INDEBTEDNESS

Borrowings

As at the close of business on 30 November 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had no outstanding borrowings.

Disclaimer

Apart from intra-group liabilities and normal trade payables, the Group did not have outstanding at the close of business on 30 November 2000 any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have not been any material changes in the indebtedness and contingent liability of the Group since 30 November 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 November 2000, the Group's total current assets were approximately HK$63 million, comprising inventories of approximately HK$151,000, trade receivables of approximately HK$4 million, prepayments, deposits and other current receivables of approximately HK$9 million and cash and bank deposits of approximately HK$50 million.

As at 30 November 2000, the Group's total current liabilities were approximately HK$13 million, comprising trade payables of approximately HK$477,000, accrued liabilities of approximately HK$7 million and taxation payable of approximately HK$5 million.

Financial resources

In the past, the Group financed its operations by means of equity funding, loans from shareholders and funds generated from its business operations. As at 30 November 2000, apart from intra-group liabilities and normal trade payables the Group did not have any other borrowings which would require cash outlay for settlement.

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

Commitments and contingent liabilities

As at 30 November 2000, the Group had operating lease commitments of approximately HK$4,865,000. As at the same date, the Group had no material capital commitments and contingent liabilities.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at the Latest Practicable Date, the Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

TRADING RECORD

The SFC has granted a waiver in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule of the Companies Ordinance so that the Group is only required to include in this prospectus the trading record, financial results and information covering the two financial years immediately preceding the issue of this prospectus — see the paragraph headed "Waiver from Compliance with Section 342(1) of the Companies Ordinance" under the section headed "Waivers from Compliance with the GEM Listing Rules and Companies Ordinance" of this prospectus.

The Directors are aware of the requirement of Rule 11.11 of the GEM Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The Company has sought and obtained a waiver from compliance with such a requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30 June 2000, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I of this prospectus.

The table below sets out a summary of the audited combined results of the Group for each of the two years ended 30 June 1999 and 2000 prepared on the assumption that the current structure of the Group was in existence throughout the periods under review and is extracted from and has been prepared in accordance with the basis set out in section 1 of the accountants' report in Appendix I to this prospectus.

	1999		**2000**	
	RMB'000	*HK$'000 (Note 1)*	*RMB'000*	*HK$'000 (Note 1)*
Income from fixed price contracts *(Note 2)*				
— 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
Cost of sales	(2,409)	(2,251)	(11,697)	(11,035)
Gross profit *(Note 3)*	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	(160)	(149)	9,462	8,926
Taxation	—	—	—	—
Profit (Loss) attributable to shareholders	(160)	(149)	9,462	8,926
Earnings (Loss) per share				
— Basic *(Note 4)*	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 of the accountants' report in Appendix I to this prospectus, as if the arrangements set out in these sections had been in effect during the two years ended 30 June 1999 and 2000.

	1999		**2000**	
	RMB'000	*HK$'000 (Note 1)*	*RMB'000*	*HK$'000 (Note 1)*
Profit (Loss) attributable to shareholders as set out above	(160)	(149)	9,462	8,926
Notional adjustments *(Note 5)*				
— Directors' emoluments	(1,470)	(1,374)	(1,404)	(1,325)
— Interest income from a related company	—	—	19	18
— Interest expense to a former shareholder of Techwayson Industrial	—	—	(27)	(25)
— Interest expense to shareholders	—	—	(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

Notes:

1. 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.

2. 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.

3. Gross profit of the Group for the years ended 30 June 1999 and 2000 were mainly contributed from the sales of system control equipment and software products.

4. 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 this prospectus and 279,990,000 shares to be issued pursuant to the Capitalisation Issue as described in Appendix V of this prospectus.

5. Details of notional adjustments are set out in Section 3.f(iii), 4.d, 4.f and 4.g of the accountants' report in Appendix I to this prospectus.

Management discussion and analysis

Overview

All of the Group's turnover during the track record period was derived by Techwayson Industrial, a subsidiary operated in Mainland China.

Techwayson Industrial was incorporated on 18 September 1997. In the first half of the year ended 30 June 1999, substantially all activities of Techwayson Industrial related to business formation and product development. During the year ended 30 June 1999, Techwayson Industrial entered into three contracts. However, substantially all works relating to these contracts were performed during the year ended 30 June 2000. As such, only a portion of total contract sum, which amounted to approximately HK$5.05 million, was recognised as the Group's turnover for the year ended 30 June 1999.

For the year ended 30 June 2000, Techwayson Industrial completed its business formation and operated on full scale. During the year, Techwayson Industrial performed and completed the works relating to the contracts carried forward from the year ended 30 June 1999. In addition, the Group entered into three contracts, two of which were completed prior to 30 June 2000 and one was not yet commenced as at 30 June 2000. As a result, the Group recorded a turnover of approximately HK$26.21 million for the year ended 30 June 2000, representing an increase of approximately 418.9 per cent. compared to the prior year.

Year ended 30 June 2000 compared with year ended 30 June 1999

Turnover

For the year ended 30 June 2000, the turnover of the Group amounted to approximately HK$26.21 million, an increase of about 418.9 per cent. compared with the year ended 30 June 1999. The increase in sales was due to good feedback on the quality and functions of the products from its customers. The improved product image and recognition of good product quality resulted in a substantial increase in the size of orders from its customers.

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

Gross Profit

The gross profit of the Group is mainly contributed from the sales of system control equipment and software products. For the year ended 30 June 2000, the gross profit of the Group was approximately HK$15.17 million, representing an increase of approximately 442.0 per cent. over the year ended 30 June 1999. The increase in gross profit was resulted from the increase in sales.

For each of the year ended 30 June 1999 and 30 June 2000, the gross profit margin of the Group was approximately 55.4 per cent. and 57.9 per cent. respectively. The increase in the gross profit margin was resulted from the management's effort to reduce the production costs and increase the sales of high gross margin products.

Selling and administration expenses

For the year ended 30 June 2000, the selling and administration expenses of the Group amounted to approximately HK$6.27 million, representing approximately 23.9 per cent. of the turnover of the Group and an increase of approximately HK$3.24 million or approximately 106.6 per cent. over the same period last year.

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

Taxation

No Hong Kong profits tax has been provided for each of the two years ended 30 June 1999 and 2000 as the Group had not generated any assessable profits in Hong Kong.

Techwayson Industrial, a wholly owned subsidiary of the Company was an enterprise established and operated in a special economic zone of Mainland China and was 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.

Techwayson Industrial is also subjected 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 VAT levied.

In addition, the Group’s employees in Mainland China are subject to individual income tax. The Group is obliged to withhold individual income tax from employees’ payrolls for payment to the Mainland China Tax Bureau.

As at 30 June 2000, tax payable comprised value-added tax of approximately RMB587,000, city and country maintenance tax and educational surcharge of approximately RMB24,000 and individual income tax payable of approximately RMB319,000.

Profit attributable to shareholders

Profit attributable to shareholders increased by approximately HK$9.08 million to approximately HK$8.93 million for the year ended 30 June 2000 from a loss of approximately HK$0.15 million over the previous year. Such increase was primarily due to a substantial increase in turnover coupled with the improvement in gross profit margin.

The loss attributable to shareholders after notional adjustments increased by approximately HK$1.37 million, or approximately 922 per cent. to approximately HK$1.52 million for the year ended

30 June 1999 from a loss of approximately HK$0.15 million. The Group's profit attributable to shareholders after notional adjustments reduced by approximately HK$1.39 million, or approximately 15.6 per cent. to approximately HK$7.54 million for the year ended 30 June 2000 from approximately HK$8.93 million.

For the two years ended 30 June 1999 and 2000, the notional adjustments increased by approximately HK$20,000, or approximately 1.5 per cent. to approximately HK$1.39 million for the year ended 30 June 2000 from approximately HK$1.37 million for the year ended 30 June 1999. Such increase was a result of interest expense to a former shareholder of Techwayson Industrial and interest expense to shareholders.

PROPERTY INTERESTS

The texts of the letter, the summary of valuations and valuation certificate issued by Chesterton Petty Limited in respect of the property interests rented by the Group are set out in Appendix III to this prospectus.

PROFIT FORECAST, DIVIDENDS AND WORKING CAPITAL

Profit forecast

The Directors forecast that in the absence of unforeseen circumstances and on the bases and assumptions made by the Directors, the principal assumptions of which are set out in Appendix II to this Prospectus, the combined profit after taxation but before extraordinary items of the Group for the year ending 30 June 2001 will amount to not less than RMB56 million (equivalent to approximately HK$52 million). The Directors are not aware of any extraordinary items which have arisen or are likely to arise in the year ending 30 June 2001.

Based on the above profit forecast and on the assumptions that (i) the Company has been listed since 1 July 2000 and that 350,000,000 Shares had been in issue during the year ending 30 June 2001; and (ii) the interest income (net of tax) that would have been earned if the net proceeds from the Placing based on the Offer Price had been received on 1 July 2000 and had earned interest at 4.75 per cent. per annum, the pro forma fully diluted earnings per Share would amount to HK$0.152 representing a prospective price/earnings multiple of 5.07 times based on the Offer Price of HK$0.77 per Placing Share.

The full texts of the letters from the auditors and reporting accountants Arthur Andersen & Co and Charles Chan, Ip & Fung & CPA Ltd, and from China Everbright, in respect of the profit forecast are set out in Appendix II to this prospectus.

Dividends

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

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

The Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the financial year ending 30 June 2001. The declaration, payment and amount of future dividends will be at the discretion of the board of Directors and will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial condition, contractual restrictions and such factors as the board of Directors may deem relevant.

DISTRIBUTABLE RESERVES

The Company has not carried on any business since its incorporation, except for the acquisition on 16 January 2001 of the entire issued share capital of Usualink. Accordingly, the Company has no reserve available for distribution to the shareholders of the Company as at 30 June 2000.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the issue of the Placing Shares (excluding the Shares which may be issued pursuant to the Over-allotment Option) under the Placing, the Group has sufficient working capital for its present requirements.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 30 June 2000 as shown in the accountants' report set out in Appendix I to this prospectus, adjusted as described below:

	HK$'000
Audited combined net tangible assets of the Group as at 30 June 2000	8,171
Capitalisation of loans from shareholders *(Note 2)*	13,059
Unaudited profit after taxation for the five months ended 30 November 2000	33,076
Estimated net proceeds of the issue of the Placing Shares (excluding the Shares which may be issued pursuant to the Over-allotment Option) *(Note 1)*	40,000
Adjusted net tangible assets	94,306
Adjusted net tangible asset value per Share *(Note 3)*	HK26.94 cents

Notes:

1. The estimated net proceeds of the issue of the Placing Shares (excluding the Shares which may be issued pursuant to the Over-allotment Option) under the Placing is based on the Offer Price of HK$0.77 per Placing Share (being the mid-point of the Offer Price of between HK$0.62 and HK$0.92 per Placing Share) and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated net proceeds of the issue of the Placing Shares under the Placing will be approximately HK$47.8 million.

2. Pursuant to an ordinary resolution of directors of Usualink, a wholly-owned subsidiary of the Company, passed on 27 November 2000, loans from shareholders of approximately HK$13,059,000, as at 27 November 2000 including the amount of loans of approximately RMB$10,745,000 (equivalent to approximately HK$10,136,000) as at 30 June 2000, were capitalised as share capital of Usualink on 27 November 2000 by the issue of 1,240 shares of US$1 each to the then shareholders of Usualink.

3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 350,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares described in the paragraph headed "Changes in share capital of the Company" in Appendix V to this prospectus, or otherwise.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Company or its subsidiaries since 30 June 2000 (being the date to which the latest audited financial statements of the Group were made up).

FOREIGN EXCHANGE

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