholders, or pursuant to the exercise of power under the general mandates of the Directors to issue and/or repurchase Shares if the same are approved by the shareholders, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

(E) Save as aforesaid, there has been no alteration in the share capital of the Company within the two years preceding the date of this document.

3. Changes in share capital of subsidiaries of the Group

(A) The following alteration in the share capital of Usualink has taken place within the two years preceding the date of this document:–

On 16 January 2001, Otto Link and United Power Investments Limited transferred a total of 1,250 shares of US$1.00 each, representing the entire issued capital of Usualink to the Company in exchange for 7,500 Shares of which 1,656 Shares, 1,044 Shares, 150 Shares and 150 Shares were allotted and issued to Goldwiz, Mr. T. Siu, Mr. K. F. Siu and Streetwise respectively at the direction of United Power Investments Limited and 4,500 Shares were allotted and issued to Otto Link.

(B) The following alterations in the share capital of Techwire have taken place within two years preceding the date of this document:–

(i) on 28 February 2001, Techwire was incorporated in the BVI with an authorised share capital of US$50,000.00 divided into 50,000 shares of US$1.00 each of which 100 shares of US$1.00 each were allotted and issued to Mr. Chen Jian Jun at par on 28 February 2001; and

(ii) on 26 September 2001, the Company purchased 100 shares of US$1.00 each representing the entire issued share capital of Techwire from Mr. Chen Jian Jun.

(C) The following alterations in the share capital of Techwayson Management have taken place within two years preceding the date of this document:–

On 14 February 2001, Techwayson Management was incorporated in Hong Kong with an authorised capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each of which 9,999 shares and 1 share of HK$1.00 each were allotted and issued to the Company and Usualink (who holds the 1 share on trust for the benefits of the Company) at par respectively.

(D) The following alteration in the share capital of Techwayson Enterprises has taken place within two years preceding the date of this document:–

On 21 February 2001, 100 shares of US$1.00 each were transferred from Mr. Tung to the Company at a total consideration of US$100.00.

(E) The following alterations in the share capital of Techwayson Trading have taken place within two years preceding the date of this document:

On 19 August 2002, Techwayson Trading was incorporated in Hong Kong with an authorised capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each and 9,999 shares and 1 share of HK$1.00 each were allotted and issued to the Company and Usualink (who holds the 1 share on trust for the benefits of the Company) respectively at par.

Save as aforesaid, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this document.

4. Repurchase by the Company of its own Shares

(A) Provisions of the Listing Rules and Shareholders' Approval

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions.

All proposed repurchases of securities (which must be fully-paid up) by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

(B) Repurchase Mandate

Pursuant to a resolution proposed to be passed by the shareholders of the Company at the Extraordinary General Meeting, a general unconditional mandate (the "**Repurchase Mandate**") will be granted to the Directors authorising the repurchases by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of such resolution, during the period from the passing of such resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or

(iii) the revocation, variation or revision of the Repurchase Mandate by an ordinary resolution of the shareholders of the Company in general meeting.

whichever is the earliest.

(C) Exercise of the Repurchase Mandate

On the basis of 350,000,000 Shares in issue as at the Latest Practicable Date and assuming the number of Shares in issue remains unchanged up to the date of the Extraordinary General Meeting and taking no account of the Shares which may be issued under the exercise of options which may be granted under any share options scheme, the Directors would be authorised under the Repurchase Mandate to repurchase up to 35,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(D) Reasons for repurchases

The Directors believe that it is in the best interest of the Company and its shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when and to the extent that the Directors believe that such a repurchase will benefit the Company and its shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or the earnings per Share or both.

(E) Funding of repurchase

Repurchases pursuant to the Repurchase Mandate would be financed out of funds of the Company legally available for the purpose in accordance with the Memorandum and Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in its latest published audited accounts) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(F) Disclosure of interests

None of the Directors and, to the best of their knowledge, having made all reasonable enquires, none of their respective associates, have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to the Company or its subsidiaries.

No connected persons (as defined in the Listing Rules) of the Company have notified the Company that they have a present intention to sell Shares to the Company, or have undertaken not to do so, if the Repurchase Mandate is exercised.

(G) Directors' undertaking

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws from time to time in force in the Cayman Islands.

(H) Takeovers Code consequences

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a shareholder, or a group of shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase of the shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid the Directors are not aware of any other consequences which would arise under the Takeovers Code or as consequence of any repurchases of Shares pursuant to the Repurchase Mandate made after the listing of the Shares on the Main Board of the Stock Exchange.

The existing shareholdings of all substantial shareholders of the Company as at the Latest Practicable Date were and their respective shareholdings upon full exercise of the Repurchase Mandate will be as follows:

Name of Substantial Shareholder	Number of shares held	Approximate percentage of shareholdings as at the Latest Practicable Date (%)	Approximate percentage of shareholdings upon full exercise of the Repurchase Mandate (%)
Otto Link	161,700,000	46.20%	51.33%
Dr. Sze	161,700,000	46.20%	51.33%
Goldwiz	61,824,000	17.66%	19.63%
Goldwiz Holdings	61,824,000	17.66%	19.63%
Mr. T. Siu	38,976,000	11.14%	12.37%

Thus, Otto Link and Dr. Sze may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code if the Repurchase Mandate is exercised in full. However, the Company has no present intention to exercise the Repurchase Mandate to such extent as may trigger such a mandatory offer obligation.

(I) Public Float

The Company may not comply with the minimum public float requirement as stated in rule 8.08(1) of the Listing Rules if the Repurchase Mandate is exercised in full. However, the Company has no present intention to exercise the Repurchase Mandate to such extent as will result in a non-compliance of the minimum public float requirement.

(J) Shares purchased by the Company

The Company has not purchased any Shares (whether on GEM or otherwise) in the six months preceding the Latest Practicable Date.

(K) Share prices

The following table is a summary of the monthly highest and lowest traded prices on GEM in the each of the previous twelve months preceding the Latest Practicable Date.

		Highest Traded Price	**Lowest Traded Price**
		HK$	*HK$*
2001	December	1.05	0.87
2002	January	1.06	0.90
	February	0.98	0.85
	March	0.95	0.86
	April	0.91	0.86
	May	0.85	0.72
	June	0.86	0.70
	July	0.85	0.70
	August	0.75	0.65
	September	0.70	0.65
	October	0.75	0.50
	November	0.80	0.60
	December*	0.81	0.69

* *up to the Latest Practicable Date*

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this document and are or may be material:–

(i) a sale and purchase agreement dated 16 January 2001 entered into between Otto Link, United Power Investments Limited and the Company, pursuant to which Otto Link and United Power Investments Limited agreed to sell and the Company agreed to purchase 1,250 shares of US$1.00 each in the issued share capital of the Usualink in exchange for 7,500 Shares allotted and issued, credited as fully paid as referred to in paragraph 3(A) in the subsection headed "Changes in share capital of subsidiaries of the Group" of the section headed "Further Information about the Company" in this appendix;

(ii) a placing and underwriting agreement dated 30 January 2001 entered into between the Company, the then executive Directors (being Dr. Sze, Mr. Tung and Lee Tiong Hock), Goldwiz, Goldwiz Holdings, Otto Link, Dr. Sze, Mr. Tung, Mr. T. Siu, JS Cresvale (for itself and for and on behalf of Celestial Capital Limited, DBS Asia

Capital Limited, Kim Eng Securities (Hong Kong) Limited, Masterlink Securities (Hong Kong) Corporation Limited, Tai Fook Securities Company Limited and Worldsec Corporate Finance Limited) and China Everbright Capital Limited in relation to the initial offering by way of placing of 70,000,000 Shares as referred to in the section headed "Underwriting" of the Prospectus;

(iii) a deed of indemnity dated 30 January 2001 given by Otto Link, Dr. Sze, Mr. Tung, Goldwiz, Goldwiz Holdings, Mr. T. Siu, Mr. K. F. Siu and Streetwise in favour of the Company and its subsidiaries, containing, among other things, indemnities referred to in the subsection headed "Estate duty and tax indemnity" in this Appendix;

(iv) the sponsor agreement dated 30 January 2001 entered into between the Company and China Everbright Capital Limited for the appointment of China Everbright Capital Limited as the sponsor of the Company for the purpose of the GEM Listing Rules;

(v) an agreement contained in a letter dated 13 July 2001 from Celestial Capital Limited to the Company and accepted by the Company on 16 July 2001 for the appointment of Celestial Capital Limited as the replacement sponsor of the Company for the purpose of GEM Listing Rules;

(vi) an agreement dated 7 September 2001 made between Tongling Economy Technology (Group) Corporation (銅陵經濟技術開發區(集團)總公司) and Techwire for the acquisition of an equity interest in Tongling Huarui represented by a capital investment amount of US$2,306,200.00 by Techwire from Tongling Economy Technology (Group) Corporation (銅陵經濟技術開發區(集團)總公司) at a total consideration of USD2,306,200.00 payable by 16 half-yearly instalments in 8 years, the first of which was payable by the end of December 2001, bearing an interest rate of London Inter-Bank Offered Rate for US Dollar plus 0.5 per cent.;

(vii) a joint venture contract entered into between Techwire, Ever First Enterprises Limited, Tongling Economy Technology (Group) Corporation (銅陵經濟技術開發區(集團)總公司), Sino-Swiss Partnership Fund and Cavitec AG in relation to the operation and management of Tongling Huarui in September 2001;

(viii) an agreement dated 26 September 2001 entered into between the Company and Mr. Chen Jian Jun, pursuant to which the Company agreed to (a) purchase 100 shares of US$1.00 each in the issued capital of Techwire, representing the entire issued share capital of Techwire together with a loan of HK$31,020,325.00 due and owing by Techwire to Mr. Chen Jian Jun at a cash consideration of HK$31,000,000.00; and (b) assume the liability of debt of HK$18,000,000.00 owed by Techwire to Tongling Economy Technology (Group) Corporation (銅陵經濟技術開發區(集團)總公司) representing the consideration payable by Techwire under the agreement mentioned in (vi) above;

(ix) a land use rights grant contract dated 31 January 2002 between Shenzhen City Planning and Land Resources Bureau (深圳市規劃與國土資源局) and Techwayson Industrial for the acquisition of the land use right of Land Parcel No.T205-0035 by Techwayson

Industrial for a term of 50 years commencing from 31 January 2002 to 30 January 2052 for high-tech industrial park use whereby Techwayson Industrial has to pay the land use rights premium, land development fee and urban public infrastructure fees in the amount of RMB1,647,989.00;

(x) a construction investigation and design contract entered into between Techwayson Industrial and Shenzhen City Ke De Wang Enterprises Company Limited (深圳市科德旺實業有限公司) dated 20 January 2002 whereby Shenzhen City Ke De Wang Enterprises Company Limited (深圳市科德旺實業有限公司) agreed to carry out investigation and design for the construction work at Land Parcel No.T205-0035 located at High-tech Industrial Park, Shenzhen City, Guangdong Province, the PRC for a consideration of RMB4,938,034.55 and RMB8,800,000.00 respectively;

(xi) a construction investigation contract entered into between Techwayson Industrial, Shenzhen Investigation Academy (深圳市勘察研究院) and Shenzhen City Ke De Wang Enterprises Company Limited (深圳市科德旺實業有限公司) as Techwayson Industrial's security dated 1 February 2002 whereby Shenzhen Investigation Academy (深圳市勘察研究院) agreed to carry out investigation work for a research centre office building for an estimated consideration of RMB4,938,034.55 which together with the design contract as referred to in sub-paragraph (xiii) below replaced the construction investigation and design contract as referred to in sub-paragraph (x) above;

(xii) a construction contract entered into between Techwayson Industrial and Shenzhen City Ke De Wang Enterprises Company Limited (深圳市科德旺實業有限公司) dated 16 June 2002 whereby Shenzhen City Ke De Wang Enterprises Company Limited (深圳市科德旺實業有限公司) agreed to construct an office building on Land Parcel No.T205-0035 located at High-tech Industrial Park, Nan District, Shenzhen City, Guangdong Province, the PRC for a total contract price of RMB112,000,000;

(xiii) a design contract entered into between Techwayson Industrial, Construction Design Academy of Harbin Industry University (哈爾濱工業大學建築設計研究院) and Shenzhen City Ke De Wang Enterprises Company Limited (深圳市科德旺實業有限公司) as Techwayson Industrial's security dated 2 September 2002 whereby Construction Design Academy of Harbin Industry University (哈爾濱工業大學建築設計研究院) agreed to carry out the construction design work in respect of a research centre for an estimated design fee of RMB8,800,000 which together with the construction investigation contract as referred to in sub-paragraph (xi) above replaced the construction investigation and design contract as referred to in sub-paragraph (x) above;

(xiv) a construction contract entered into between Techwayson Industrial, Guangdong Yuantian Engineering Company (廣東省源天工程公司) and Shenzhen City Ke De Wang Enterprises Company Limited (深圳市科德旺實業有限公司) as Techwayson Industrial's security dated 16 September 2002 whereby Guangdong Yuantian Engineering Company (廣東省源天工程公司) agreed to construct an office building on Land Parcel No. T205-0035 located at High-tech Industrial Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC for a consideration of RMB112,000,000 which replaced the construction contract as referred to in sub-paragraph(xii) above;

(xv) a supplemental agreement to the land use rights grant contract referred to in (ix) above dated 1 November 2002 and made between Shenzhen City Planning and Land Resources Bureau (深圳市規劃與國土資源局) and Techwayson Industrial whereby, among other matters, Techwayson Industrial has agreed to pay an additional fee of RMB379,583 as part of the land grant fees;

(xvi) an agreement contained in a letter dated 19 December 2002 from the Company to Celestial Capital Limited and accepted by Celestial Capital Limited on 27 December 2002 in relation to the termination of the sponsor agreement referred to in paragraph (v) above with effect from the withdrawal of the listing of the Shares on GEM; and

(xvii) a deed of indemnity dated 20 December 2002 given by the executive Directors in favour of the Company (for itself and as trustee for Usualink, Techwayson Industrial and Techwayson Enterprises), containing among other things, indemnities referred to in the subsection headed "Tax indemnity" in this appendix.

2. Intellectual Property

The Directors consider that the intellectual property rights of the Group are material to the business and operation of the Group.

(a) Trademarks

(i) As at the Latest Practicable Date, the Group had registered the following trademark(s):–

Trademarks	Place of registration	Class	Registration number	Registration date
T&B	PRC	38	1691559	28 December 2001
Broadlink	PRC	38	1691558	28 December 2001
SmartHome	PRC	37	1619790	14 August 2001
WAYSON	PRC	9	1614466	7 August 2001
Techwayson	PRC	9	1614467	7 August 2001
TCS TCS	HK	9	B03635/A-B/2002	4 April 2002

Notes:

1. Items registered under Class 38 of the Trade Marks Law of the PRC include information transmission, computer terminal communication, computer auxiliary information and image transmission, information transmission equipment for hire, optical fibre communication and modem for hire.

2. Items registered under Class 37 of the Trade Marks Law of the PRC include construction information, pipelines laying and maintenance, indoor decoration and repair, indoor decoration, electrical equipment installation and repair, air-conditioning apparatus installation and repair, office machine and equipment installation, maintenance and repair, kitchen apparatus installation and repair, computer hardware installation, maintenance and repair and lighting equipment installation and repair.

3. Items registered under Class 9 of the Trade Marks Law of the PRC include boiler control instruments, manometers, electrical measuring instrument, complete sets of electric inspecting apparatus, electric regulating apparatus, electric convertors, distribution consoles (electricity), control panels (electricity), machinery apparatus for computer operating instruments, automatic apparatus for power station.

4. Items registered under Class 9 of the Trade Marks Ordinance of Hong Kong are scientific, electric, weighing, measuring, signalling, checking (supervision) apparatus and instruments, computers, recorded computer programmes, data processing apparatus, automatic calculating machines, electro-dynamic apparatus for the remote control of signals, inductors, electronic test installations, automation installations for stations of electrical power supply, industrial automation control apparatus and instruments, boiler control instruments, pressure gauges, manometers, electric measuring devices, electrical regulating apparatus, voltage regulators, distribution consoles (electricity), control panels (electricity), mechanisms for counter-operated apparatus.

(ii) As at the Latest Practicable Date, the Group had applied for registration of the following trademarks and the registration of which has not been granted yet:–

Trademarks	Place of registration	Class	Application number	Application date
TCS	PRC	9	2000067052	19 May 2000
Techwayson Techwayson	HK	9	200025857	25 November 2000

Notes:

1. Items applied for registration under Class 9 of the Trade Marks Law of the PRC included computer, recorded computer program, data processing apparatus, automatic measurer, electro-dynamic apparatus for the remote control of signals, measuring apparatus, inductors (electricity), complete sets of electric inspecting apparatus, automatic apparatus for power station and industrial automatic control system.

2. Items applied for registration under Class 9 of the Trade Marks Ordinance of Hong Kong are scientific, electric, weighing, measuring, signalling, checking (supervision) apparatus and instruments, computers, recorded computer programmes, data processing apparatus, automatic calculating machines, electro-dynamic apparatus for the remote control of signals, measuring apparatus, inductors (electricity), electric test installations, automation installations for stations of electrical power supply, industrial automation control apparatus and instruments, boiler control instruments, pressure gauges and/or manometers, electric measuring devices, electric regulating apparatus, voltage regulators, distribution consoles (electricity), control panels (electricity), mechanisms for counter-operated apparatus.

(b) Patents

As at the Latest Practicable Date, the Group had applied for registration of the following patent and the registration of which has not been granted yet:–

Patent	Place of registration	Application number	Application date
Tailored Control System	PRC	00107544.6	18 May 2000
Controller Embedded With Advanced Process Control (APC) Software	PRC	00129789.9	12 October 2000
Real-Time Embedded Operating System Based Softlogic Controller	PRC	00129788.0	12 October 2000
Infra-Controller with Web-Server	PRC	00129787.2	12 October 2000

(c) Copyrights

As at the Latest Practicable Date, the Group had registered the following copyrights:–

Copyrights	Place of registration	Registration number	Registration date
Butterfly, Programming & Configuration Software for PPC21 Controller	PRC	2001SR0276	5 February 2001
Firefly, Configuration Software for PPC31 Controller	PRC	2001SR0277	5 February 2001
Dragonfly, Configuration Software for PPC11 Controller	PRC	2001SR0278	5 February 2001
TFIX, Monitoring and Control Software for TCS Tailored Control System	PRC	2001SR0279	5 February 2001

(d) Domain names

As at the Latest Practicable Date, members of the Group held the following domain names:–

Domain Name	Registration date
www.techwayson.com	25 April 2000
www.techwayson.com.cn	25 October 2001
www.i-control.com.cn	20 November 2001
www.e-automation.com.cn	12 August 2000
www.techwayson.com.hk	5 October 2000

3. Information on the Group's interest in PRC enterprises

Techwayson Industrial

Techwayson Industrial is a wholly-owned subsidiary of Usualink, and is a wholly foreign-owned enterprise established in the PRC engaging in research, design, integration and supply of automation and control system, components, software applications, products and services for industries and buildings. The following is a summary of information regarding Techwayson Industrial:–

Date of incorporation	:	18 September 1997
Operation term	:	18 September 1997 to 18 September 2012
Registered capital	:	HK$10,000,000.00
Total investment amount	:	HK$10,000,000.00
Legal representative	:	Ye Wei Fa

Tongling Huarui

The Group holds 18.52 per cent. equity interest in Tongling Huarui which is a sino-foreign equity joint venture enterprise in the PRC. The remaining 81.48 per cent. equity interest in Tongling Huarui are held by Ever First Enterprises Limited (a wholly owned subsidiary of Goldwiz) as to 33.36 per cent., Tongling Economy Technology (Group) Corporation (銅陵經濟技術開發區(集團)總公司) as to 24.52 per cent., Sino-Swiss Partnership Fund as to 22.48 per cent. and Cavitec AG (Switzerland) as to 1.12 per cent..

Tongling Huarui has been primarily engaged in the production and distribution of (i) epoxide woven glass fabric copper clad laminate (FR-4); and (ii) thin and rigid laminate used in multi-layer printed circuit board (PCB). According to the Articles of Association of Tongling Huarui, the Shareholders are entitled to appoint their representatives to the board of directors. The following is a summary of information regarding Tongling Huarui:–

Date of establishment	:	17 March 2000
Operation term	:	17 March 2000 to 17 March 2020
Registered capital	:	USD12,453,800.00
Total investment amount	:	USD17,194,000.00
Legal representative	:	Ye Wei Fa
Number of Directors which the Group is entitled to nominate	:	one out of a total of six

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

1. Disclosure of interests

Each of the Directors is, to such extent as relevant to him, interested in the material contracts set out in the subsection headed “Summary of material contracts” in this Appendix.

2. Particulars of services contracts

Each of Dr. Sze, Mr. Tung and Mr. Lee Tiong Hock has entered into a service contract with the Company on 20 December 2002 for an initial term of two years with retrospective effect from 1 December 2002 and thereafter be continuous unless and until terminated by not less than three months’ notice in writing served by either party on the other. Pursuant to their respective service contracts, each of these three executive Directors, is entitled to the basic salary set out below which will be subject to annual review by the board of Directors provided that any increment to salary shall not exceed 15 per cent. of the relevant Director’s salary at the time of the relevant review:–

Name of Director	**Annual Salary**
	HK$
Dr. Sze	480,000
Mr. Tung	720,000
Mr. Lee Tiong Hock	480,000

Each of the above three executive Directors is entitled to an annual fixed sum bonus equal to one month's salary at the time of payment in respect of such completed year of service payable before the Chinese new year of next year provided that the said bonus shall be calculated on a pro-rata basis if such executive Director has not completed 12 months' service under the service contract during the previous calendar year.

Each of the above three executive Directors may be entitled to a discretionary bonus determined and approved by the board of Directors provided that the aggregate amount of such bonus payable in each financial year to all executive Directors shall be subject to a maximum limit of five per cent. of the audited consolidated profit of the Group attributable to the shareholders of the Company, but before such bonus.

In addition, Mr. Ye Wei Fa, also an executive Director, has entered into an employment contract with Techwayson Industrial for the employment of him as the chairman of Techwayson Industrial for a term of 2 years from 26 September 2002. Pursuant to such employment contract, Mr. Ye Wei Fa is entitled to a monthly salary of RMB20,000 on the basis of 13 months' salary per year.

3. Directors' remuneration

A. The Company's policy concerning remuneration of executive Directors are as follows:–

   (i) the executive Directors' remuneration is determined on the basis of his experience, responsibility, and the time devoted to the Group;

   (ii) at the discretion of the board of Directors, the executive Directors may be granted options pursuant to the Share Option Scheme, as part of their remuneration package.

B. An aggregate of approximately RMB1,558,000 was paid to the Directors as remuneration for the financial year ended 30 June 2002. Further information in respect of the Director's remuneration is set out in appendix I to this document.

C. It is expected that an aggregate of approximately RMB1,615,000 will be paid to the Directors as remuneration for the financial year ended 30 June 2003.

D. Save that a total amount of RMB65,000 was paid to a Director as bonus in the financial year ended 30 June 2002, no bonus was paid to any of the Directors in each of the three financial years ended 30 June 2002.

E. None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three financial years ended 30 June 2002 for (a) the loss of office as director or any other office in connection with the management affairs of any member of the Group or (b) as an inducement to join or upon joining the Company.

F. There has been no arrangement under which a Director has waived or agreed to waive any emoluments in each of the three financial years ended 30 June 2002.

G. The non-executive Directors have no fixed term of office but are subject to the provisions of retirement and rotation of Directors under the articles of association of the Company. Save for directors' fees of HK$10,000 or such other amount as the Board may determine from time to time per month for each independent non-executive Directors, none of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.

4. Interests of Directors in the share capital of the Company

Immediately following the Introduction, the interests of the Directors and chief executive in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed on the Main Board or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein once the Shares are listed on the Main Board, or pursuant to the Model Code for Securities Transactions by Directors of listed companies as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed on the Main Board, will be as follows (assuming that the interests will remain unchanged after the Latest Practicable Date):–

Name of Director	Personal Interests (number of Shares)	Family Interests (number of Shares)	Corporate Interests (number of Shares)	Total number of Shares
Dr. Sze	–	–	161,700,000(note)	161,700,000

Notes: The Shares will be held by Otto Link, which is owned as to 80 per cents. by Dr. Sze and 20 per cents. by Mr. Tung, who is also a Director.

5. Agency fees or commissions received

None of the Directors or the promoter of the Company had received any agency fee or commission from the Group within the two years immediately preceding the date of this document. Save for usual professional fees in connection with the Introduction, none of the experts named in the section headed "Consents of experts" in this appendix had received any agency fees and commission from the Group in the two years immediately preceding the date of this document.

6. Related party transactions

Save as disclosed in section 4 to the accountants' report as set out in appendix I to this document and the subsection headed "Summary of material contracts" in this appendix, the Group has not entered into any related party transactions within the two years immediately preceding the date of this document.

7. Disclaimers

Save as disclosed herein:

(a) none of the Directors or chief executive of the Company has any interest in the equity or debt securities of the Company or any of its associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which he will take or be deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed on the Main Board, or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein once the Shares are listed on the Main Board, or, pursuant to the Model Code for Securities Transactions by Directors of listed companies as set out in Appendix 10 of the Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange once the Shares are listed on the Main Board;

(b) none of the Directors or experts referred to in the subsection headed "Consents of experts" in this appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors or experts referred to in the subsection headed "Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;

(d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);

(e) none of the experts referred to in the subsection headed "Consents of experts" in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

D. SHARE OPTION SCHEME

1. Summary of terms

The following is a summary of the principal terms of the Share Option Scheme approved and adopted by the resolution of the shareholders of the Company on 22 January 2001:–

(a) Who may join

The committee of the board of Directors constituted to administer the Share Option Scheme (the "**Option Scheme Committee**") may, at its discretion, offer full-time employees, including executive directors, of the Company and/or any of its subsidiaries, options to subscribe for such number of new Shares as the Option Scheme Committee may determine at an exercise price determined in accordance with paragraph (b) below.

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

(b) Price of Shares

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Option Scheme Committee in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option and (ii) the average of the closing prices of the Shares on GEM as stated in the Stock Exchange's daily quotations sheets for the five days on which the Stock Exchange is open for the business of dealing in securities immediately preceding the date of offer of the option; and (iii) the nominal value of a Share.

(c) Maximum number of shares

(i) The maximum aggregate number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme shall not, subject to the conditions set out below, when aggregated with any Shares subject to any other share option schemes, exceed such number which shall represent 30 per cent. of the issued ordinary share capital of the Company from time to time, for a period of ten years from 22 January 2001 excluding for this purpose (aa) Shares issued and allotted or which may be issued or allotted pursuant to the exercise of options granted pursuant to the Share Option Scheme or any other share option schemes and (bb) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (aa) above:–

(1) the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other share option schemes must not, in aggregate, exceed 10 per cent. of the issued share

capital of the Company as at the first date of the listing of the Shares on GEM (such 10 per cent. being equivalent to 35,000,000 Shares based on 350,000,000 Shares expected then to be in issue) unless shareholders' approval has been obtained pursuant to paragraph (2) or (3) below;

(2) the Option Scheme Committee may seek approval by shareholders in general meeting to renew the 10 per cent. limit. However, the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other share option schemes in these circumstances must not exceed 10 per cent. of the issued share capital of the Company at the date of approval of the renewing of the limit; and

(3) the Option Scheme Committee may seek separate shareholders' approval in general meeting to grant options beyond the 10 per cent. limit provided that (i) the total number of Shares subject to the Share Option Scheme and any other share option schemes does not in aggregate exceed 30 per cent. of the total issued share capital of the Company from time to time and (ii) the options in excess of the 10 per cent. limit are granted only to the employees specified by the Option Scheme Committee before such approval is sought.

(ii) No option may be granted to any one person which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 per cent. of the aggregate number of Shares issued and issuable under all the options which may be granted under the Share Option Scheme at the time it is proposed to grant the relevant option to that person.

(d) Restrictions on grant of options

(i) No option shall be granted after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision of the Directors, until such price sensitive information has been announced pursuant to the relevant requirements of the GEM Listing Rules and, in particular, no option shall be granted during the period of one month immediately preceding the preliminary announcement of the annual results of the Company or the publication of the interim results of the Company until such information has been announced pursuant to the relevant requirements of the GEM Listing Rules.

(ii) Any grant of option to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive directors of the Company.

(iii) Where options are proposed to be granted to a connected person who is also a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive director of the Company or any of their respective associates, and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1 per cent. of the total issued shares of the Company for the time being and the value of which, based on the closing price of the Shares at the proposed date of grant, is in excess of HK$5 million, the proposed grant must be subject to the approval of shareholders of the Company in general meetings. The connected person involved and all other connected persons of the Company must abstain from voting in such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive directors on whether or not to vote in favour of the proposed grant.

(e) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period ("Option Period") to be notified by the Option Scheme Committee to each grantee, such period not to be less than 3 years and not to exceed 10 years from the date on which the option is offered in accordance with the terms of the Share Option scheme PROVIDED that in any event, the Option Period shall not expire at any date after 3 years from the expiry of the Share Option Scheme.

(f) Rights are personal to grantee

An option shall not be transferred and is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part.

(g) Right on cessation of employment by death

If the grantee of an option ceases to be an employee of the Company or its subsidiaries by reason of death, his personal representatives may exercise the option (to the extent not already exercised) within a period of twelve months thereafter (or such longer period as the Option Scheme Committee may determine), failing which it will lapse.

(h) Rights on cessation of employment by dismissal

If the grantee of an option ceases to be an employee of the Company or its subsidiaries on the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant subsidiary, his option will lapse and not be exercisable on the date of termination of his employment.

(i) Rights on cessation of employment for other reasons

If the grantee of an option leaves the service of the Company or its subsidiaries for any other reason, his option may be exercised within three months following the date of such cessation, which date shall be the last actual working day with the Company or the relevant subsidiary, whether salary is paid in lieu of notice or not.

(j) Effects of alterations to share capital

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, such corresponding alterations (if any) shall be made in the aggregate number or nominal amount of Shares subject to outstanding options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the method of exercise of the option as the auditors of the Company shall certify in writing to the Option Scheme Committee to be in their opinion fair and reasonable. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company to which the grantee was entitled before such alterations, further provided that the aggregate subscription price to be paid by a grantee after such alterations in a full exercise of the option shall remain as nearly as possible the same as that he or she has to pay before such alterations. The issue of Shares as consideration in a transaction to which the Company is a party is not to be regarded as a circumstance requiring any such alterations.

(k) Rights on a general offer

In the event that a general offer is made to all the holders of shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person actin in concert with the offeror) with the terms of the offer having been approved in accordance with applicable laws and regulatory requirements becomes or is declared unconditional prior to the expiry date of the option, the Company shall within 7 days of such offer becoming or being declared unconditional give notice thereof to the grantee, whereupon the grantee (or his personal representatives) shall be entitled to exercise the option in full or in part (to the extent not already exercised) at any time within 14 days after the date of such notice.

(l) Rights on winding up

In the event that a notice is given by the Company to its shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the grantee (or his personal representatives), who may by notice in writing to the Company (such notice to be received by the Company not later than two business days prior to the proposed general meeting) accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid up and register the grantee as holder thereof.

(m) Rights on compromise or arrangement

In the event of a compromise or scheme of arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a compromise or arrangement and the grantee (or his personal representatives) may by notice in writing to the Company accompanied by the remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and register the grantee as holder thereof. Upon such compromise or arrangement becoming effective, all options to the extent that they have not been exercised in accordance with this paragraph (m) shall lapse.

(n) Ranking of Shares

Shares allotted and issued on the exercise of options will rank pari passu with the other fully paid Shares in issue on the date of issue, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling before the date of issue.

(o) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:–

(i) subject to paragraphs (p) and (s) below, the expiry of the Option Period;

(ii) the expiry of any of the periods referred to in paragraphs (g), (i) and (l) above;

(iii) subject to the High Court of Hong Kong not make an order prohibiting the offeror to acquire the remaining Shares in the offer, the expiry of the period referred to in paragraph (k) above;

(iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (m) above;

(v) the date of the commencement of the winding-up of the Company;

(vi) the date on which the grantee ceases to be an employee by reason of the termination of his or her employment referred to in paragraph (h) above;

(vii) the date on which the resignation of the grantee is received by the Company or any of its subsidiaries (as the case may be); and

(viii) the date on which the grantee in any way sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option.

(p) Period of the Share Option Scheme

Subject to earlier termination by the Company in general meeting, the Share Option Scheme shall be valid and effective for a period of ten years from 22 January 2001, the date on which the Share Option Scheme was conditionally adopted by the Company. After such ten years' period, options which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the end of the said ten years' period may continue to be exercisable in accordance with their terms of issue.

(q) Alterations to the Share Option Scheme

The Share Option Scheme may subject to the GEM Listing Rules be altered from time to time in any respect by resolution of the Option Scheme Committee save that the provisions of the Share Option Scheme as to the definitions of "Employee", "Grantee" and "Option Period", the duration of the Share Option Scheme, the grant of options, the subscription price, the exercise and cancellation of options, the lapse of options, the maximum number of shares available for subscription, the reorganisation of the capital structure of the Company and the alteration of the Share Option Scheme cannot be altered (i) to extend the class of persons eligible for the grant of options, or (ii) to the advantage of grantees or prospective grantees of options except with the prior sanction of an ordinary resolution of the Company in general meeting (with all grantees, prospective grantee and their associates (as defined in the GEM Listing Rules) abstaining from voting).

(r) Administration of the Share Option Scheme

The Share Option Scheme shall be administered by the Option Scheme Committee whose members will include the independent non-executive Directors and, if applicable, the independent non-executive directors of any holding company of the Company which is also listed on the Main Board or on GEM.

(s) Termination of Share Option Scheme

The Company by ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of any options granted prior thereto but not yet exercised at the time of termination. Options complying with the provisions of Chapter 23 of the GEM Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue within one month after the termination of the operation of the Share Option Scheme.

(t) Cancellation of Options

Any cancellation of options granted but not exercised shall require approval of shareholders of the Company in general meeting, and the relevant grantees and their respective associates (as defined in the GEM Listing Rules) shall abstain from voting. Any vote taken at the general meeting for approving such cancellation shall be taken by poll. Cancelled options may be re-issued after such cancellation has been approved, provided that re-issued options shall only be granted in compliance with the terms of the Share Option Scheme.

2. Present status of the Share Option Scheme

As at the Latest Practicable Date, no option was granted by the Company under the Share Option Scheme. The Directors confirmed that the Company has no present intention to grant any option under the Share Option Scheme on or before its proposed termination.

E. SUMMARY OF TERMS OF NEW SHARE OPTION SCHEME

1. Summary of terms

The purpose of the New Share Option Scheme is to provide incentive and to recognise the contribution of the employees (whether full-time or part-time) and directors (whether executive, non-executive or independent non-executive) of the Company and/or its subsidiaries to the growth of the Group and to provide more flexibility to the Group in terms of remunerating the above persons. The following is a summary of the principal terms of the New Share Option Scheme proposed to be adopted at the Extraordinary General Meeting in replacement of the Share Option Scheme:–

No options will be granted under the New Share Option Scheme unless the grant of such options is in compliance with all the requirements of the Listing Rules.

(a) Who may join

The Board may, at its absolute discretion, offer full-time or part-time employees or any executive, non-executive and independent non-executive director of the Company and/or any of its subsidiaries ("Eligible Participant"), options to subscribe for such number of Shares as the Board may determine at a subscription price determined in accordance with paragraph (b) below, and subject to the other terms of the New Share Option Scheme summarised below.

An offer of grant of an option shall remain open for acceptance by the Eligible Participant concerned for such period as determined by the Board, which period shall not be more than 3 days from the date of the offer, provided that no such offer shall be open for acceptance after the tenth anniversary of the date of the Extraordinary General Meeting or after the New Share Option Scheme has been terminated in accordance with the provisions thereof. Upon acceptance of the offer, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant and the option shall be deemed to have been granted and to have taken effect with retrospective effect from the date on which the option is offered.

(b) Price of Shares

The subscription price for Shares in respect of any particular option granted under the New Share Option Scheme shall be such price as the Board shall determine, provided that such price shall not be less than the highest of (i) the closing price per Share on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option or, where paragraph (c)(v) or (d)(iii) below applies, the closing price per Share as stated in the Stock Exchange's daily quotation sheet on the date of the Board meeting proposing such grant (the "Relevant Date"), which must be a business day; and (ii) the average closing prices per Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the option or, where paragraph (c)(v) or (d)(iii) below applies, the average closing prices per Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Relevant Date; and (iii) the nominal value of a Share. Without prejudice to the generality of the foregoing, the Board may grant options in respect of which the subscription price is fixed at different prices for different periods during the option period provided that the subscription price for Shares for each of the different periods shall not be less than the minimum subscription price determined in the above manner.

(c) Maximum number of Shares

(i) Subject to the compliance of paragraphs (ii), (iii) and (iv) below, the overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other schemes must not exceed 30 per cent. of the issued share capital of the Company from time to time. No options may be granted under the New Share Option Scheme if this will result in such limit being exceeded.

(ii) The aggregate number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 10 per cent. of the issued share capital of the Company as at the date of the Extraordinary General Meeting ("Scheme Mandate Limit") (such 10 per cent. being equivalent to 35,000,000 Shares based on 350,000,000 Shares expected then to be in issue unless shareholders' approval has been obtained pursuant to paragraph (iii) or (iv) below.

(iii) The Board may seek approval by shareholders in general meeting to renew the Scheme Mandate Limit. However, the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10 per cent. of the issued share capital of the Company at the date of approval of the renewed limit (the "renewed Scheme Mandate Limit"). Options previously granted under the New Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes of the Company and exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as renewed.

(iv) Subject to paragraph (i) above, the Board may seek separate shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit or the renewed Scheme Mandate Limit (as the case may be) provided that the options in excess of the Scheme Mandate Limit or the renewed Scheme Mandate Limit are granted only to participants specifically identified by the Company before such approval is sought and the Company must issue a circular to its shareholders containing a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted, the purpose of grating options to the specified participants with an explanation as to how the terms of the options serve such purpose, the information required under rule 17.02(2)(d) of the Listing Rules and the disclaimer required under rule 17.02(4) of the Listing Rules.

(v) Unless approved by the shareholders in the manner set out in this paragraph (v), the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options under the New Share Option Scheme) in any 12-month period must not exceed 1 per cent. of the issued share capital of the Company. Where any further grant of options to an Eligible Participant would result in the total number of Shares issued and to be issued upon exercise of all options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding options under the New Share Option Scheme) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent. of the issued share capital of the Company as at the date of such further grant, such further grant must be subject to the approval of shareholders at general meeting with such Eligible Participant and his associates abstaining from voting. A circular must be sent to the shareholders disclosing the identity of the Eligible Participant, the number and the terms of the options previously granted and to be granted and containing the information required under rule 17.02(2)(d) of the Listing Rules and the disclaimer required under rule 17.02(4) of the Listing Rules. The number and terms (including the subscription price for Shares) of the options to be granted to such Eligible Participant must be fixed before shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under paragraph (b) above as required under Note 1 to rule 17.03(9) of the Listing Rules.

(d) Restrictions on grant of options

(i) No offer of the grant of an option shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision of the Directors, until such price sensitive information has been published in the newspapers and, in particular, no Eligible Participant shall be granted an option during the period commencing one month immediately preceding the earlier of:–

(1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the listing agreement made by the Company with the Stock Exchange) for the approval of the annual or interim results of the Company; and

(2) the deadline for the Company to publish announcement of its annual or interim results under the listing agreement made by the Company with the Stock Exchange,

and ended on the date of announcement for such results.

(ii) Any grant of options to a connected person (as such term is defined in the Listing Rules) of the Company or any of its associates must be approved by all of the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

(iii) Where options are proposed to be granted to a substantial shareholder (as such term is defined in the Listing Rules) or an independent non-executive Director or any of their respective associates, and the proposed grant of options would result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1 per cent. of the total issued Shares and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, such grant of options must be subject to the approval of shareholders taken on a poll in general meeting. In addition, the date of the Board meeting for proposing such further grant should be taken as the date of grant of the purpose of calculating the subscription price under paragraph (b) above as required under note 1 to rule 17.03(9) of the Listing Rules. The connected person involved in such proposed grant and all other connected persons of the Company must abstain from voting in such general meeting (except that any connected person may vote against the proposed grant provided that his intention to do so has been stated in the shareholders' circular). A shareholders' circular must be prepared and sent by the Company containing (1) details of the number and terms (including the subscription price) of the options to be granted to each participant, which must be fixed before the shareholders' meeting; (2) a recommendation from the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting; and (3) the information required under rules 17.02(2)(c) and (d) of the Listing Rules and the disclaimer required under rule 17.02(4) of the Listing Rules.

(iv) For the avoidance of doubt, nothing in paragraphs (ii) and (iii) above shall apply in relation to any grant of option to an Eligible Participant who is only a proposed Director or chief executive of the Company.

(e) Time of and restrictions on exercise of option

Any option may be exercised in whole or in part in accordance with the terms of the New Share Option Scheme at any time during a period to be notified by the Board to each grantee provided that the period within which the Shares may be taken up under the option must not be more than 10 years from and including the date of grant of the option.

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the New Share Option Scheme. However, the Board may offer to grant any options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved before such options can be exercised as the Board may determine in its absolute discretion.

(f) Assignment

Options granted under the New Share Option Scheme must be personal to the grantee, which may not be sold, transferred, charged, mortgaged, encumbered or assigned by the grantee to or in favour of any third party over or in relation to any option.

(g) Rights on cessation of employment by death

If the grantee of an option ceases to be an Eligible Participant by reason of death and none of the event sets out in paragraph (h) below which would be a ground for the termination of his/her employment or appointment arises, his/her personal representative may exercise the option up to the entitlement of the grantee as at the date of death (to the extent not already exercised) within a period of twelve months from the date of death (or such longer period as the Board may determine), failing which the option will lapse.

(h) Rights on cessation of employment by dismissal

If the grantee of an option ceases to be an Eligible Participant by reason of the termination of his/her employment or appointment on any one or more of the grounds that he/she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his/her debts or has become insolvent or has made any arrangements or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or on any other ground on which an employer would be entitled to terminate his/her employment or appointment at common law or pursuant to any applicable laws or under the service contract or letter of appointment of the grantee with the Company or the relevant subsidiary, his/her option (to the extent not already exercised) will lapse and not be exercisable on the date of termination of his/her employment or appointment. A resolution of the board of directors of the Company or the relevant subsidiary to the effect that the employment or appointment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph (h) shall be conclusive.

(i) Rights on cessation of employment by resignation

If the grantee of an option ceases to be an Eligible Participant by reason of his/her resignation, his/her option (to the extent not already exercised) will lapse and not be exercisable with effect from the date on which his/her resignation is received by the Company or its subsidiaries (as the case may be).

(j) Right on cessation of employment for other reasons

If the grantee of an option ceases to be an Eligible Participant for any other reason, the grantee may exercise the option up to his/her entitlement at the date of cessation (to the extent not already exercised) within three months following the date of such cessation, which date shall be the last actual appointment day or working day with the Company or the relevant subsidiary, whether salary or compensation is paid in lieu of notice or not, failing which the option will lapse.

(k) Effects of alterations to share capital

In the event of a capitalisation issue, rights issue, subdivision or consolidation of shares or reduction of the share capital of the Company in accordance with legal requirements and the requirements of the Stock Exchange (other than an issue of Shares as consideration in respect of a transaction to which the Company and/or any of its subsidiaries is a party), the number or nominal amount of Shares subject to the option granted pursuant to the New Share Option Scheme so far as unexercised and/or the subscription price and/or the method of exercise of the options or any combination thereof, shall be adjusted in such manner as the auditors for the time being of the Company or an independent financial adviser to be appointed by the Company for such purpose shall certify in writing to the Board to be in their opinion fair and reasonable provided always that no such alterations shall be made the effect of which would be to enable any Share to be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company to which the grantee was entitled before such alteration; and further provided that the aggregate subscription price to be paid by a grantee after such alterations on a full exercise of the options shall remain as nearly as possible the same as that he/she has to pay before such alterations.

(l) Rights on a general offer

If a general offer (whether by takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror), the terms of which have been approved by any relevant regulatory authority and are in accordance with the applicable laws and regulatory requirements and becomes, or is declared unconditional prior to the expiry of the option, the Company shall within 7 days of such offer becoming or being declared unconditional give notice thereof to the grantee, whereupon the grantee (or his/her personal representatives) shall be entitled to exercise the option in full or in part (to the extent not already exercised) at any time within 14 days after the date of such notice and, to the extent any of the options have not been so exercised, such option shall upon the expiry of such period lapse.

(m) Rights on winding up

In the event that a notice is given by the Company to its shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the grantee (or his/her personal representatives), who may, by notice in writing to the Company (such notice to be received by the Company not later than two business days prior to the proposed general meeting) accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall, as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise, credited as fully paid up and register the grantee as holder thereof. Any options shall, to the extent they have not been so exercised, lapse and determine.

(n) Rights on compromise or arrangement

If a compromise or scheme of arrangement between the Company and its members or creditors is proposed in connection with the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees (or to their personal representatives) on the same day as it gives notice to the members or creditors of the Company summoning a meeting to consider such a compromise or scheme of arrangement, and the grantee (or his/her personal representative) may, by notice in writing to the Company accompanied by the remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting), exercise his/her option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall, as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the relevant grantee which falls to be issued on such exercise, credited as fully paid and register the grantee as holder thereof. Any options shall, to the extent they have not been so exercised, lapse and determine.

(o) Ranking of Shares

The Shares to be issued and allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date on which Shares are allotted to the grantee (or his or her personal representative(s)) (the "Allotment Date") and accordingly will entitle the holders to participate in all dividends or other distributions declared paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommend or resolved to be paid or made if the record date therefor is before the Allotment Date.

Unless the context otherwise requires, references to "Shares" in the New Share Option Scheme include references to shares in the share capital of the Company of any such nominal amount as shall result from a subdivision or a consolidation, reclassification or reconstruction of the share capital of the Company from time to time forming part of the ordinary equity share capital.

(p) Lapse of option

The right to exercise an option shall lapse automatically (to the extent not already exercised) immediately upon the earliest of:–

(i) the expiry of the period referred to in paragraph (e) above;

(ii) the expiry of the periods referred to paragraphs (g), (j), (l), (m) and (n) above;

(iii) subject to paragraph (m) above, the date of the commencement of the winding-up of the Company;

(iv) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his or her employment or appointment referred to in paragraph (h) above;

(v) the date on which the resignation of the grantee is received by the Company or any of its subsidiaries (as the case may be); or

(vi) the date on which the grantee sells, transfers, charges, mortgages, encumbers, assigns or creates any interest in favour of any third party over or in relation to any option in breach of the New Share Option Scheme.

(q) Period of the New Share Option Scheme

Subject to earlier termination by shareholders' resolution in general meeting, the New Share Option Scheme shall be valid and effective for a period of ten years commencing from and including the date of the Extraordinary General Meeting, after which period no further Options will be offered or granted but the provisions of the New Share Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the New Share Option Scheme.

(r) Alteration to the New Share Option Scheme and the terms of options granted under the New Share Option Scheme

All provisions of the New Share Option Scheme may subject to the Listing Rules be altered from time to time in any respect by a resolution of the Board save that the following alterations shall require the prior sanction of an ordinary resolution of the Company in general meeting (with all grantees, prospective grantee and their associates abstaining from voting and the votes taken by poll):–

(i) alterations of the provisions relating to the matters set out in rule 17.03 of the Listing Rules to the advantage of the Eligible Participants;

(ii) alterations of the terms and conditions of the New Share Option Scheme which are of a material nature or any change to the terms of options granted under the New Share Option Scheme (except where the alterations take effect automatically under the existing terms of the New Share Option Scheme); and

(iii) any change to the authority of the Board in relation to any alteration to the terms of the New Share Option Scheme.

No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the Articles for the time being for a variation of the rights attached to the Shares.

Where there is any proposed change to the terms of any options granted to a connected person of the Company who is also a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director or any of their respective associates (except where the change takes effect automatically under the existing terms of the New Share Option Scheme), then the proposed change must be subject to the approval of the shareholders taken on poll at general meeting and to such other requirements of the Listing Rules. The connected person involved in such proposed change and all other connected persons of the Company must abstain from voting in such general meeting (except that any connected person may vote against the proposed change provided that his intention to do so has been stated in the circular). A shareholders' circular must be prepared and sent by the Company explaining the proposed change and disclosing the original terms of the options, and containing a recommendation from the independent non-executive Directors (excluding an independent non-executive Director who is the holder of the options which terms are to be changed) on whether or not to vote in favour of the proposed change and containing such other information required under the Listing Rules.

(s) Administration of the New Share Option Scheme

The New Share Option Scheme shall be administered by the Board.

Options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise as the Board may determine in its absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the New Share Option Scheme.

(t) Termination of the New Share Option Scheme

The Company by ordinary resolution in general meeting may at any time terminate the operation of the New Share Option Scheme and in such event no further option shall be offered but the provisions of the New Share Option Scheme shall remain in full force and effect in all other respects in respect of any options granted prior thereto but not yet exercised at the time of termination. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the New Share Option Scheme.

(u) Cancellation of Options

Any cancellation of options granted but not exercised shall be approved by the Board. Cancelled options may be re-issued after such cancellation has been approved, provided that re-issued options shall only be granted in compliance with the terms of the New Share Option Scheme and the requirements of the Listing Rules and provided further that new options may be issued to the same grantee in place of his cancelled options only if there are available unissued options (excluding the cancelled options) within the Scheme Mandate Limit or the renewed Scheme Mandate Limit.

Any reference to the "Board" above shall include a duly authorised committee of the Board.

2. Present status of the New Share Option Scheme

The New Share Option Scheme is conditional on:–

(a) the approval of the shareholders for the termination of the Share Option Scheme and the adoption of the New Share Option Scheme; and

(b) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document (including the Shares which may fall to be issued pursuant to the exercise of options granted under the New Share Option Scheme) on the Main Board.

As at the date of this document, no option has been granted or agreed to be granted under the New Share Option Scheme which is yet to be approved by the shareholders.

Application has been made to the Listing Committee for the approval for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the New Share Option Scheme.

F. OTHER INFORMATION

1. Estate duty and tax indemnity

Otto Link, Dr. Sze, Mr. Tung, Goldwiz, Goldwiz Holdings, Mr. T. Siu, Mr. K. F. Siu and Streetwise (together, the Indemnifiers) have given certain indemnities in favour of the Company (for itself and as trustee for other Group companies) (being the deed of indemnity referred to in sub-paragraph (iii) in the subsection headed "Summary of material contracts" in this appendix) to provide indemnities in respect of, inter alia, any liability for Hong Kong estate duty which might be incurred by any member of the Group, by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group and any other tax liabilities of the Group on or before the date on which the placing under the Prospectus became unconditional except in certain circumstances including where:–

(a) to the extent that provision has been made for such Taxation (as defined therein) in the audited accounts of the Company or its subsidiaries as at 30 June 2000;

(b) such liability has arisen as a result of any act or omission by any member of the Group (whether alone or in conjunction with some other act, omission or transaction whenever occurring) voluntarily effected without the consent of the Indemnifiers otherwise than in the ordinary course of business after 30 June 2000;

(c) any member of the Group is liable as a result of any transaction entered into by it in the ordinary course of business after 30 June 2000;

(d) to the extent that such Taxation Claim (as defined therein) arises or is incurred as a result of the imposition of Taxation (as defined therein) as a consequence of any retrospective change in the law of practice coming into force after the Effective Date (as defined therein) or to the extent that such claim arises or is increased by an increase in rates of Taxation (as defined therein) after such date with retrospective effect;

(e) to the extent of any provision or reserve made for Taxation (as defined therein) in the audited accounts of the Company as at 30 June 2000 which is finally established to be an over-provision or any excessive reserve then the Indemnifiers' liability (if any) in respect of Taxation (as defined therein) shall be reduced by an amount not exceeding such over-provision or excessive reserve provided that the amount of any such provision or reserve applied pursuant to this sub-paragraph to reduce the Indemnifiers' liability in respect of such Taxation (as defined therein) shall not be available in respect of any such liability arising thereafter in which event the Indemnifiers shall be obliged to indemnify each of the Group companies against any liability, loss or damage arising from such liability; and

(f) penalty is imposed on the Group companies or any member of the Group under section 42 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) by reason of the relevant company defaulting in any obligation to give information to the Commissioner of Estate Duty under section 42(1) of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong).

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of Cayman Islands, the BVI and the PRC.

Dr. Sze, being the substantial shareholder and the executive Director of the Company, and Mr. Tung, Mr. Lee Tiong Hock and Mr. Ye Wei Fa, being the executive Directors of the Company, have also given certain indemnities in favour of the Company (for itself and as trustee for Usualink, Techwayson Industrial and Techwayson Enterprises) (being the deed of indemnity referred to in sub-paragraph (xvii) in the subsection headed "Summary of material contracts" in this appendix) to provide indemnities in respect of, inter alia, the tax liability of any of the Company, Usualink, Techwayson Industrial and Techwayson Enterprises resulting from, or by reference to any income, profits or gains earned, accrued or received from, all or any of the transactions pursuant to or contemplated under the following contracts except to the extent that provision or allowance has been made for such taxation in the audited accounts of the above mentioned companies as at 30 June 2002:–

(a) the contract dated 28 July 2001 and made between Techwayson Enterprises and Lake Grace Limited pursuant to which Techwayson Enterprises agreed to provide the services of the designing, supply consultation, installation, testing and acceptance of the automation system for the property in Fuzhou known as "世紀豪園"; and

(b) the contract dated 28 September 2001 and made between Techwayson Enterprises and Smart Glory Venture Limited pursuant to which Techwayson Enterprises agreed to provide the services of the designing, supply consultation, installation, testing and acceptance of the automation system for the property in Beijing known as "豪柏公寓".

Save and except the two contracts mentioned in (a) and (b) above, Techwayson Enterprises has not entered into any other transactions and the Directors confirm that Techwayson Enterprises will not enter into any other transaction prior to the Introduction.

2. Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

3. Sponsors

JS Cresvale and CAF Securities have made an application on behalf of the Company to the Listing Committee for a listing of, and permission to deal in, all the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options granted under the Share Option Scheme and which may be granted under the New Share Option Scheme on the Main Board.

4. Registration procedures

Subject to the provisions of the Companies Law, the register of members of the Company is being maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Ltd. and a branch register of members of the Company is being maintained in Hong Kong by Hong Kong Registrars Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.

5. Taxation of holders of Shares

(a) The Cayman Islands

Under the present Cayman Islands law, transfers and other disposals of Shares are not subject to Cayman Islands stamp duty unless the Company holds an interest in land in the Cayman Islands.

(b) Hong Kong

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to the Hong Kong stamp duty.

(c) Generally

Potential holders of Shares are recommended to consult their professional adviser if they are in any doubt as to the taxation implications of applying for, purchasing, holding or disposing of, or dealing in, Shares. It is emphasised that none of the Company, the Directors, JS Cresvale and CAF Securities, their respective directors nor any other parties involved in the Introduction accepts responsibility for any tax effect on, or liabilities of, persons resulting from the subscription for, holding, purchase or disposal of or dealing in, Shares.

6. Expenses

The expenses of the Company in relation to the Introduction are estimated to be approximately HK$6 million and are payable by the Company.

7. Qualification of experts

The following are the qualifications of the experts who have given their opinion or advice which is contained in this document:–

Expert	Qualification
JS Cresvale	Registered investment adviser and securities dealer
CAF Securities	Registered investment adviser and securities dealer
Charles Chan, Ip & Fung CPA Ltd.	Certified public accountants
Sallmanns (Far East) Limited	Property valuers
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
Chen & Co.	Qualified PRC lawyers

8. Consent of experts

Each of JS Cresvale, CAF Securities, Charles Chan, Ip & Fung CPA Ltd., Sallmanns (Far East) Limited, Conyers Dill & Pearman, Cayman and Chen & Co. has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

9. Miscellaneous

(a) Save as disclosed in this document:

(i) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and

(iv) within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries (other than those in relation to the placing of 70,000,000 Shares by the Company as disclosed in the Prospectus).

(b) None of JS Cresvale, CAF Securities, Charles Chan, Ip & Fung CPA Ltd, Sallmanns (Far East) Limited, Conyers Dill & Pearman, Cayman and Chen & Co.:–

(i) is interested beneficially or non-beneficially in any shares in any member of the Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

(c) No company within the Group is presently listed on any stock exchange or traded on any trading system other than GEM.

(d) All necessary arrangements have been made with the HKSCC for the Shares to continue to be accepted as eligible securities of CCASS.

G. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Messrs. Sit, Fung, Kwong & Shum at Suite 4428, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong during normal business hours up to and including 20 January 2003:

(a) the memorandum of association of the Company;

(b) the existing articles of association of the Company;

(c) the articles of association proposed to be adopted by the Company at the Extraordinary General Meeting;

(d) consolidated audited accounts of the Company since its incorporation up to 30 June 2002, the audited accounts of Techwayson Management since its incorporation up to 30 June 2002 and the audited accounts of Techwayson Industrial for each of the three years ended 31 December 2001;

(e) the accountants' report prepared by Charles Chan, Ip & Fung CPA Ltd., the text of which is set out in appendix I to this document;

(f) the letter, summary of valuations and valuation certificate relation to the property interests of the Group prepared by Sallmanns (Far East) Limited, the text of which is set out in appendix II to this document;

(g) the Prospectus;

(h) the annual reports of the Company for the financial years ended 30 June 2001 and 2002 and the quarterly report of the Company for the period ended 30 September 2002;

(i) the Companies Law;

(j) the rules of the New Share Option Scheme;

(k) the letter prepared by Conyers Dill and Pearman, Cayman referred to in appendix III to this document summarising certain aspects of Cayman Islands companies law;

(l) the service contracts referred to in the sub-paragraph headed "Particulars of service contracts" under the paragraph headed "Further information about directors, management, staff and experts" in this appendix;

(m) the material contracts referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business" in this appendix; and

(n) the written consents referred to in the sub-paragraph headed "Consents of experts" under the paragraph headed "Other information" in this appendix.