

The following is the text of a report, prepared for the purpose of incorporating in this prospectus, received from the auditors and reporting accountants of the Company, Arthur Andersen & Co, Certified Public Accountants, and Charles Chan, Ip & Fung CPA Ltd, Certified Public Accountants.



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Charles Chan, Ip & Fung CPA Ltd
 Certified Public Accountants
 陳葉馮會計師事務所有限公司

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31 January 2001

The Directors
 Techwayson Holdings Limited
 China Everbright Capital 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 inclusion in the prospectus of the Company dated 31 January 2001 ("the Prospectus").

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. The Company has not carried on any business since its incorporation, except that on 16 January 2001 it acquired the entire issued share capital of Usualink Development Limited through a share exchange and consequently became the holding company of the Group.

As at the date of this report, no audited financial statements have been prepared by the Company and Usualink Development Limited as they were not subject to any statutory audit requirements in their jurisdictions of incorporation. We have, however, reviewed all relevant transactions of these companies for the years covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

Techwayson Industrial Ltd., 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 in Mainland China for the years ended 31 December 1998 and 1999.

For the purposes of this report, we (Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd) have performed an independent audit, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, of the consolidated financial statements of Usualink Development Limited and its subsidiary (which include the financial statements of Techwayson Industrial Ltd.) for the year ended 30 June 2000 and Charles Chan, Ip & Fung CPA Ltd has performed an independent audit, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, of the financial statements of Techwayson Industrial Ltd. for the year ended 30 June 1999, all of which were prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited financial statements or management accounts of the companies now comprising the Group for the years ended 30 June 1999 and 2000 or since their respective dates of incorporation where this is a shorter period. Our examinations were made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of operations of the Group for the years ended 30 June 1999 and 2000 and of the combined net tangible assets of the Group as at 30 June 2000 ("the Summaries") set out in this report have been prepared from the audited financial statements of the companies now comprising the Group on the basis set out in Section 1 below.

The Directors of the respective companies now comprising the Group are responsible for preparing financial statements of the respective companies which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The Directors of the Company are also responsible for the summaries of the combined results of operations of the Group for the years ended 30 June 1999 and 2000 and of the combined net tangible assets of the Group as at 30 June 2000. It is our responsibility to form an independent opinion on the summaries of the combined results of operations and of the combined net tangible assets of the Group.

In our opinion, the Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the combined results of operations of the Group for the years ended 30 June 1999 and 2000 and of the combined net tangible assets of the Group as at 30 June 2000.

1. BASIS OF PRESENTATION

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

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Usualink Development Limited	British Virgin Islands 17 March 2000	US\$1,250	100%	Investment holding

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Techwayson Industrial Ltd.*	Mainland China 18 September 1997	HK\$10,000,000	100%	Design, supply and integration of automation and control systems

* Techwayson Industrial Ltd. ("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.

The summary of the combined results of operations includes the results of operations of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the years covered by this report or since their respective dates of incorporation where this is a shorter period. The summary of the combined net tangible assets of the Group as at 30 June 2000 has been prepared to present the assets and liabilities of the companies now comprising the Group as at that date, as if the current group structure had been in existence as at 30 June 2000.

Significant transactions and balances between companies now comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis.

b. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50 per cent of its issued voting share capital as a long-term investment.

c. Turnover and revenue recognition

Turnover comprises income generated from fixed price contracts.

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) *Fixed price contracts*

The Group enters into contracts with customers whereby the sale of system control equipment and software products and the provision of 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 system integration services and revenue is recognised in accordance with the accounting policies described in Section 2.c (ii) and (iii) below. Advanced payments received from customers are recorded as receipts in advance.

(ii) *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.

(iii) *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.

(iv) *Interest income*

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

d. **Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

e. **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. No borrowing cost was incurred by the Group during the years ended 30 June 1999 and 2000.

f. **Advertising and promotion costs**

The costs of advertising and promotion are expensed in the period in which they are incurred.

g. **Staff retirement benefits**

The costs of staff retirement benefits are expensed in the period in which they are incurred.

h. **Software development costs**

Cost incurred in research and development of software products of the Group are expensed as incurred unless the development costs satisfy the criteria for the recognition of such costs as an asset. All software research and development costs for the years ended 30 June 1999 and 2000 have been expensed as no expense satisfied the criteria for deferral.

i. **Product warranty**

The Group provides for estimated warranty costs in the period in which the related sale is 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. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements	20% (over the lease term)
Machinery and equipment	18% to 20%
Furniture	18%
Motor vehicles	18%

The carrying amount of fixed assets is assessed annually and when factors indicating an impairment are present. The Group determines the recoverable amount of fixed assets by measuring discounted future cash flows. If an impairment is present, the assets are reported at the lower of carrying amount or recoverable amount.

Gains and losses on disposal of fixed assets are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

k. 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 raw materials and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, 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 any 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.

l. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

m. 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 statement of individual companies.

The Group prepares combined financial statements in Chinese Renminbi. On combination, the assets and liabilities of the Group's companies with functional currencies other than Chinese Renminbi are translated into Chinese Renminbi at the rate of exchange in effect at the balance date; income and expense items of the group companies with functional currencies other than Chinese Renminbi are translated at the applicable average rates of exchange prevailing during the year. Exchange differences arising from such translations are dealt as movements of cumulative translation adjustments.

Translation of amounts from Chinese Renminbi ("RMB") into Hong Kong dollars ("HK\$") is for the convenience of readers and has been made at the rates of exchange in effect at 30 June 1999 of RMB107 = HK\$100, and 30 June 2000 of RMB106 = HK\$100. No representation is made that the RMB amounts could have been, or could be, converted into HK\$ at such rates or at any other rate. Such translation is only for the convenience of readers and does not conform to accounting principles generally accepted in Hong Kong.

3. RESULTS OF OPERATIONS

The following is a summary of the audited combined results of operations of the Group for the years ended 30 June 1999 and 2000, prepared on the basis set out in Section 1 above:

	Note	1999		2000	
		RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
Turnover	(a)	5,403	5,050	27,778	26,205
Cost of sales		(2,409)	(2,251)	(11,697)	(11,035)
Gross profit		2,994	2,799	16,081	15,170
Distribution and selling expenses		(433)	(405)	(871)	(822)
General and administrative expenses		(2,813)	(2,629)	(5,774)	(5,447)
Profit (Loss) from operations		(252)	(235)	9,436	8,901
Interest income		92	86	26	25
Profit (Loss) before taxation	(b)	(160)	(149)	9,462	8,926
Taxation	(c)	—	—	—	—
Profit (Loss) attributable to shareholders		(160)	(149)	9,462	8,926
Earnings (Loss) per share					
— Basic	(d)	RMB(0.06) cents	HK(0.05) cents	RMB3.38 cents	HK3.19 cents

The profit (loss) attributable to shareholders would have been impacted by the following notional adjustments. These adjustments are made for information purposes to reflect the pro forma information detailed in Sections 3.f (iii), 4.d, 4.f and 4.g, as if the arrangements set out in these sections had been in effect during the years ended 30 June 1999 and 2000:

	1999		2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
Profit (Loss) attributable to shareholders as set out above	(160)	(149)	9,462	8,926
Notional adjustments				
— Directors' emoluments (see Section 3.f (iii))	(1,470)	(1,374)	(1,404)	(1,325)
— Interest income from a related company (see Section 4.d)	—	—	19	18
— Interest expense to a former shareholder of Techwayson Industrial Ltd. (see section 4.f)	—	—	(27)	(25)
— Interest expense to shareholders (see Section 4.g)	—	—	(63)	(59)
Adjusted profit (loss) attributable to shareholders	(1,630)	(1,523)	7,987	7,535
Adjusted earnings (loss) per share				
— Basic	RMB(0.58) cents	HK(0.54) cents	RMB2.85 cents	HK2.69 cents

a. **Turnover and revenue**

Turnover and revenue consisted of:

	1999		2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
Income from fixed price contracts*				
— Sales of system control equipment and software products	4,107	3,839	22,746	21,458
— Fees for system integration services	1,296	1,211	5,032	4,747
Total turnover	5,403	5,050	27,778	26,205
Interest income	92	86	26	25
Total revenue	5,495	5,136	27,804	26,230

* The Group's income from fixed price contracts is stated after deducting Mainland China value-added tax ("VAT") at 6 per cent. of revenue from fixed price contracts, city and country maintenance tax at 1 per cent. of the amount of VAT levied and educational surcharge at 3 per cent. of the amount of VAT levied (see Section 3.c(iii)).

A substantial portion of the Group's turnover was derived from transactions with two customers during the years ended 30 June 1999 and 2000. These customers were located in Mainland China.

b. **Profit (Loss) before taxation**

Profit (Loss) before taxation is stated after charging and crediting the following:

	1999		2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
After charging —				
Staff costs (including directors' emoluments)	962	899	2,015	1,901
Staff welfare and bonus fund*	59	55	284	268
Operating lease rental of premises	186	174	1,005	948
Research and development costs	394	368	558	526
Provision for impairment in value of fixed assets	—	—	571	539
Advertising and promotion costs	69	64	361	341
Write-off of obsolete and slow-moving inventories	—	—	425	401
Provision for product warranty cost	269	251	1,174	1,108
Depreciation of fixed assets	472	441	742	700
Loss on disposal of fixed assets	—	—	346	326
Auditors' remuneration	459	429	400	377
After crediting —				
Interest income on bank deposits	92	86	26	25

* As stipulated by the regulations in Mainland China, Techwayson Industrial Ltd. is required to provide for a staff welfare and bonus fund. The provision for staff welfare and bonus is determined by the board of directors at its discretion. The staff welfare and bonus fund can be utilised for the provision of special bonus and collective welfare to the employees of Techwayson Industrial Ltd.

c. **Taxation**(i) *Hong Kong profits tax:*

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.

(ii) *Mainland China Enterprise income tax:*

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

(iii) *Mainland China value-added tax and government surcharges:*

Techwayson Industrial Ltd., a wholly-owned subsidiary, is subject to value-added tax ("VAT") at 6 per cent. of revenue from fixed price contracts, city and country maintenance tax at 1 per cent. of the amount of VAT levied and educational surcharge at 3 per cent. of the amount of VAT levied.

There was no significant unprovided deferred taxation for the years ended 30 June 1999 and 2000.

d. **Earnings (Loss) per share**

The calculation of basic earnings (loss) per share for the years ended 30 June 1999 and 2000 is based on the profit (loss) attributable to shareholders during the years and assuming 280,000,000 shares in issue and issuable, comprising 10,000 shares in issue as at the date of the Prospectus and 279,990,000 shares to be issued pursuant to the capitalisation issue as described in Appendix V of the Prospectus.

e. **Recognised gains and losses**

There were no recognised gains and losses other than the profit (loss) attributable to shareholders for the years ended 30 June 1999 and 2000.

f. **Directors' and senior executives' emoluments**(i) *Analysis of emoluments of directors:*

(1) Details of emoluments paid to directors of the Company are:

	1999		2000	
	RMB'000	HK\$'000	RMB'000	HK\$'000
	<i>(Section 2.m)</i>		<i>(Section 2.m)</i>	
Fees	—	—	—	—
Other emoluments				
— Basic salaries and allowances	63	59	109	103
— Staff retirement contributions	8	7	13	12
— Bonus	—	—	—	—
	<u>71</u>	<u>66</u>	<u>122</u>	<u>115</u>

No directors waived any emoluments during the years covered by this report. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the years ended 30 June 1999 and 2000.

The number of directors whose remuneration falls within the following band is as follows:

	1999	2000
Nil to RMB1,060,000 (equivalent of HK\$1,000,000)	<u>3</u>	<u>3</u>

The three executive directors received individual emoluments of approximately RMB71,000, nil and nil for the year ended 30 June 1999 and approximately RMB122,000, nil and nil for the year ended 30 June 2000.

Each of the executive directors of the Company has entered into a service agreement with the Company for a term of two years commencing from 1 January 2001. Under these service agreements, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 30 June 2001 is estimated to be approximately HK\$720,000, representing six-month salaries payable to the directors under these service agreements and excluding bonus.

- (2) Analysis of the directors' emoluments during the years ended 30 June 1999 and 2000 after taking into account the notional directors' emoluments detailed in Section 3.f (iii) is as follows:

	1999		2000	
	<i>RMB'000</i>	<i>HK\$'000</i> (Section 2.m)	<i>RMB'000</i>	<i>HK\$'000</i> (Section 2.m)
Fees	—	—	—	—
Other emoluments				
— Basic salaries and allowances	1,533	1,433	1,513	1,428
— Staff retirement contributions	8	7	13	12
— Bonus	—	—	—	—
	<u>1,541</u>	<u>1,440</u>	<u>1,526</u>	<u>1,440</u>

The number of directors of the Company whose emoluments fall into the following band:

	1999	2000
Nil — RMB 1,060,000 (equivalent of HK\$1,000,000)	<u>3</u>	<u>3</u>

After taking into account the notional directors' emoluments set out in Section 3.f (iii), each of the three executive directors would have received individual emoluments of approximately RMB514,000 and RMB509,000, respectively, for the years ended 30 June 1999 and 2000.

(ii) *Analysis of emoluments of five highest paid individuals*

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

	1999		2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
Basic salaries and allowances	230	215	444	419
Staff retirement contributions	28	26	53	50
Bonus	—	—	—	—
	<u>258</u>	<u>241</u>	<u>497</u>	<u>469</u>
Number of directors	1		1	
Number of employees	<u>4</u>		<u>4</u>	
	<u>5</u>		<u>5</u>	

During the years covered by this report, 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 number of the five highest paid individuals whose remuneration falls within the following band is as follows:

	1999	2000
Nil to RMB1,060,000 (equivalent of HK\$1,000,000)	<u>5</u>	<u>5</u>

- (2) Details of emoluments paid to the five highest paid individuals (including directors and other employees) during the years ended 30 June 1999 and 2000, after taking into account the notional directors' emoluments detailed in Section 3.f (iii) are as follows:

	1999		2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
Basic salaries and allowances	1,617	1,511	1,701	1,605
Staff retirement contributions	17	16	35	33
Bonus	—	—	—	—
	<u>1,634</u>	<u>1,527</u>	<u>1,736</u>	<u>1,638</u>
Number of directors	3		3	
Number of employees	<u>2</u>		<u>2</u>	
	<u>5</u>		<u>5</u>	

The number of the five highest paid individuals whose remuneration falls within the following band is as follows:

	1999	2000
Nil to RMB 1,060,000 (equivalent of HK\$1,000,000)	<u>5</u>	<u>5</u>

(iii) *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 2000. The annual remuneration and benefits in kind for the three executive directors under these service agreements in aggregate amount to approximately HK\$1,440,000 with effect from 1 January 2001. Had the service agreements been in effect since 1 July 1998, the combined results of operations of the Group would have been impacted as follows:

	1999		2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
Notional directors' emoluments under service contracts	1,541	1,440	1,526	1,440
Directors' emoluments paid	<u>(71)</u>	<u>(66)</u>	<u>(122)</u>	<u>(115)</u>
	1,470	1,374	1,404	1,325
Less: Tax effect*	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,470</u>	<u>1,374</u>	<u>1,404</u>	<u>1,325</u>

* No taxation was provided during the years ended 30 June 1999 and 2000 (see Section 3.c.(i) and (ii))

g. **Staff retirement benefits**

As stipulated by the rules and regulations in Mainland China, Techwayson Industrial Ltd. is required to contribute to a state-sponsored retirement plan for all of its employees at rates of 7 per cent. to 12 per cent. of the basic salary of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. For the years ended 30 June 1999 and 2000, the Group provided for retirement plan contributions of approximately RMB90,000 and RMB155,000, respectively.

h. **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to 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.

Significant transaction with a related party is:

	1999		2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
Discontinuing:				
Share of general and administrative expenses by Broadlink Technology Ltd.*	<u>—</u>	<u>—</u>	<u>2,385</u>	<u>2,250</u>

* Broadlink Technology Ltd. is beneficially owned by Dr. Sze Kwan, Bradley, a director of the Company.

During the year ended 30 June 2000, the Group provided office premises and administrative services to Broadlink Technology Ltd., which agreed to share common expenses by reference to the respective number of research and engineering staff employed.

In the opinion of the Company's Directors, the above transaction was conducted in the usual course of business and on normal commercial terms. The Directors confirmed that the above transaction was discontinued subsequent to 30 June 2000.

4. NET TANGIBLE ASSETS

The following is a summary of the combined net tangible assets of the Group as at 30 June 2000, prepared on the basis set out in Section 1 above.

	<i>Note</i>	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Non-current assets			
Fixed assets	(a)	<u>4,578</u>	<u>4,319</u>
Current assets			
Inventories	(b)	375	354
Prepayments, deposits and other current receivables	(c)	2,167	2,044
Due from a related company	(d)	3,573	3,370
Trade receivables	(e)	7,784	7,344
Cash and bank deposits		<u>15,677</u>	<u>14,790</u>
Total current assets		<u>29,576</u>	<u>27,902</u>
Current liabilities			
Trade payables		(51)	(48)
Accrued liabilities		(3,833)	(3,616)
Loan payable	(f)	(3,000)	(2,830)
Due to shareholders	(g)	(6,934)	(6,542)
Taxation payable		<u>(930)</u>	<u>(878)</u>
Total current liabilities		<u>(14,748)</u>	<u>(13,914)</u>
Net current assets		<u>14,828</u>	<u>13,988</u>
Total assets less current liabilities		19,406	18,307
Non-current liabilities			
Loans from shareholders	(h)	<u>(10,745)</u>	<u>(10,136)</u>
Net tangible assets	(i)	<u><u>8,661</u></u>	<u><u>8,171</u></u>

a. **Fixed assets**

Fixed assets consisted of:

	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Cost		
Leasehold improvements	297	280
Machinery and equipment	4,190	3,953
Furniture	388	366
Motor vehicles	<u>403</u>	<u>380</u>
	<u>5,278</u>	<u>4,979</u>
Accumulated depreciation		
Leasehold improvements	(30)	(28)
Machinery and equipment	(609)	(574)
Furniture	(25)	(24)
Motor vehicles	<u>(36)</u>	<u>(34)</u>
	<u>(700)</u>	<u>(660)</u>
Net book value	<u><u>4,578</u></u>	<u><u>4,319</u></u>

b. **Inventories**

Inventories consisted of:

	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Raw materials	136	129
Finished goods	<u>239</u>	<u>225</u>
	<u><u>375</u></u>	<u><u>354</u></u>

No inventory was stated at net realisable value as at 30 June 2000.

c. **Prepayments, deposits and other current receivables**

Prepayments, deposits and other current receivables consisted of:

	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Prepayments	164	154
Rental and utility deposits	412	389
Deposits for acquisition of fixed assets	1,169	1,103
Advances to employees	415	392
Others	<u>7</u>	<u>6</u>
	<u>2,167</u>	<u>2,044</u>

d. **Due from a related company**

Details of the amount due from a related company are:

	As at 1 July 1999		As at 30 June 2000		Maximum amount outstanding during the year	
	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Broadlink Technology Ltd.	<u>—</u>	<u>—</u>	<u>3,573</u>	<u>3,370</u>	<u>3,573</u>	<u>3,370</u>

Broadlink Technology Ltd. is beneficially owned by Dr. Sze Kwan, a director of the Company. The amount due from Broadlink Technology Ltd. resulted from (i) share of certain of the Group's general and administrative expenses by Broadlink Technology Ltd. (see Section 3.h), and (ii) payment of certain operating expenses by the Group on behalf of Broadlink Technology Ltd..

The amount due from Broadlink Technology Ltd. is unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balances due from Broadlink Technology Ltd. during the years covered by this report based on the interest rate earned by the Group on saving deposits of approximately 4.75 per cent. per annum, the Group would have earned interest of approximately nil and RMB19,000 for the years ended 30 June 1999 and 2000, respectively.

The amount due from Broadlink Technology Ltd. was fully settled subsequent to 30 June 2000.

e. **Trade receivable**

Trade receivable consisted of:

	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Trade receivables	6,610	6,237
Retention monies receivables*	<u>1,174</u>	<u>1,107</u>
	<u>7,784</u>	<u>7,344</u>

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

f. **Loan payable**

Loan payable represents a loan from a former shareholder of Techwayson Industrial Ltd. and was unsecured, non-interest bearing and without pre-determined repayment terms. The loan was fully settled subsequent to 30 June 2000. Had interest been charged on the loan during the years covered by this report based on the Group's borrowing cost of approximately 9 per cent. per annum, the Group would have incurred interest of approximately nil and RMB27,000 for the years ended 30 June 1999 and 2000, respectively.

g. **Due to shareholders**

Details of the amounts due to shareholders are:

	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Dr. Sze Kwan, Bradley	6,920	6,529
Mr. Tung Fai	<u>14</u>	<u>13</u>
	<u>6,934</u>	<u>6,542</u>

The amounts due to shareholders are unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balances with shareholders during the years covered by this report based on the Group's borrowing cost of approximately 9 per cent. per annum, the Group would have incurred interest of approximately nil and RMB63,000 for the years ended 30 June 1999 and 2000, respectively.

The amounts due to shareholders were fully settled subsequent to 30 June 2000.

h. **Loans from shareholders**

Details of loans from shareholders are:

	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
Otto Link Technology Limited*	6,105	5,759
United Power Investments Limited*	<u>4,640</u>	<u>4,377</u>
	<u>10,745</u>	<u>10,136</u>

* 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, a subsidiary of the Group.

Loans from shareholders resulted from the following transactions:

- (1) On 6 April 2000, the former shareholders of Techwayson Industrial Ltd. ("TIL") agreed to transfer their interests in TIL to Usualink Development Limited ("Usualink") at an aggregated consideration of RMB10,000,000. The former shareholders of TIL agreed not to demand repayment of such indebtedness in cash, with such amount to be capitalised as share capital of Usualink. Such indebtedness by Usualink to the former shareholders of TIL was assigned to Otto Link Technology Limited and United Power Investments Limited, shareholders of Usualink, for capitalisation purpose.
- (2) The remaining balance of loans from shareholders amounting to approximately RMB745,000 was provided to finance the Group's operations.

Loans from shareholders were unsecured, non-interest bearing and were capitalised as share capital of Usualink Development Limited subsequent to 30 June 2000 (see Section 7.a).

i. **Net assets of the Company**

The Company was incorporated on 1 September 2000. On the basis as set out in Section 1 above, the net assets of the Company as at 30 June 2000 amounted to approximately RMB8,661,000 (equivalent to approximately HK\$8,171,000), representing investment in subsidiaries.

j. **Reserves**

Movements of reserves of the companies now comprising the Group during each of the two years ended 30 June 2000 are

	1999		2000	
	RMB'000	HK\$'000 (section 2.m)	RMB'000	HK\$'000 (section 2.m)
General reserve fund:				
As at beginning of the year	—	—	—	—
Transfer from retained profit (accumulated deficit)	—	—	869	820
As at end of the year	<u>—</u>	<u>—</u>	<u>869</u>	<u>820</u>
Public welfare fund:				
As at beginning of the year	—	—	—	—
Transfer from retained profit (accumulated deficit)	—	—	434	409
As at end of the year	<u>—</u>	<u>—</u>	<u>434</u>	<u>409</u>
Retained profit (Accumulated deficit)				
As at beginning of the year	(641)	(606)	(801)	(755)
Profit (Loss) for the year	(160)	(149)	9,462	8,926
Transfer to general reserve fund	—	—	(869)	(820)
Transfer to public welfare fund	—	—	(434)	(409)
As at end of the year	<u>(801)</u>	<u>(755)</u>	<u>7,358</u>	<u>6,942</u>

As stipulated by regulations in Mainland China, Techwayson Industrial Ltd. 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 be utilised for 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.

In addition, Techwayson Industrial Ltd. is required by regulations in Mainland China 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 only be utilised on capital items for the collective benefit of the Group's employees such as construction of dormitories, canteen and other staff welfare facilities. The title of these capital items will remain with the Group.

In accordance with the regulations in Mainland China, Techwayson Industrial Ltd. can also appropriate a portion of its after-tax profit (after offsetting prior year losses) to an enterprise expansion fund. The appropriation to the enterprise expansion fund is optional. The enterprise expansion fund can be utilised for the development of business operations. There was no appropriation to the enterprise expansion fund during the years ended 30 June 1999 and 2000.

k. **Distributable reserves**

The Company was incorporated on 1 September 2000. The Company has not carried on any business since its incorporation, except for the acquisition on 16 January 2001 of the subsidiaries set out in Section 1 above. Accordingly, the Company had no reserves available for distribution to shareholders as at 30 June 2000.

5. **COMMITMENTS**a. **Operating lease commitments**

As at 30 June 2000, the Group had outstanding lease commitments of approximately RMB6,226,000 under various non-cancellable operating leases extending to December 2004. The commitments payable within the next twelve months analysed according to the period in which the leases expire are as follows:

	<i>RMB'000</i>	<i>HK\$'000</i> <i>(Section 2.m)</i>
<i>Leases expiring:</i>		
— within the first year	224	211
— within the second to the fifth years	<u>2,143</u>	<u>2,022</u>
	<u><u>2,367</u></u>	<u><u>2,233</u></u>

b. **Capital commitments**

As at 30 June 2000, the Group had authorised and contracted capital commitments of approximately RMB74,000 for acquisition of fixed assets.

6. **ULTIMATE HOLDING COMPANY**

The Directors of the Company consider Otto Link Technology Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

7. **SUBSEQUENT EVENTS**

The following significant transactions took place subsequent to 30 June 2000 and up to the date of this report:

- a. On 27 November 2000, loans from shareholders of approximately RMB13,843,000 (equivalent to approximately HK\$13,059,000), including the balances of approximately RMB10,745,000 (equivalent to approximately HK\$10,136,000) as at 30 June 2000, were capitalised as share capital of Usualink Development Limited.
- b. The Group completed a reorganisation in preparation for a listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the details of which are set out in the subsection headed "Corporate reorganisation" of Appendix V to the Prospectus; and

- c. At a special general meeting of the Company held on 22 January 2001, a resolution was passed to effect the transactions set out in section E of the subsection headed “Changes in share capital of the Company” of Appendix V to the Prospectus.

8. 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 2000. In addition, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2000.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants

Yours faithfully,
CHARLES CHAN, IP & FUNG CPA LTD
Certified Public Accountants
Betty P.C. Tse
Practising Certificate Number P03024