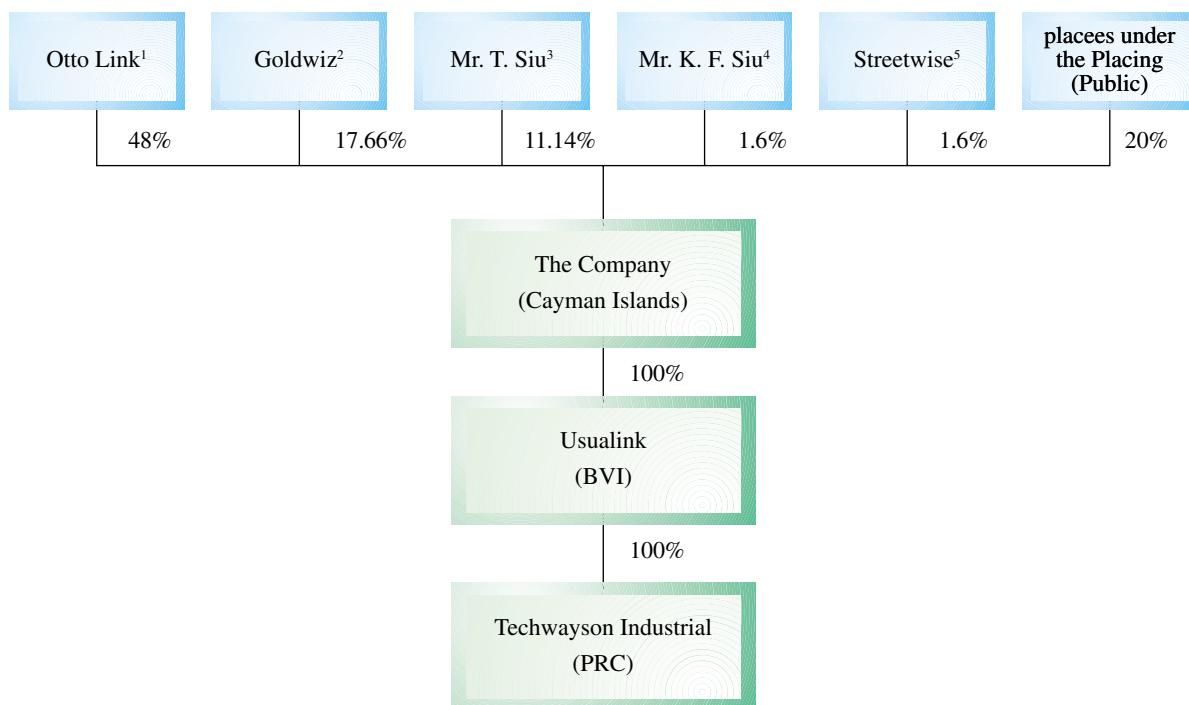

BUSINESS OF THE GROUP

GROUP STRUCTURE

On 16 January 2001, the Group has completed a reorganisation in preparation for the listing of the Shares on the GEM. As a result, the Company became the holding company of the Group. The following chart sets out the shareholding structure and the companies in the Group immediately following the completion of the Placing and Capitalisation Issue but before the exercise of the Over-allotment Option:



Notes:

1. Otto Link is beneficially owned as to 80% by Dr. Sze and the remaining 20% by Mr. Tung who is also a Director.
2. Goldwiz is 100% 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. He is also a substantial shareholder of Goldwiz Holdings holding approximately 13.79% of the equity interest in Goldwiz Holdings.
4. Mr. K. F. Siu is independent from and not connected with any of the chief executive, directors, management shareholders, substantial shareholders of the Company or their respective associates.
5. Streetwise is 100% beneficially owned by Ms. Wong Mei Fong, Peggy who is independent from and not connected with any of the chief executive, directors, management shareholders, substantial shareholders of the Company or their respective associates.

GROUP REORGANISATION

In preparation for and in anticipation of the listing of the Company on GEM, the Group underwent the Reorganisation following which the Company has become the holding company of the Group. Details of the Reorganisation are set forth under “Corporate reorganisation” in Appendix V to this prospectus.

BUSINESS OF THE GROUP

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 current business of the Group places strong emphasis on the sale of automation and control system hardware and the Group's revenue is derived mainly from the sale of such hardware. The Group's strategy is to become an established international total solution provider for industrial and building automation and control systems by developing and supplying advanced-technology products, systems and services that conserve energy, increase productivity, enhance comfort, increase safety and protect the environment in the form of a unique set of systems for process 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. 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 in the PRC by capitalising on the increasing demand for industrial automation and control from major industries in the PRC in order to increase their efficiency and to become an established leading 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 Southeast Asia:

- continue its commitment to research and development by such measures including the cooperation with research departments in various universities in the PRC renowned for their research on automation and control for different industries in order to further advance the technology used for the TCS and to increase its adaptability for use in different industries;
- continue to form alliances with strategic and technology partners in order to aggressively implement the plan of the Group to become a total solutions provider for industrial and building automation and control systems;
- expand geographically by establishing regional operations, and in particular, set up representative offices and branches firstly in major cities in the PRC and Southeast Asia and, later in Europe and the United States, in order to further establish distribution channels and networks for its products and services; and
- strengthen its sales and marketing capabilities by establishing joint ventures with several major 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 commenced its operation 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 system and has worked as the general manager

BUSINESS OF THE GROUP

of a state-owned enterprise which specialised in industrial automation and control systems 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 mainly using 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 at the date of this prospectus, the business of the Group is focused mainly on the industrial automation and control sector. However, as the Directors believe that the building automation market will experience rapid growth in the future with increasing demand for automation of buildings constructed for various purposes including airports, factories, plants, hospitals, schools, offices and residential buildings, the Directors intend to diversify the Group's business focus and enter the building automation and control sector.

ACTIVE BUSINESS PURSUITS

Year ended 30 June 1998

Research and development

The Directors believe that research and development is crucial to the Group's future success in the automation and control industry. Since its establishment in September 1997, the Group has dedicated its effort to the research and development of a set of PC-based automation and control systems, TCS, which has the structural characteristics of FCS and combines the advantages of both DCS and PLC. At the same time, the Group also began to research and develop software applications and firmware which can support the operations of the CPUs deployed in the controllers. These controllers monitor and control the field control station and other functions such as user defined function blocks through which customers can enter variables specific to their various industries. 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.

Commercial activities

Prior to the successful development of the Group's own TCS automation and control systems, in order to aggressively pursue its target to become a leading automation and control system integrator and to develop a niche in the market for industrial and building automation and control as quickly as possible, the Group decided to start its system integration business by adopting hardware and software developed by others which were similar to the Group's concept of TCS. After exploring numerous opportunities to cooperate with various overseas automation and control system integrators and manufacturers, the Group chose various products with characteristics most suitable for adoption in the automation and control system which the Group intended to develop itself.

BUSINESS OF THE GROUP

Deployment of human resources

As at 30 June 1998, the Group had a workforce of approximately 14 engaged in the following operations:

	HK	PRC	Total
Sales and marketing	0	1	1
Professional service and technical support	0	3	3
Research and development	0	6	6
Finance and administration	0	4	4
	<hr/>	<hr/>	<hr/>
Total	0	14	14
	<hr/>	<hr/>	<hr/>

Turnover and profits

For the year ended 30 June 1998, the Group did not record any turnover and no profit was attributable to shareholders.

Year ended 30 June 1999

Research and development

The Group's research and development department had grown from just a handful of people when the Group was first established to around 15 people by June 1999, who were mostly industry experts specialising in computer and industrial technologies.

By late 1998, the Group managed to become one of the few automation and control systems integrators in the PRC to have developed its own products.

By early 1999, the Group completed the development of three series of controller modules, namely the TCS PPC11 series, the TCS PPC21 series and the TCS PPC31 series. The Group had also completed its development of TCS into a set of automated and control systems which can be tailor-made to suit the requirements of customers with different industrial backgrounds. Another characteristic of TCS is that it is an open system adopting the TCP/IP protocol, a common communication platform, for the purpose of data exchange between the field control stations and the operating stations. As such, personnel in charge of the manufacturing process can collect data from or communicate commands through internet or intranet.

Commercial activities

On 18 August 1998, the Group entered into a contract for the supply and installation of a set of TCS systems for the automation and control of blast furnaces at a steel plant in Wuhan.

On 6 December 1998, the Group entered into a contract for the supply and installation of remote access units ("RAU") for providing telephone connections to four counties in Wuhan. The Group adopted remote power monitoring and communications technologies used in industrial control technologies for its RAUs so that when there is a power failure in remote villages which often happens and the rechargeable batteries in such RAUs become low on power, a warning will be sent to the

BUSINESS OF THE GROUP

county posts & telecommunications bureau (縣郵電局) which will then send technicians to recharge the RAUs manually. By adopting such technologies, the Group's RAUs have successfully kept the telecommunications systems for remote villages in four counties in Wuhan free from breakdown caused by power failure.

On 28 May 1999, the Group entered into a contract with Maanshan Iron & Steel Company Limited (馬鞍山鋼鐵股份有限公司), a state-owned company listed on the main board of the Stock Exchange, to supply and install a set of TCS systems for the automation and control of its blast furnaces.

Sales and marketing

In mid-1999, the Group set up its sales and marketing department with an initial staff of around five people. Previously, the Group received orders mainly from past customers and business acquaintances of the management of the Group. New customers were often introduced to the Group by such past customers and business acquaintances.

In order to establish a wider distribution network, the Group entered into an exclusive distribution agency agreement on 18 June 1998 with Wuhan Inter Communications Equipment Company Limited (武漢英特通信設備有限公司) ("Wuhan Inter"), an enterprise in the Wuhan, PRC which has investments in the iron and steel refining and steel-rolling industries, for it to be the Company's exclusive agent in Wuhan only. Under the distribution agency agreement, Wuhan Inter will receive three per cent. of the total contract sum from the Group as commission for referring customers directly to the Group as an agent. On the other hand, Wuhan Inter may also purchase products directly from the Group at a 15 per cent. discount of the sales price. The contract sum will include training provided by the Group in order to assist the agents in providing technical support and maintenance services to their customers. In this regard, Wuhan Inter would be considered as an end-customer to the Group. Although Wuhan Inter can be both an end-customer as well as regional distribution agent of the Company, the Company confirmed that Wuhan Inter has only been an end-customer of the Group during the Track Record Period and has not received any commission from the Group nor purchased any products for resale under the agency agreement.

Deployment of human resources

As at 30 June 1999, the Group had a workforce of 35 engaged in the following operations:

	HK	PRC	Total
Sales and marketing	0	3	3
Professional service and technical support	0	9	9
Research and development	0	15	15
Finance and administration	0	8	8
Total	<u>0</u>	<u>35</u>	<u>35</u>

BUSINESS OF THE GROUP

Turnover and profits

For the year ended 30 June 1999, the Group recorded total turnover of approximately HK\$5 million and loss attributable to shareholders of approximately HK\$149,000. For details, please refer to the summary of the audited results of the Group set out in the paragraph headed “Trading record” under the section headed “Financial information” of this prospectus.

Year ended 30 June 2000

Research and development

In March 2000, the Group successfully developed its TCS-500/HS controller module with hot back-up/redundancy function and the TOMC-2 series of controller modules. During the year, the Group’s research and development staff had grown to around 35 people.

Commercial Activities

On 8 December 1999 and 28 January 2000 respectively, the Group entered into two separate contracts with Maanshan Iron & Steel Company Limited (馬鞍山鋼鐵股份有限公司) for the supply of TCS systems for the automation and control of its blast furnaces and continuous casting process.

On 27 June 2000, the Group entered into a contract with an enterprise in Wuhan with investments in the iron and steel refining industries, for the supply of automation and control system for blast furnaces.

Sales and marketing

By June 2000, the Group’s sales and marketing staff had grown to around 18 people. In order to further expand its distribution network, the Group entered into a distribution agency agreement with Xibei Yao Information Technique Co. Limited (“Xibei Yao”) (西北亞奧信息技術公司), a state-owned enterprise in the PRC which specialises in automation and control system integration and related maintenance and repair services on June 2000. Under the distribution agency agreement, Xibei Yao will receive three per cent. of the total contract sum from the Group as commission for referring customers directly to the Group as an agent. The Group has not allowed any discounts to Xibei Yao for resale during the Track Record Period.

In order to increase the exposure of the Group’s products to more potential customers, the Group sponsored the Huanan Automation and Control Systems Exhibition (華南國際自動化與工業控制展覽會) which was held in Shenzhen, the PRC from 6 June 2000 to 9 June 2000. The Group devised plans to sponsor more exhibitions and host seminars for potential clients in the future as part of its extensive marketing campaign.

BUSINESS OF THE GROUP

Deployment of human resources

As at 30 June 2000, the Group had a workforce of 96 engaged in the following operations:

	HK	PRC	Total
Sales and marketing	0	18	18
Professional service and technical support	0	22	22
Research and development	0	35	35
Finance and administration	0	21	21
	<u>0</u>	<u>96</u>	<u>96</u>
Total	<u>0</u>	<u>96</u>	<u>96</u>

Turnover and profits

For the year ended 30 June 2000, the Group recorded total turnover of approximately HK\$26 million and profit attributable to shareholders of approximately HK\$9 million. For details, please refer to the summary of the audited results of the Group set out in the paragraph headed “Trading record” under the section headed “Financial information” of this prospectus.

From 1 July 2000 to Latest Practicable Date

Research and development

In July 2000, the Group has commenced its research and development for its controller module and I/O modules with hot pluggable and auto-recognition function.

On 4 December 2000, the Group entered into a contract with Intellution to jointly develop control software applications for the TCS operating systems under the brand name of TFIX. TFIX is modeled upon the IFIX system which was solely developed by Intellution with the addition of certain new functions based on specifications provided by the Group. The intellectual property rights of TFIX belongs to the Group.

In October 2000, the Group entered into a cooperation agreement with Shanghai Hui Ming Automation Information Industry Company Limited (上海慧銘自動化信息產業有限公司), a business entity in which Shanghai Jiaotong University (上海交通大學) has invested, to jointly develop TCS into an automation and control system which incorporates APC capacity and industrial optimisation software applications.

It is the Directors’ belief that research and development is crucial to the Group’s future success in the automation and control industry. Therefore, the Group has continued to expand its research and development department by recruiting capable recruits from various departments specialising in industrial automation and control. The Group has also recruited specialists who have gained actual experience in major industries such as the steel industry regarding the implementation of process automation and control.

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Commercial activities

On 26 July 2000, the Company entered into a contract with Maanshan Iron & Steel Company Limited (馬鞍山鋼鐵股份有限公司) for the supply of automation and control systems for its steel plate production process.

On 18 August 2000, the Company entered into a contract with an oil drilling and exploration company in Xinjiang for the supply of automation and control systems for its oil production process.

On 21 August 2000, the Company entered into a contract with a cement manufacturer for the supply of automation and control systems on its cement production process.

On 30 August 2000, the Company entered into a contract with a state-owned enterprise in Hsuzhou for the supply of automation and control systems to be used in intelligent residential building system developed by that enterprise.

On 15 September 2000, the Company entered into a contract with a chemical fertiliser factory in Dongting, the PRC for the supply of automation and control systems on its petrochemical production process.

On 18 September 2000, the Company entered into a contract with an oil drilling and exploration company in Xinjiang for the supply of automation and control systems on its oil drilling and exploring process.

On 19 November 2000, the Company entered into a contract with a company which specialises in the integration of automation and control systems in Kunming, the PRC for the supply of automation and control system equipment.

Sales and marketing

On 17 August 2000, the Ministry of Machinery Instrumentation Reliability Testing Centre (機械工業部儀器儀表可靠性技術中心) evaluated the reliability of the TCS PPC 31 automation and control system and certified that such system is capable of attaining a mean time between failure (which refers to the time an equipment can operate efficiently between two successive breakdowns) of approximately 57741 hours which is evidence of the superb reliability of the Group's products.

On 18 August 2000, the Shanghai Institute of Process Automation Instrumentation (上海工業自動化儀表研究所) (the "Institute") conducted all-inclusive testing on the Group's TCS PPC 21 and TCS PPC 31 automation and control systems and certified that such systems attained the Q/TWS-001-2000 standard (TCS 柔性控制系統企業標準) which is an internal standard set by the group on its automation and control systems based on the requirements under the PRC national standards and the IEC standards. The Institute further certified that for certain modes of testing including power interrupt time endurance, anti-pulse group interference and anti-vibration, the Group's products attained standards which surpassed standards which other similar products are subject to internationally. The results of such testing conducted by the Institute are accredited by Lloyd's Register of Shipping.

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The Directors believe that by achieving such standards, it is highly likely that the Group's products will be recommended by the relevant PRC authorities for adoption by projects subsidised by the PRC government, especially those projects which aim at improving or rebuilding the automation and control systems used by major state-owned industries so as to improve on their efficiency.

From 11 September 2000 to 13 September 2000, the Group participated in the Multinational Instrumentation and Control Exhibition (MICONEX 2000) (多國儀器儀表展覽會) in Beijing to promote its products and build up potential customer base in Beijing.

In January 2001, the Group has arranged the necessary application for setting up a representative office in Beijing for the purposes of contacting the local design institutes for various major industries so as to gather information regarding potential customers from those industries and providing latest information on the Group's products to those potential customers.

Deployment of human resources

As at the Latest Practicable Date, the Group had a workforce of 101 engaged in the following operations:

	HK	PRC	Total
Sales and marketing	0	20	20
Professional service and technical support	0	18	18
Research and development	0	30	30
Finance and administration	2	31	33
Total	<u>2</u>	<u>99</u>	<u>101</u>

Turnover and profits

For the five months ended 30 November 2000, the Group recorded total unaudited turnover of approximately HK\$71 million and unaudited profit attributable to shareholders of approximately HK\$33 million.

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.

By early 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 which have become familiar in the office automation area. Another characteristic of TCS is that it is an open control system adopting the TCP/IP, a common communication platform, for the purpose of data exchange between the field control stations and the control centre of the

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system. Therefore, TCS automation and control systems are the hubs which link systems for control, instrumentation and supervision of an industrial process. One of the main advantages is that it renders information accessible at any point in the process so that parties across the organisation can collect data from or send commands to TCS through internet or intranet.

The Group has also developed software applications and firmware which can support the operations of the CPUs deployed in the controllers. These controllers monitor and control the field control stations and other functions such as user defined function blocks through which customers can enter variables specific to their various industries. 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.

Building upon such an open control system with an open operating platform and the capacity of being tailor-made, the Group intends to develop APC technologies in order to achieve process control optimisation, quality control systems and the control of parts of the process which will in turn improve process efficiency, safety, quality, cost and regulatory compliance. On the foregoing basis, the Directors believe that the Group has the capability to become an established 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 possess 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



TCS PPC11/HS (雙機熱備份)



PPC11/P



PPC11/GP



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TCS PPC21 Series

The TCS PPC21 series of controllers are 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 PPC22

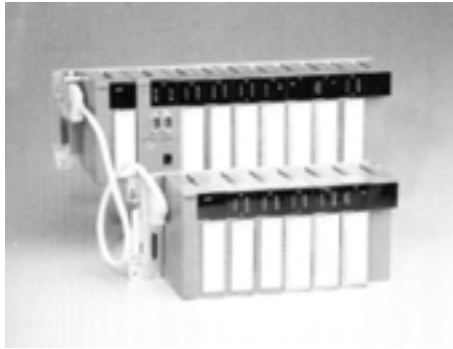
The TCS PPC22 series of controllers are real-time PC-based controllers with WINDOWS as its operating platform. TCS PPC22 controllers can simultaneously provide PC and PLC functions. Customers can utilise a user defined function block programmed with C language to define the automation and control processes.



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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 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.



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. Services provided by the Group include:

- hardware, software and related instrumentation for industrial automation and control systems;
- professional support for implementing field control technology in industrial 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;
- 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 product;

BUSINESS OF THE GROUP

- *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 also offers "life-time warranty" for its controller modules 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.

PRINCIPAL STRENGTHS

The Directors attribute the Group's successful growth and development to the following principal factors:

- **Market focus on major industrial and building sectors**

Since its establishment in 1997, the Group has targeted customers in major industrial sectors in the PRC such as the steel industry, oil drilling and electricity generation which the Directors believe have invested and, in the future, will invest substantially in sophisticated and state-of-the-art automation and control systems. With this focus, the Group was able to build up a substantial knowledge base in this sector which the Directors believe would translate into a strong barrier of entry and a competitive advantage over its competitors. The Directors are of the opinion that building and home automation in the PRC is a growing sector of the automation and control industry and the Group intends to diversify its business focus and enter this sector from an early stage onwards in order to enable it to capture a large portion of the market share in this sector. The Directors believe that the Group's focus on building up its image as a leader in industrial and building automation will help the Group to increase its market share in the future.

- **Strong and dedicated management team**

Dr. Sze and most of the senior management of the Group have more than 10 years of experience in the automation and control industry. In addition, the Group's management have accumulated in-depth knowledge through their previous project engagements with major industrial enterprises in the PRC. The Directors believe that the Group's management share the vision of cultivating the Group to become a leading automation and control systems integrator and manufacturer in the PRC and abroad.

- **Reputable customer base**

Having served the major industrial sector in the PRC for an average of more than 10 years, Dr. Sze and the senior management of the Group have built up a customer base which includes many large PRC state-owned and international industrial enterprises in the PRC. This customer base has generated repeated business, and has become a source of new business for the Group through referrals and references by such customers.

BUSINESS OF THE GROUP

- **Established reputation and product recognition**

Dr. Sze and the senior management of the Group have built a reputation among major industries in the PRC for delivering high quality automation and control systems. This is evidenced by the fact that some customers have adopted more than one of the Group's TCS automation and control systems. The Directors believe that the recognition of the Q/TWS-001-2000 standard, an internal standard set by the Group on its automation and control system, on 18 August 2000 by the Shanghai Institute of Process Automation Instrumentation (上海工業自動化儀表研究所), which is accredited by Lloyd's Register of Shipping, would very likely cause the Group's products to be recommended by relevant PRC authorities for adoption in projects subsidised by the PRC government, especially those which aim at improving or rebuilding the automation and control systems used by major state-owned industrial enterprises so as to improve on their efficiency. The Directors believe that such recommendation will further enhance the recognition of the Group's ability to deliver reliable and efficient automation and control systems.

- **Advanced product technology achieving international standards**

The Directors believe that the technologies of the Group's products are not only comparable with those of major international enterprises in the automation and control industry. The Group's products also offer certain distinctively advanced features that are tailor-made for the unique requirements of the industrial enterprises in the PRC. The Directors believe that such strengths allow the Group to establish a niche in the PRC which will allow the Group to gain substantial market share and reputation in the future. The Group has adopted the following features for its automation and control systems:

- *Technical expertise on the internet protocol*

The Group has developed technical expertise in a number of internet-related technologies in relation to the use of the internet and/or intranet to perform on-line data gathering, programming and controlling functions. The Directors believe that such technical expertise would enable the Group to participate in business opportunities arising from the increasing use of the internet and/or intranet as a medium through which automation and control functions are performed.

- *Ethernet connection to capitalise on the market trend for open system*

The Group has developed controllers with Ethernet TCP/IP capability which provides the benefit of Ethernet connectivity without the need for gateways, terminal servers or other miscellaneous hardware. Since Ethernet uses TCP/IP, which is one of the most widely used communication standards in the world, for data transmission, adopting Ethernet for the Group's FCS to connect various instruments and control systems enables TCS to become an open system. As an open system offers the advantages of integrating and sharing of resources with different systems and supporting the development of the CIMS, it will be best suited for adoption by industrial enterprises in the PRC which often use fragmented automation and control systems that are incompatible with each other. The Group's use of Ethernet allows it to capitalise on the increasing demand for open system as well as to fulfill the unique requirements of the PRC industrial sector.

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- *More cost-effective FCS*

The Group has successfully modified its fieldbus for FCS so that when customers upgrade their systems, they can still use their existing instruments adopted in their original automation and control systems and at the same time enjoy the full benefits of faster communication speed offered by FCS. Such features allow customers to save costs while the Group will also be able to offer their services at a more competitive price.

- *Software platform and internet connection*

The use of Windows NT, Windows 95 or Linux as the software platform for different operating stations together with internet browsers allows TCS to perform remote monitoring and diagnostic functions. The controllers are also able to send alert signals automatically by electronic mails. The Directors believe that such features allow TCS to become a highly open system with the capability of being developed into a more advanced automation and control system.

- *Total automation solutions*

Other than the ability to integrate automation and control systems for customers in the PRC, the Group also possesses the capability to offer total automation solutions which encompass system design, control system integration, instrumentation and full support services at quality standards and reliability that are comparable with the technology of the Group's international competitors. The Directors believe that as the old automation control systems adopted by the PRC's industrial enterprises are being replaced at an increasing rate, the Group will be able to capitalise on this market potential to become a leading total automation solution provider for industrial enterprises in the PRC.

- **Strategic alliance and partnership with reputable organisations**

The Group entered into a contract with Intellution, a major international software applications provider specialising in the development of software applications for automation and control systems, to jointly develop control software applications for the TCS operating systems under the copyrights of TFIX. TFIX is modeled upon the IFIX system which is solely developed by Intellution with the addition of certain new functions based on specifications provided by the Group. The Group will have to pay Intellution a one-off development fee of approximately US\$18,000 and a fixed license fee for each set of TFIX sold by the Group. The amount of such fixed license fee varies for different versions of TFIX and ranges from approximately RMB12,000 to RMB73,000. The intellectual property rights of the TFIX belongs to the Group.

Furthermore, the Group has entered into strategic partnerships with various industrial and commercial enterprises in the PRC to jointly develop more advanced versions of the TCS automation and control systems by adopting APC and other new technologies and to jointly promote and market the Group's products.

The Group has also fostered close business relationships with reputable corporations in major industries and the automation and control industry such as Shanghai Automation Instrumentation Co., Ltd. System Engineering Co. (上海自動化儀表股份有限公司系統工程公司) and Sichuan Instrumentation Control System Integration Company Limited (四川儀器控制系統工程公司), through joint venture projects or other business arrangements.

BUSINESS OF THE GROUP

The Directors believe that the Group will benefit from such close on-going relationships with its business partners since the Group can leverage on their industry expertise, market coverage and brand recognition in implementing its future business strategies.

SUPPLIERS

The largest supplier to the Group accounted for approximately 40.7 per cent. and 63.4 per cent., respectively of the Group's total purchases in each of the two years ended 30 June 1999 and 2000, and the five largest suppliers to the Group accounted for approximately 98.7 per cent. and 94.8 per cent., respectively, of the Group's total purchases for each of the two periods mentioned above. These suppliers usually allow the Group a three to six month open account credit to settle the purchase costs for products supplied. The Group has been sourcing from most of these suppliers in excess of two years. All of the Group's purchases were settled in RMB for each of the two years ended 30 June 1999 and 2000.

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 parts which will undergo further processing, including integrated circuits, electric resistance, electric capacitors and electric cables while components parts refer to printers and network equipments 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. Further, 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 and component parts will be sent to the Group's contract manufacturers for processing. Excessive materials will be used as spare parts. After production and respective testing on the finished products, they will be transported and installed at the customers' sites.

Payment terms to the suppliers are classified into two categories. For the contract manufacturers who manufacture controller modules designed by the Group, approximately 50 per cent. of total purchase will be paid 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 allow a three to six month credit period to the Group if the 50 per cent. balance cannot be settled within two weeks after delivery. For other raw materials, 20 per cent. of the total purchase will be paid upon signing the contracts and the remaining 80 per cent balance will be paid within two weeks upon delivery. Again, as an industry practice, suppliers usually allow a three to six month credit period to the Group if the 80 per cent. balance cannot be settled within two weeks upon delivery. The Group generally pays its suppliers within three months after delivery of products and would only extend the payment period to six months when necessary. During the Track Record Period, the settlement of payments by the Group has not been later than six months.

BUSINESS OF THE GROUP

As at the Latest Practicable Date, none of the Directors, their associates or any shareholder of the Company (who or which 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 two years ended 30 June 1999 and 2000.

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. All the controller modules and other instrumentation designed by the Group and manufactured by the Group's contract manufacturers. Outputs are first subject to online testings to determine if quality standards are up to the levels set out for contract manufacturers. They are then subject to 72 hours of extreme temperature (runtime temperature from 0°C to 55°C, storage temperature from -22°C to 70°C) and extreme humidity (from 0 per cent. relative humidity to 97 per cent. relative humidity) testing. Finally, it will have to go through a pre-programmed all-position testing procedure conducted by computers before being delivered to customers.

The Group's contract manufacturers will 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.

Currently, there are around 10 staff members at the Group's quality control department.

MAINTENANCE AND SUPPORT

The Group provides customer support services during project implementation and the warranty period. The Group usually grants a life-time guarantee for the controller modules and other supporting software applications and firmware of its automation and control systems while any malfunctioned third party hardware, including all peripheral parts of a system such as operation stations, printers and power source, will be exchanged free of charge by the Group within 18 months of installation. After 18 months of installations, the Group also provides on-going maintenance and support services for customers at a fee. The services provided include a telephone hot-line support to provide access to the Group's technical resources for operational and technical assistance and guidance as well as guaranteed on-site maintenance within 48 hours of first call if the problem cannot be solved through advice over the telephone.

Although the Group had not incurred any material warranty cost historically, its management considers that additional provision for product warranty cost is appropriate since the Group is a newly-established business and does not have substantial historical experience to determine the level of costs that may be incurred under product warranty. Therefore, the Group's management has conservatively provided general provision for product warranty costs of approximately RMB269,000 and RMB1,174,000, which represents approximately five per cent. of the Group's turnover during the two years ended 30 June 1999 and 2000 respectively.

SALES AND MARKETING

The Group has a dedicated team of around 18 sales and marketing staff. This marketing team in co-operation with the Directors and project and product managers, is responsible for the marketing and promotion of the Group's TCS automation and control systems.

BUSINESS OF THE GROUP

The Group's turnover derives from the sale of system control equipment and software and fees for system integration services. In order to satisfy the different requirements of customers, the Group usually has to conduct research and perform consultation services for each individual project. As these expenses are included in the sales price of system control equipment, the revenue from sale of system control equipment and software thus represents a relatively higher percentage in the total revenue of the Group for any project.

The marketing team is responsible for making the initial contact with potential customers by contacting them directly or by gathering information from the local design institutes for various major industries regarding potential customers and then for collaborating with the project and product managers who negotiate and finalise the deal.

From time to time, the Group also sponsors or organises exhibitions and hosts product seminars and conferences in order to attract potential customers and provide the latest information on the Group's products to existing customers.

CUSTOMERS




The largest customer of the Group accounted for approximately 94.8 per cent. and 64.8 per cent. of its turnover for each of the two years ended 30 June 1999 and 2000 respectively. For each of the two years ended 30 June 1999 and 2000, the Group had less than five customers who accounted for 100 per cent. of the Group's turnover for each such year and all of the Group's turnover was settled in RMB. Customers have to pay a deposit of 10 per cent. of the total amount payable within 7 days of signing the contract. Within two months, the Group will deliver the hardware and charge up to 70 per cent. of the total amount payable which customers have to settle within one month from the time of delivery. After completion and acceptance, the Group will issue billing for another 25 per cent. of the total amount payable which customers have to settle within two weeks from the time of acceptance by the customer. The Group will allow six months to 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 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 prospectus. Customers then have to settle the balance of within two weeks upon the issue of the invoice. All of the Group's customers have paid by telegraphic transfer during the Track Record Period and the Group will continue to accept such payment mode for its new customers. As an industry practice, such retention amount will be served as an additional service to the customers where the Group will provide after-sale services free of charge within one year of installation. As the bulk of the total contract sum will be paid by the customers within one month from the time of delivery of the system hardware, the Directors believe that the credit risk the Group faces is minimal. The Group did not experience any bad debt with its customers during the Track Record Period. As at the Latest Practicable Date, none of the Directors, their respective associates (as defined in the GEM Listing Rules) and shareholders who 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 two years ended 30 June 1999 and 2000.

BUSINESS OF THE GROUP

INTELLECTUAL PROPERTY RIGHTS

(a) Trademarks

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks:—

Trademarks	Place of registration	Class	Application number	Application date
	PRC	38	2000073757	29 May 2000
Broadlink	PRC	38	2000073758	29 May 2000
SmartHome	PRC	37	2000073759	29 May 2000
WAYSON	PRC	9	2000073760	29 May 2000
Techwayson	PRC	9	2000073761	29 May 2000
	PRC	9	2000067052	19 May 2000
Techwayson Techwayson	HK	9	200025857	25 November 2000
	HK	9	200025858	25 November 2000

Notes:

- Items applied for registration under Class 38 of the Trade Marks Law of the PRC include television broadcasting, telecasting, cable television broadcasting, cable television, information transmission, computer terminal communication, computer auxiliary information and image transmission, information transmission equipment for hire, optical fibre communication and modem.
- Items applied for registration 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, computer hardware installation, maintenance and repair and lighting equipment installation and repair.
- Items applied for registration 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, 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.
- 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), complete set of electric 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, electric regulating apparatus, voltage regulators, distribution consoles (electricity), control panels (electricity), mechanisms for counter-operated apparatus.

BUSINESS OF THE GROUP

(b) Patents

As at the Latest Practicable Date, the Group had applied for registration of the following patents:—

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 applied for registration of the following copyrights:—

Copyrights	Place of registration	Application number	Application date
Butterfly, Programming & Configuration Software for PPC21 Controller	PRC	200012236	23 October 2000
Firefly, Configuration Software for PPC31 Controller	PRC	200012237	23 October 2000
Dragonfly, Configuration Software for PPC11 Controller	PRC	200012238	23 October 2000
TFIX, Monitoring and Control Software for TCS Tailored Control System	PRC	200012239	23 October 2000

(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	7 July 2000
www.e-automation.com.cn	12 August 2000
www.techwayson.com.hk	5 October 2000

BUSINESS OF THE GROUP

RESEARCH AND DEVELOPMENT

The Group places great emphasis on research and development. Currently, there are around 35 staff members specialising in computer and industrial technologies in the research and development department. The Directors believe that more and more business opportunities will arise from the increasing use of the internet or intranet as a medium through which automation and control functions are performed. Therefore, the Group's research has focused and will continue to focus on internet-related technologies in relation to the use of internet or intranet to perform on-line data gathering, programming and controlling functions in the future. In addition, the Group will explore other technologies that can be applied to the development of the Group's business and operations such as APC and CompactPCI.

On 10 October 2000, the Group entered into a 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 specialises in the research on industrial optimisation software applications, for the purposes of jointly developing TCS into an automation and control system which incorporates APC capacity and industrial optimisation software applications. The strategic partnership between the Group and Hui Ming will not become an independent legal entity. Therefore, there will not be a shareholding structure. The profits and costs allocation arrangement will be negotiated by the Group and Hui Ming on a project-by-project basis based on the contributions of each partner. Under normal circumstances, no specific financial commitment, including development fee and license fee, will be imposed on the Group in relation to such strategic partnership.

Furthermore, the Group intends to cooperate with the research institutes of various universities for the development of APC models to be used in automation and control software applications which are aimed at various major industries in the PRC.

COMPETITION

The Group operates in a highly competitive market which is subject to regular technological change. For each of the Group's products, the Directors are aware of competition from similar products available in the market. 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 adopted a low-price strategy in order to attract customers who are mainly from small-scale industries in the PRC; and
- large overseas automation and control system integrators and manufacturers whose products have a following in overseas markets who seek to sell their products in the Asia Pacific region.

However, the Directors believe that the Group has extensive skill and knowledge of various major industries in the PRC, and it is intended that the Group will continue to focus on these major industries. 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.

BUSINESS OF THE GROUP

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

YEAR 2000 COMPLIANCE

The Group has reviewed its computer hardware and software to ensure that they are year 2000 compliant. The Directors believe that they have taken all necessary steps to ensure that the computer systems of the Group are year 2000 compliant, but, is aware that many year 2000 issues are outside the Group’s control and may continue to pose a threat to the Group’s business well into the year 2000.