
BUSINESS OBJECTIVES AND FUTURE PROSPECTS

OVERALL BUSINESS OBJECTIVES

The Group's overall business objective is to further consolidate its position as one of the leading total solutions providers in the PRC, and later, to become an established international total solutions provider for 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. The Group has identified the following key strategies to help it achieve this objective:

- 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 alliance with strategic and technology partners in order to aggressively implement the aim 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 commercial and industrial 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 major industrial and commercial enterprises in the PRC in order to further enhance the credentials and reputation of the Group.

SPECIFIC BUSINESS OBJECTIVES UP TO THE YEAR ENDING 30 JUNE 2003

In light of the overall business objectives of the Group as outlined above, it intends to achieve the following specific objectives up to the year ending 30 June 2003. **Investors should note that the following specific objectives and implementation plans are based on the existing plans and intentions of the Group which are either at a conceptual stage or at a preliminary stage. Furthermore, the following specific objectives and implementation plans are formulated on the bases and assumptions as set out under the paragraph headed "Bases and assumptions" below. In addition, many if not all of these assumptions are untested and accordingly, may turn out to be invalid. This may result in some if not all of the following specific objectives and implementation plans not being achieved within the scheduled time or at all.** The Group will review the response to its developments and may adjust its business objectives as time goes on.

Latest Practicable Date to 30 June 2001

Product Research and Development

- Develop flammable controller modules suitable for use in flammable gas working environments and to replace the existing modules which need to be segregated from explosive environments. Since this function is especially useful in oil, petroleum and refinery industries, the new product will enhance the competitive advantage of the Company's products in related industries.

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- Develop APC models and methods that will be incorporated in the TCS products for broader market coverage. APC provides effective control of input and output processes by using an internal model of the actual process to predict the future behavior of the process. Based on that prediction, it calculates the best move sequences for each manipulated variable in order to meet the control target and minimise disturbance to the process. Due to its ability to improve efficiency, plant reliability and profitability by minimising off-spec product quality variability, it enables process manufacturers to implement optimal production targets or maximise production runs under certain unit constraints. As a result, APC is especially useful in industries involving complex processes such as petroleum, oil and steel refining and is increasingly popular among manufacturers.
- The Group intends to cooperate with various universities including Tsinghua University (清華大學), Zhejiang University (浙江大學), South China Polytechnic University (華南理工大學) and Huadong Polytechnic University (華東理工大學) for the development of APC. Although no binding agreements has been signed with such academic institutions so far, negotiations between the Group and them has been ongoing since September 2000.
- Form partnerships with the Baosteel group and other large-scale state-owned enterprises for commercial implementation of APC technology in automation and control systems and to jointly develop automation and control systems with APC functions to become showcase projects in order to attract potential customers.
- Develop hot back-up/redundancy controller modules and I/O modules with hot pluggable and auto-recognition functions (可帶電撥插的冗餘熱備份) to improve the quality and reliability of existing control system products. Hot back-up/redundancy is a function that is required in industries demanding real-time communication and such function can upgrade TCS product quality.

Sales & Marketing

- Enter into cooperation sales agreements with Shanghai Instrumentation Group and Sichuan Instrumentation Group, both of which are state-owned enterprises whose main businesses include automation and control instrumentation manufacturing and system integration.
- Establish representative offices in PRC cities with a high concentration of industries such as Xian, Kuming, Wuhan and Chengdu.
- Establish product image through large-scale advertising companies through various medias such as newspapers and specialist publications, participation in seminars and meetings with customers and technical institutes and conducting surveys on customer feedback on products.
- Establish a training centre with the China Automation Society (中國自動化學會) and provide training courses on TCS system for customers with an aim to enhance corporate image and materialising full product benefits.
- Sponsor the China Automation Society (中國自動化學會) in setting up an automation website: www.e-automation.com.cn to provide industry solutions to existing and potential clients as well as to promote the Group's brand name.

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Six months ending 31 December 2001

Product Research and Development

- Conduct testing and inspections on new TCS systems incorporated with flammable controller modules and hot back-up/redundancy characteristics.
- Specialisation of TCS products. Automation systems that are tailor-made for specialised industries such as steel refining, iron refining, steel rolling, refining of oil, ethylene and sulphuric acid, cigarette manufacturing, paper, sewage, waterworks, distribution and supply of electricity on grids may be developed through incorporating APC tailored for each specific industry onto the TCS platform. At the same time, software blocks will be developed to include the basic functions common to various industries. They will then be incorporated into control systems with industry-specific designs. It is expected that through a combination of standardisation and industry specific functions, the Group will be able to achieve product standardisation, reduction in time spent on project engineering and speeding up of the application of TCS products in various industries.

Sales & Marketing

- Enter into a strategic partnership with Baosteel Information Industry Holdings (寶鋼信息產業集團), which specialises in industrial and building automation and other IT services, and apply TCS systems with implemented APC functions on complex manufacturing and control process involving high-technology such as steel rolling, electric furnaces. Baosteel Information Industry Holdings is a subsidiary of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司), a major state-owned steel refining conglomerate in the PRC whose A shares are listed on the Shanghai Stock Exchange.
- Broaden the range of products and services with the aim to improve the productivity of customers' manufacturing process.

Overseas Business Development

- Conduct pilot projects targeted at specific industry sectors such as waste water treatment in Hong Kong and the Southeast Asian region as the first step for entering the overseas markets.
- Conduct testing of the Group's products with the aim to attain recognition certificates from various international industry standard accrediting organisations.

Six months ending 30 June 2002

Product Research and Development

- Upgrade TCS product technologies through developing automation and control systems that adopt CompactPCI bus technology. A CompactPCI is a modern, very high performance bus based on the standard PCI electrical specification and it caters for real-time machine tool, industrial automation, real-time data acquisition and other applications requiring high speed computing. The development of CompactPCI will further enhance the transmission speed, openness to other products and communication capability of TCS products.

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

Sales & Marketing

- Implement hire-purchase plans for customers with a large production size in order to develop true partnership with customers. The Company will be paid monthly management and operation fees for automation and control systems that are leased out to customers.
- Provide high quality after-sale services encompassing all activities including system design, delivery, installation, testing and inspection, system running and maintenance. It is hoped that the comprehensive services are beneficial for strengthening customer relationship.

Overseas Business Development

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

Six months ending 31 December 2002

Product Research and Development

- Further research and development of CompactPCI.
- Through cooperation with research departments of universities in the PRC and major industrial enterprises, the Directors intend to further develop the application of APC in automation and control systems and to develop CIMS. CIMS is an integrated system that encompasses all the activities in the production system from the planning and design of a product through the manufacturing system, including automation and control. CIM is an attempt to fully integrate existing computer technologies in order to manage and control an entire business. The CIM concept is one of the major market trends in the automation and control industry and can greatly enhance the productivity of the Group's customers.

Sales & Marketing

- The Group intends to set up an instrumentation manufacturing plant in order to start manufacturing its own instrumentation, including apparatus, equipment and meters for automation and control systems when the Group reaches a sales volume that allows economies of scales and can justify in-house production of its own instrumentation. Instrumentation alone accounts for more than 50 per cent. of the costs of components of an automation and control system and the instrumentation meter industry enjoys an annual revenue growth rate of 83.6 per cent. in 1996. Accordingly, the Directors believe that by diversifying into this new business segment, the Group will be able to generate substantial revenue once it can achieve economies of scale. Furthermore, manufacturing its own instrumentation for automation and control systems not only enables the Group to become a true provider of total automation solutions, but also allows the Group to manage a lower production costs and develop competitive advantages in face of increasing competition from foreign competitors.

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Overseas Business Development

- Strengthen the sales network built up in Southeast Asia through competitive pricing and customer services.
- Expand the market share in the North American market by establishing an extensive sales networks in North America.
- The Group's intends to develop the European market using competitive pricing strategy and localised services to enter into the European market. The Group may enter into joint ventures with well-established local companies in Europe and make use of their brand names for building up the Group's sales network.

Six months ending 30 June 2003

Product Research and Development

- Continue to refine automation system technologies such as CIMS so as to further reduce the production and operating costs and enhance competitiveness in order to maintain market leadership in the PRC.
- Keep abreast of the latest automation and control technologies and incorporate such technologies into the Group's products.

Sales & Marketing

- Form strategic relationship with instrumentation material suppliers in order to improve the quality of products and reduce the manufacturing costs.
- Further strengthen customer relationship and build up customer loyalty through better customer services tailored to customers' unique requirements.
- Establish more representative offices and sales network in the PRC market so as to maintain market position in the PRC market.

Overseas Business Development

- Strengthen customer relationships with North American customers through competitive pricing and services.
- Further develop the sales network in the European market.

The estimated costs for implementing the Group's objectives until 30 June 2003 are set out below. The Directors understand that the net proceeds from the Placing will not be sufficient to finance the Company's business plans for the Forward Looking Period. The Directors intend to implement the Company's business plans firstly by using the net proceeds from the Placing which shall be sufficient to finance the Company's business plans regarding its research and development and geographical expansion up to 31 December 2001 and the net proceeds will be able to sustain the Company's business plans for its sales and marketing up to 30 June 2001. The Directors estimate that starting from the period ending 31 December 2001, the Company will meet the remaining funding requirement for

BUSINESS OBJECTIVES AND FUTURE PROSPECTS

the Company's business plan, which is estimated to be approximately HK\$135 million, principally through internally generated cashflows supplemented by bank financings or the raising of funds in international capital and debt markets, or through a combination of these methods, whichever the Directors may consider appropriate in the circumstances.

Should the Over-allotment Option be exercised in full, the net proceeds from the Placing will be increased by approximately HK\$7.8 million (based on an Offer Price of HK\$0.77 per Placing Share, being the mid-point of the stated range of the Offer Price of between HK\$0.62 and HK\$0.92 per Placing Share), and the remaining funding requirement of the Company in order to implement its business plans during the Forward Looking Period is estimated to be reduced to approximately HK\$127.2 million.

| | Latest Practicable Date to 30 June 2001 | Six months ending 31 December 2001 | Six months ending 30 June 2002 | Six months ending 31 December 2002 | Six months ending 30 June 2003 | Financed by Internal sources of Total funding | |
|--|---|--|--|--|--|--|------------|
| Research and Development of | | | | | | | |
| (i) Anti-explosion modules | 8 | 4 | | | | 12 | |
| (ii) APC | 3 | 10 | 6 | | | 19 | 16 |
| (iii) CompactPCI | | | 10 | 10 | | 20 | 20 |
| (iv) CIM | | | | 10 | 6 | 16 | 16 |
| (v) International industrial standard certificates | | 2 | 4 | | | 6 | 4 |
| (vi) Instrumentation production | | | | 8 | 7 | 15 | 15 |
| subtotal: | 11 | 16 | 20 | 28 | 13 | 88 | 71 |
| Sales & Marketing | | | | | | | |
| (i) Cooperation and investment projects with strategic partners | 7 | 5 | 12 | 10 | | 34 | 27 |
| (ii) Marketing and promotional activities | 7 | 7 | 6 | 3 | | 23 | 16 |
| (iii) e-automation.com.cn website | 1 | 1 | 1 | | | 3 | 2 |
| (iv) Training center | 2 | 2 | 3 | | | 7 | 5 |
| subtotal: | 17 | 15 | 22 | 13 | 0 | 67 | 50 |
| Geographical Expansion | | | | | | | |
| (i) Setting up offices in the PRC | | 2 | | | | 2 | — |
| (ii) Establish sales points in different countries | | 4 | 10 | 4 | | 18 | 14 |
| subtotal: | 0 | 6 | 10 | 4 | 0 | 20 | 14 |
| Total: | <u>28</u> | <u>37</u> | <u>52</u> | <u>45</u> | <u>13</u> | <u>175</u> | <u>135</u> |

BUSINESS OBJECTIVES AND FUTURE PROSPECTS

FUTURE PROSPECTS

The admission of the PRC into the WTO will force PRC industrial enterprises to improve the efficiency of their manufacturing process or face severe competition, both internally or from overseas. In order to improve their efficiency, the Directors believe that most PRC industrial enterprises will seek to develop new automation and control systems or rebuild and upgrade their existing systems. Hence, theoretically, the demand for industrial automation and control products increase sharply following the PRC's entry into the WTO. Furthermore, although the PRC automation and control market is dominated by the importation of products manufactured by major overseas manufacturers, most of them tend to develop their own control software for their proprietary systems, and the connections and communication standards of which are not compatible with or supported by systems manufactured by other manufacturers.

In light of this, PRC industrial enterprises may face difficulties when they try to upgrade their existing systems. The Directors are of the opinion that, as the Group's TCS system utilises controller devices which may be connected through Ethernet running TCP/IP, TCS is an open system which offers the advantages of integration and sharing of resources and is best suited for adoption by industrial enterprises in the PRC which often use fragmented automation and control systems. Therefore, the Directors believe that the Group can develop a niche market in the rebuilding and upgrading of existing systems of customers as a short-term strategy before the Group can gain sufficient market recognition to develop into a full-blown total solution provider in the PRC automation and control industry.

The Directors also believe that the TCS automation and control system is especially suitable for adoption by small-to-medium size manufacturers in the PRC who are often unable to afford the expensive imported proprietary systems. Therefore, the Group intends to direct more sales effort towards such smaller size manufacturers which are more often privately owned rather than state-owned and provide them with total automation solutions in order to help them to achieve the following:—

- improve productivity
- enhance product quality
- flexible deployment of human resources to eliminate bottleneck
- enhance the utilisation of operating data for the improvement of manufacturing process
- lower the cost of production
- increase system flexibility and capacity to upgrade

In order to provide total automation solutions to its customers more effectively, the Group intends to offer a more thorough preliminary consulting service. The Group will set up a consulting task force comprising a team of engineers and consultants with in-depth experience of mission-critical automation applications. The Group's consulting team will assume responsibility for a broad range of automation system integration and consulting activities including the design of automation hardware and software, the development of applications and other modifications to the factory automation infrastructure.

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In order to identify and develop total solutions for customers, the Group's consulting team will examine customers' requirements prior to initiating the design phase. During the process, the team will acquire or build components to meet specifications requested by customers and then integrate such components into the final deliverable solution. Prior to the deployment of the TCS system, the Group's engineers will test individual components and make final adjustments to the system in order to fine-tune it to ensure that the end product meets the design specifications and quality standards required by customers. The Group's consulting team will also provide customers with post-sales technical consultancy service. The consultants will work with customers throughout the various phases of project implementation to ensure that system design, deployment and support are achieved on time and within the budget parameters of the Group's customers.

However, the performance of major industrial enterprises in the PRC depends on many factors which are beyond the control of the Group and substantial cyclicity may appear. Therefore, the Directors intend to put more emphasis on the building automation and control sector as building automation and control has been earmarked as a major project for development in the ninth Five-year Plan of the PRC. At the same time, both the Ministry of Information Industry and the Ministry of Construction in the PRC have identified building automation and control as key project for further development.

BASES AND ASSUMPTIONS

The business objectives and the implementation plans of the Group described above are subject to the following bases and assumptions:

1. The Group may revise or modify its business objectives and business plans in any specific period as a result of factors such as changes in market conditions, the market response to a specific product and whether or not the Group succeeds or experiences any material delay or difficulty in meeting its stated business objectives in any prior period.
2. The Group does not encounter any material difficulty in the research and development of any new product.
3. The Group is not materially adversely affected by any change in the political, legal, financial or economic conditions in Hong Kong, the PRC (being the place of incorporation of Techwayson Industrial and where all of its operations are currently located) or any other country or region in which the Group may be carrying on business.
4. Existing and target customers of the Group will choose the Group's products and services rather than those of its competitors.
5. The development trends of the industries in which the Group serves will be in line with the Group's anticipation.
6. The Group is not materially adversely affected by any change in the laws, rules or regulations of Hong Kong, the PRC or any other country or region in which the Group may be carrying on business.
7. The Group is not materially adversely affected by any change in prevailing interest rates or exchange rates.

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8. There is no material change in the tax bases or tax rates in any jurisdiction in which the Group carries on business or operates or to which the Group is subject.
9. The Group is not materially adversely affected by any risk factor set out in the section headed “Risk factors” in this prospectus.

USE OF PROCEEDS

The net proceeds of the Placing after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Placing and assuming an Offer Price of HK\$0.77 per Placing Share, being the mid-point of the stated range of the Offer Price of between HK\$0.62 and HK\$0.92 per Placing Share, are estimated to be approximately HK\$40 million (on the basis that the Over-allotment Option is not exercised). If the Over-allotment Option is exercised in full, the net proceeds based on such Offer Price will increase by approximately HK\$7.8 million. The Company currently intends to use the net proceeds of the Placing as follows:

- approximately HK\$17 million for the research and development of new control system technologies for the period ending 31 December 2001;
- approximately HK\$7 million for cooperation and investment projects with large-scale customers and government departments in the PRC which fit into the Group’s business strategy for the period ending 30 June 2001;
- approximately HK\$7 million for marketing and promotional activities for the period ending 30 June 2001;
- approximately HK\$6 million for the geographical expansion of the Group for the period ending 31 December 2001;
- approximately HK\$2 million for establishing a training centre for the Group’s customers for the period ending 30 June 2001; and
- approximately HK\$1 million for developing e-automation.com.cn website for the period ending 30 June 2001.

To the extent that the net proceeds of the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term interest earning deposits with licensed banks and other financial institutions in Hong Kong.

Should the Over-allotment Option be exercised in full and based on an Offer Price of HK\$0.77 per Placing Share, being the mid-point of the stated range of the Offer Price of between HK\$0.62 and HK\$0.92 per Placing Share, the Company will receive additional net proceeds of approximately HK\$7.8 million. The Directors intend to use such additional proceeds for general working capital.

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To the extent that the net proceeds from the Placing (excluding the Over-allotment Shares) are not immediately applied for the above purposes, the Directors intend to place such net proceeds on short-term interest earning deposits with licensed banks and other financial institutions in Hong Kong.

The Directors understand that the net proceeds from the Placing will not be sufficient to finance the Company's business plans for the Forward Looking Period which will require an estimated total cost of approximately HK\$175 million to implement. The Directors consider that the net proceeds from the Placing of approximately HK\$40 million will be sufficient to sustain the Company's business plans regarding its research and development and geographical expansion up to 31 December 2001 and the net proceeds will be able to sustain the Company's business plans for its sales and marketing up to 30 June 2001. The Directors intend to meet the remaining funding requirement for the Company's business plans during the Forward Looking Period, which is estimated to be approximately HK\$135 million, principally through internally generated cashflows supplemented by bank financings or raising funds in the international capital and debt markets, or through a combination of these methods, whichever the Directors may consider appropriate in the circumstances. Should the Over-allotment Option be exercised in full, the net proceeds from the Placing will be increased by approximately HK\$7.8 million and the remaining funding requirement of the Company in order to implement its business plans during the Forward Looking Period is estimated to be reduced to approximately HK\$127.2 million. The Company is aware that it is prohibited from issuing new Shares within the period of six months following the date on which dealings in the Shares commence on the GEM.

In the event that any of the Group's business objectives does not materialise or proceed as planned, the Directors will conscientiously evaluate the situation and may reallocate the proceeds for other business purposes so long as they represent the best interest of the Company and its shareholders and comply with the GEM Listing Rules.

In the event there is to be any material modification to the use of proceeds of the Placing as described above, the Company will issue an announcement of any changes on the GEM website.