Techwayson Holdings Limited

(Incorporated in the Cayman Islands with Limited Liability)

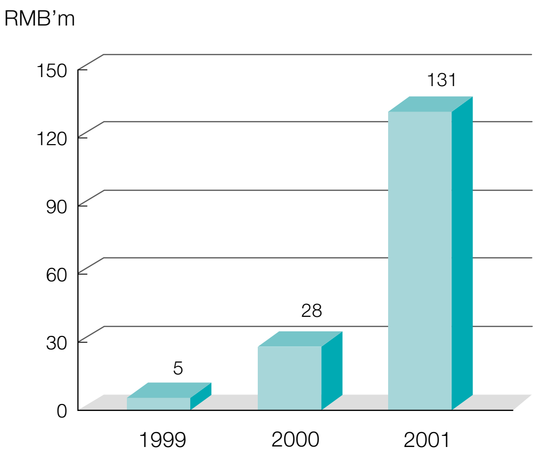
Annual Report 2001

Contents

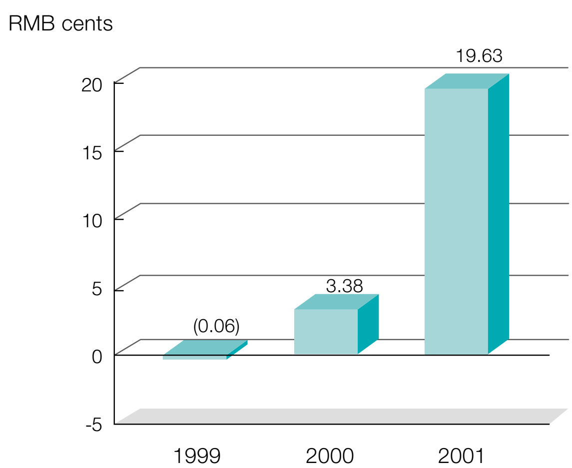
Financial Highlights

Year	2001	2000	1999
Turnover (RMB' million)	131	28	5
Profit/(loss) attributable to shareholders (RMB' million)	60	9	(0.16)
Earnings/(loss) per share (RMB cents)	19.63	3.38	(0.06)

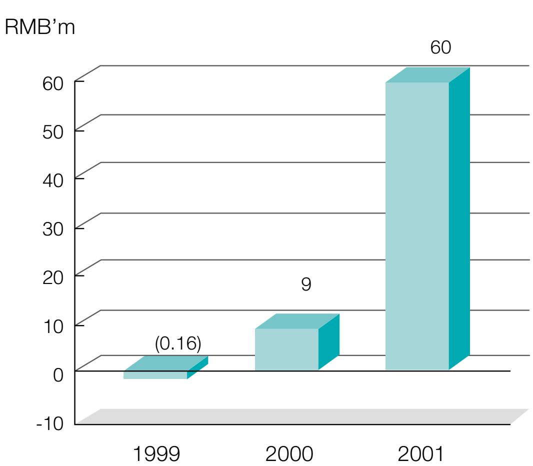
Turnover



Earnings/ (Loss) per share

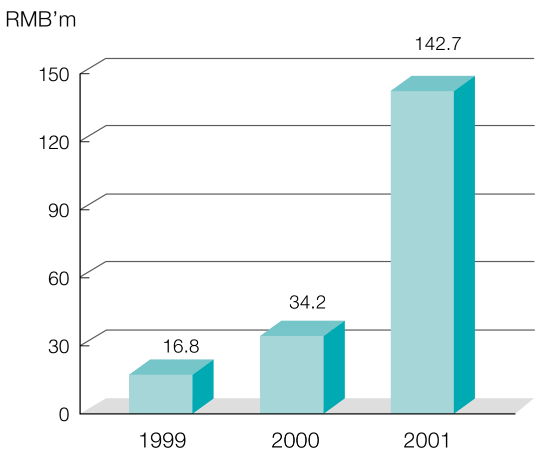


Profit/(Loss) attributable to shareholders

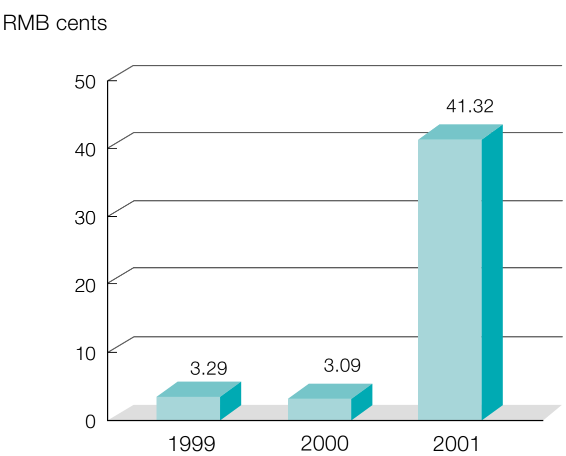


Year	2001	2000	1999
Total assets (RMB' million)	142.7	34.2	16.8
Net asset value (RMB' million)	127.2	8.7	9.2
Net asset value per share (RMB cents)	41.32	3.09	3.29

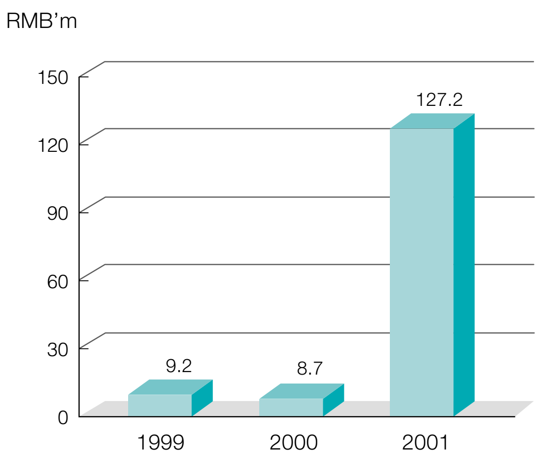
Total assets



Net asset value per share



Net asset value



Corporate Information

DIRECTORS

Executive Directors

Dr. SZE Kwan
Mr. TUNG Fai
Mr. LEE Tiong Hock
Mr. XIONG Jian Rui
Mr. YE Wei Fa

Non-Executive Director

Mr. LIN Gongshi

Independent Non-executive Directors

Mr. KUANG Ding Bo
Mr. WEE Soon Chiang
Mr. WONG Kam Kau, Eddie

AUTHORISED REPRESENTATIVES

Mr. TUNG Fai
Mr. LI Chi Yuen

COMPANY SECRETARY

Mr. LI Chi Yuen, AHKSA, ACMA

QUALIFIED ACCOUNTANT

Mr. LI Chi Yuen, AHKSA, ACMA

COMPLIANCE OFFICER

Mr. TUNG Fai

AUDIT COMMITTEE

Mr. WEE Soon Chiang *(Chairman)*
Mr. WONG Kam Kau, Eddie
Mr. KUANG Ding Bo

AUDITORS

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

REGISTERED OFFICE

Zephyr House
Mary Street
George Town
Grand Cayman
British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Room 1810, 18th Floor
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

COMPANY HOMEPAGE

http://www.techwayson.com.hk

PRINCIPAL BANKER

Kincheng Banking Corporation
Wanchai Branch
Ground Floor & 1st Floor
133 Wanchai Road
Wanchai
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
2nd Floor Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

STOCK CODE

8098

I am pleased to present to all shareholders the first annual report of Techwayson Holdings Limited (the "Company") and its subsidiaries (the "Group") since the Company's listing on the Growth Enterprises Market ("GEM") of the Stock Exchange of Hong Kong Limited on 8 February 2001.

STEADY DEVELOPMENT UNDER PRUDENT STRATEGIES

Techwayson Holdings Limited became the first ever Hong Kong listed industrial automation company in 2001. Following its listing, the Group continued its prudent strategies and took great efforts in pursuing its product research and development, as well as in exploring new markets. In particular, the Group took advantage of the booming economy in Mainland China to extend its market reach. As such, excellent results were achieved. The Group's annual profit attributable to shareholders totaled approximately RMB60,437,000, representing a growth of 539% as compared with last year and exceeding the Company's profit forecast upon listing by 8%. The Company's overall profit margin derived from fixed price contracts (after deduction of related materials and equipment costs) reached 65%, representing a growth of 12% as compared with last year. From this we can see that the Company has made firm and steady headway in its business development.

With the advancement of computer, communications and electronic technologies, open development of industrial automation systems has become a consensus of industry participants. The Group is among the first to introduce open control systems to the market. Currently, the proposition has been widely adopted by industrial users and competitors alike. Along with this trend, the Company has managed to achieve outstanding performance by strengthening the promotion of its products in their existing industrial markets and enhancing its research and development as well as marketing efforts in the emerging ones.

BUSINESS REVIEW

Product Research and Development

Successful application of automation systems not only counts on the excellent quality of control system hardware but also requires the thorough understanding of our engineering staff on the industries to which the systems are to be applied. It is important to make use of advanced control theories and technologies in the context of the technological standards of customers in the development of software modules tailor made for their specific needs. The Group has invested substantial human resources and has been working closely with professional software companies in developing the custom application of TCS products. Products supporting TCS systems successfully developed to this end include fuzzy-logic adaptive control software and critical software control modules, the latter being used in metro operation.

In order to successfully bid for the Shenzhen Metro Railway Automation Project（深圳地鐵綜合自動化）and make its way into the underground railway industry, the Group has been in negotiation over auxiliary projects with large international companies like GE and Rockwell. The Group has also engaged in collaboration with mainland engineering and software companies to develop software for use in large-scale project management and railway operational control. So far, the business has been in smooth progress.

Chairman's Statement

As the world's first genuine open control system, the Group's TCS control system, after its introduction into the market last year, has attained satisfactory results in terms of application. This year the Group's product research and development department has further improved its product series. Isolation and anti-explosion products and highly reliable hot back-up/redundancy controller modules for flammable and explosion-prone conditions have been developed. In addition, in joint collaboration with universities and research institutes, the department has developed the energy-conservation APC application software, which runs on TCS hardware to form industry-specific control systems, such as the blast furnace burning control system, the oil-refining control system and the locomotive control and monitoring system. These systems, leveraging on the advantages of TCS products, are tailor made to the specific needs of the industries concerned. As such, the above efforts have yielded excellent economic results.

Owing to the innovation efforts of its research and development team, the Group has made its presence in the uncharted market of metro railway and light railway locomotives. The team has managed to develop the first ever, metro locomotive control and monitory system in Mainland China with high efficiency and quality at a high speed. The system, which conforms with the highest international standards, is now in operation in Tianjin Metro Railway and is well received by commuters. Meanwhile, the light railway locomotive control and monitoring system has also passed testing. Pursuant to a contract previously entered into by the Group, the system will commence operation in Changchun Light Railway soon. The light railway locomotive frequency transducer traction system, which emerged from the joint efforts of the Group and large international companies, is also being under on-site testing.

In addition, in joint collaboration with professional machinery manufacturers in Mainland China, the Group has successfully developed the frequency transducer specially designed for mining locomotives, which has already passed the robust laboratory and on-site testing. This development has brought a breakthrough to the mining locomotive traction technology in Mainland China, where alternating current is now used in place of direct current. Besides, the new product also provides a long-term and stable stream of orders to the Group, thereby offsetting part of the risks arising from unstable nature of one-off project business.

Moreover, the Group has developed an alternative control system to the DCS, the MINIDCS, which can be adapted to consecutive processes. This system is to compete for a share of the market of production automation for consecutive processes including the oil-refining, chemical and power supply, which used to be dominated by DCS manufacturers, so as to enhance the competitiveness of the Group in niche markets. The system delivers better performance than the existing TCS product series in terms of redundancy, PID control, model control and enhanced control.

In the year to come, the Group's research and development department will continue to focus on the diversified application of the products to cater for the specific needs of different industries. Besides, the department will also capitalize on the TCS system's feature as an open system to realize the possibility of computer-based integrated production by combining the control system with the ERP system for the purpose of overall corporate quality control.

Sales and Marketing

This year the Group started to engage in large-scale marketing campaign. In September 2000 the Group participated in a Multinational Instrumentation and Control Exhibition (MICONEX 2000) in Beijing in high profile and delivered a speech in the opening ceremony as a representative of the mainland exhibitors. Afterwards, the Group continued its large-scale marketing and promotion campaigns via participating various nationwide exhibitions and technical forums, including the Shenzhen Advanced Technology Achievement Trading Association（深圳高新技術成果交易會）and Shenzhen Technology Achievement Exhibition（深圳市科技術成果展）. Besides, the Group made constant efforts in sales calls, roadshows, as well as advertising in media like industry journals, newspapers and other publication. It also organized several seminars to introduce its products in joint collaboration with the China Instrumentation Association（中國儀器儀錶協會）and the China Automation Association（中國自動化協會）.

This is also the year Mainland China began its Go-west campaign. Apart from successfully reinforcing its relations with existing customers and gaining new customers in regions like Xinjiang, the Group also managed to gain its foothold in markets like Yunnan, Ningxia, Sichuan and Shanxi, as well as achieving breakthroughs in places like Kunming and Panzhihua in the western hinterland. In addition, the Group successfully established its positions in industries like metro railway, light railway and power supply. The Group also achieved breakthroughs for the TCS system in multi-media teaching aids in joint cooperation with certian tertiary institutions and it is likely that the system will finally be introduced in tertiary institutions on a nationwide basis.

The Group will make great efforts in the emerging market of urban railway transportation. As Mainland China's first metro railway project that deploys domestic supplies, the Shenzhen Metro Railway Project has drawn considerable attention from all quarters. Following the suit of Shenzhen, 15 other cities in Mainland China have also began the construction of their metro railways,and even more have started to construct their own light railways. The Group is now in negotiation with large international companies to prepare for its bid the Shenzhen Metro Railway Automation Project. The Group enjoys an absolute edge in the provision of the related services and engineering support. Concerning the urban railway transportation business, the Group also entered into an agreement with vehicle manufacturers in Beijing and Changchun on the supply of metro railway and light railway locomotive control and monitoring systems. Now that Beijing has won the bid for hosting the upcoming Olympic Games, Beijing and other major Mainland China cities are expected to upgrade the existing locomotives and to purchase additional ones to their metro systems, which are likely to add new routes. As such, there will be substantial demand for locomotive control and monitoring systems developed by the Group. Indeed, the Group already made a successful headstart in this emerging industry during last year. The locomotive control and monitoring system it developed has already been in operation in Tianjin and Changchun. Besides, good progress was made in the Group's bid for other metro station automation projects. At the same time the Group also achieved a breakthrough in the development of locomotive traction frequency transducer.

Apart from the market of industrial control systems, the Group achieved a first-ever breakthrough in the building automation market during the year and undertook the automation projects of two buildings in Xinjiang and Shanghai. This is the Group's first step in its pursuit of business diversification. At present, the Group is working hard to obtain several building automation projects.

The Group adopts a set of stringent criteria in its selection of distribution agents, paying particular attention to their standards of management and business support. The Group has already entered into agency and co-operation agreement with 17 institutions nationwide including design institutes, engineering companies and professional system integrators on the marketing of TCS products. The efforts on this front is already showing results.

The domestic automation industry is a market of immense potential but with high entry barriers. Under the fierce competition from massive international players and multinational groups, the Group has to make serious efforts in localization so as to maintain its competitive edge as a market leader. In view of this, the Group will emphasize on the quality of services in respects of energy conservation and more efficient project management, so as to ensure the utmost satisfaction of customers.

Management

Standardization of operation and management is the focus of administrative management during the year. The Group strove to identify the causes and loopholes leading to the existing problems in various functions such as research and development, engineering and internal control. The purpose was to standardize all the procedures of product research and development, from application of approval from the relevant regulatory authorities, and the formulation of development strategies, to the testing, confirmation and modification of the development projects. By so doing, its is hoped that proper accountability system and innovation mechanism can be installed to drive different departments of the Group to pursue for ongoing improvement in their management standards. At the beginning of the year, the Group started to apply the ISO9001-2000 quality management system for internal control, which has given an enormous boost in enhancing its staff quality and its overall management standard. With the establishment of this quality management system, the Group's management policies and systems are becoming more and more comprehensive and robust. As a result of the above efforts, regulations and guidelines have been laid down for all matters of the Group. Simpler procedures and clearer work flow thus prevail with the scientific and efficient method of management. The Group even obtained the ISO9001-2000 quality certification on 11 August 2001.

Future Prospects

At present, Mainland China economy is the only bright spot amid the global economic downturn. The financial situation of mainland enterprises, particurlary large and mid-sized state-owned enterprises, are on the road of recovery and investment in infrastructure construction is growing substantially. Encouraging signs on the horizon, like the Go West Campaign, Beijing's winning the hosting right of the upcoming Olympic Games and Mainland China's imminent entry into the WTO late in the year, will certainly drive the demand from mainland industrial enterprises for quality automation and control systems as they look for opportunities for business expansion. In other words, the market potential of the Group's products will experience a substantial growth in the few years to come. At present, the concept of open control systems promoted by the Group has won acceptance in among a large number of users. In the near term the Group will continue to develop the industrial application of TCS systems. The Group will also strive to achieve major breakthroughs in the open connection of control systems and monitoring systems, with an aim to minimize the obstacles that users may encounter in implementing the computer-based integrated production system. It is the intention of the Group to pursue for business expansion via helping customers to enhance their operation efficiency.

In the year to come, apart from continuing its efforts on the research and marketing of industrial automation applications for traditional industries, the Group will also step up its efforts in developing automation applications for emerging industries. The Group will also strengthen its efforts in product customization to cater for the specific needs of different industries by developing tailor-made control systems for specific industries.

In respect of railway transportation, 15 Mainland China cities are going to construct their own metro railway or light railway systems, which are expected to bring about a market value of more than $200 billion. Besides, those projects-in-progress concerning railway station automation and metro locomotive control and monitoring systems are expected to bring about a market value of more than $0.2billion per annum. In addition, the Group is in negotiation with massive international players and multinational companies to form strategic or joint venture partnership, with a view to introduce advanced international technologies to the construction of metro railway and light railway systems with domestic supplies, particularly the AATC (Advance Automation Train Control), Positive Train Control, Precision Train Separation and Integrate Train Control System. By so doing, the Group hopes to gain a headway in the emerging industry of urban railway transportation. At the same time, the Group will also take advantage of the opportunities arising from the development of railway highway in the Mainland China to extend its reach into this new market.

The Group is now in negotiation with relevant enterprises under the Ministry of Railway concerning the co-operation over the development, promotion and operation of automated ticket vending systems and locomotive traction systems for mainland railways, with Guangzhou, Shenzhen, Shanghai and Beijing as the test points. The project is expected to bring a stable income of more than $0.1billion to the Company.

The Group is also in co-operation with mainland machinery manufacturers to explore the market of 3-dimensional storage systems and open systems for logistics automation spawn under the development of the logistic industry. As the Group 's first attempt in developing the logistics automation system, the Group has developed Mainland China's first automated vehicle control system, which is now being tested. This product will also bring about a market value of tens of millions of Renminbi to the Group every year.

The Group will also cater for the needs of foreign and private enterprises in the coastal regions along the Pearl River Delta and in eastern China and develop small-scale control systems for mechanical and electrical products such as injection moulding machines, soldering machines, air-conditioners and refrigerators. These systems, while small in size, is expected to have huge demand, which is expected to worth more than $1 billion a year in regions around the Pearl River Delta alone. At present this market is basically dominated by foreign products. Due to the increasingly fierce market competition, users are becoming more and more concerned about costs and service quality. Tremendous business opportunities thus arise for the Group, which have strong emphasis on these fronts. The Group will explore this part of the market step by step for different products, industries and regions.

Chairman's Statement

The Group will not only extend its reach to the downstream markets by developing specialized products catering for their demand, but also enhance its research and development of products for the upstream markets, such as electronic components for instrumentation, transducers and control products. At present, parts and components and raw materials for control systems and instrumentation in Mainland China are mainly imported from overseas. In fact, a small number of factories are already engaged in co-operation with foreign companies to secure the supplies for their products. Overall, however, the supply is yet to meet the demand. The Group will, by means of joint ventures or mergers, cooperate with some mainland instrumentation factories and manufacturers of advanced electronic components used in production control products. Through such cooperation, the Group hopes to extend its market reach into the industry of instrumentation raw materials, widening its product series of the Group and at the same time gaining an additional income of nearly $0.2 billion.

The Group will continue to develop its business in building automation. It will not only continue to explore the market of intelligent buildings in Mainland China, but also develop intelligent residential products tailor made for detached houses, as well as step up its efforts in exploring overseas markets, particularly the North American market.

Appreciation

On behalf of the Board, I would like to extend my appreciation to shareholders of the Group for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers and bankers for their trust and support to the Group.

Sze Kwan
Chairman

Hong Kong, 20 September, 2001

FINANCIAL REVIEW

Turnover

For the year ended 30 June 2001, the Group recorded a turnover of approximately RMB130,961,000, representing a 371% increase as compared to the previous financial year of 2000. The substantial 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 large-scale and nationwide exhibitions, technical forums and seminars promoting the Group's products to potential customers. As a result, the product image of TCS was enhanced.

Profit margin derived from fixed price contracts

For the year ended 30 June 2001, the profit margin derived from fixed price contracts (after deduction of related materials and equipment costs) was approximately RMB85,013,000, representing an increase of approximately 429% over the year ended 30 June 2000.

For each of the year ended 30 June 2000 and 2001, the profit margin derived from fixed price contracts (after deduction of related materials and equipment costs) of the Group was approximately 58% and 65% respectively. The continuous increase in the profit margin was resulted from the management's effort to reduce the production costs and increase the sales of high margin products.

Other operating expenses

For the year ended 30 June 2001, the other operating expenses of the Group amounted to approximately RMB12,912,000, representing approximately 10% of the turnover of the Group and an increase of approximately RMB10,482,000 or approximately 4 times over the same period in last year.

The increase in other operating expenses was primarily resulted from the increase in rental expenses, and advertisement to approximately RMB3,074,000 and RMB1,870,000 respectively for the year ended 30 June 2001, representing an increase of approximately 2 times and 4 times respectively compared to that reported in the previous year.

Taxation

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

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in or derived from in Hong Kong for the year ended 30 June 2001.

Techwayson Industrial Limited ("TIL"), a wholly-owned subsidiary of the Company was an enterprise established and operated in Shenzhen of Mainland China and was subject to Mainland China enterprise income tax ("EIT") at a rate of 15%. Pursuant to Mainland China laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Shenzhen Tax Bureau, TIL was entitled to full exemption from EIT for two years starting from the first year of profitable operations after offsetting prior year losses and a 50% reduction in the next three years.

Moreover, according to Rules for Further Support to High-technology Enterprises in Mainland China, enterprises that are qualified as high-technology enterprises were entitled to further tax holidays on EIT. TIL is regarded as a high-technology enterprise and will, subject to the approval from Mainland China Tax Bureau, be exempted from EIT for two years starting from the first year of profitable operations after offsetting prior year losses and a 50% reduction in the next eight years. TIL is in the process of applying for the additional tax holidays.

TIL was classified as a small scale tax-payer by the Shenzhen Tax Bureau and was subject to Mainland China value-added tax ("VAT") at 6% of income from fixed price contracts and city and county maintenance tax at 1% of VAT levied prior to 23 March 2001. On 23 March 2001, TIL was changed from a small scale tax-payer to a general tax-payer and thereafter, TIL was subject to VAT at 17% of income from fixed price contracts and was not subject to city and county maintenance tax. The VAT payable is determined after offsetting VAT paid by the Group on its purchases.

Profit attributable to shareholders

For the year ended 30 June 2001, profit attributable to shareholders increased by approximately RMB50,975,000 to approximately RMB60,437,000, representing a 539% increase as compared with the corresponding year in 2000 . Such increase was primarily due to a substantial increase in turnover coupled with the improvement in profit margin derived from fixed price contracts (after deduction of related materials and equipment costs).

The Group's profit attributable to shareholders exceeded the forecast profit of approximately RMB56 million as stated in the Company's prospectus dated 31 January 2001. The variance was mainly due to the Group's effective control over its operating expenses during this financial year.

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

Liquidity and capital resources

Since inception, the Group financed its operations by means of equity funding, loans from shareholders and funds generated from its business operations. Apart from intra-group liabilities and normal trade payables, the Group had no any other borrowings as at 30 June 2001. The Group will fund its working capital and capital expenditure through cash flow from operations, the net proceeds of the Placing and its cash at bank and on hand. The Directors believe that on a long-term basis the Group's liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowing.

For the year ended 30 June 2001, the Group has significantly increased its operating expenses as a result of its increased turnover during the year. The Group anticipates that it will continue to experience significant growth both in its operating expenses for the foreseeable future as a result of its further development of businesses and its operating expenses which will be largely funded from the Group's existing cash resources and cash from operations.

As at 30 June 2001, the Group had current assets of approximately RMB111 million, which principally comprised cash and bank balances of approximately RMB56.5 million, trade receivables of approximately RMB36 million, inventories of approximately RMB0.5 million, other receivable of approximately RMB17 million and prepayments and deposits and other current assets of approximately RMB1 million.

As at 30 June 2001, the Group's current liabilities were approximately RMB15 million, comprising trade payables of approximately RMB1 million, accruals and other payables of approximately RMB2 million, warranty provision of approximately RMB7 million and taxation payable of approximately RMB5 million.

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

Business Objectives as disclosed in the Prospectus dated 31 January 2001	Actual Business Progress
A. Product Research and Development	
1. 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.	1. By the end May 2001, the Group had developed the digital I/O modules and anti-explosive analog I/O modules for use in flammable gas working environments.
2. Develop APC models and methods that will be incorporated in the TCS products for broader market coverage.	2. The Group has developed the energy-conversation APC application software which runs on TCS hardware to form industry-specific control systems, such as the blast furnace burning control system and the locomotive control and monitoring system.
3. Intend to cooperate with various universities including Tsinghua Univeristy (清華大學), Zhejiang University (浙江大學), South China Polytechnic University (華南理工大學) and Huadong Polytechnic University (華東理工大學) for the development of APC.	3. The Group had cooperated with Shanghai Jiaotong University (上海交通大學), which specialises in the research on industrial optimisation software application, for the development of APC application software in oil-refining control system. Although no binding agreements has been signed with Tsinghua University (清華大學) so far, negotiations have been ongoing since May 2001.
4. Form partnership with the Baosteel Group and other large-scale state-owned enterprises for commercial implementation of APC technology in automation and control systems, and to jointly develop automation and control systems with APC functions to become showcase projects in order to attract potential customers.	4. In March 2001, the Group cooperated with Baosteel Group to implement of APC technology in automation and control system.
5. Develop hot back up/redundancy controller modules and I/O modules with hot pluggable and auto-recognition functions (可帶電撥插的冗餘熱備份) to improve the quality and reliability of existing control system products.	5. By the end of June 2001, the Group successfully developed its hot back up/redundancy controller modules and I/O modules with hot pluggable and auto-recognition functions.

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

Business Objectives as disclosed in the Prospectus dated 31 January 2001	Actual Business Progress
B. Sales and Marketing	
1. Establish representative offices in PRC cities with high concentration of industries.	1. The Group has entered into distribution agency agreements in Mainland China cities such as Kunming, Chongqing, Chengdu, Zhuhai, Hefei, ZiBo, BangBu, and Panzhihua.
2. Establish product image through large-scale advertising companies and various medias.	2. The Group had engaged in large-scale marketing and promotion campaigns such as the Shenzhen Advanced Technology Achievement Trading Association (深圳高新技術成果交易會) and Shenzhen Technology Achievement Exhibition (深圳市科技成果展).
3. Establish a training center with the China Automation Society (中國自動化學會), and provide training courses on TCS system for customers.	3. In May 2001, the Group has established a training center with the China Automation Society to provide training courses on TCS system to its customers.
4. Sponsor the China Automation Society (中國自動化學會) in setting up an automation website: http://www.e-automation.com.cn/.	4. An automation website will be completed on or before 28 September 2001.

DIRECTORS

Executive Directors

SZE Kwan (史珺), aged 36. Dr. Sze is the chairman and managing director of the Company. He is the founder of the Group and is responsible for overall strategy and planning for the automation and control systems of the Group. Dr. Sze has 15 years of experience in automation and control having worked as the general manage of a state-owned enterprise which specialised in industrial automation and control system integration prior to establishing the Group and is the first to develop automation and control system that is tailor-made for customers' unique requirement which he named TCS. TCS is an automation system that was promoted as priority project by Chinese Hi-tech Industrialisation Cooperation Group (中國高新技術產業化協作組織) in 1999. At the same time, Dr. Sze is an expert committee member of the Chinese Hi-tech Industrialisation Cooperation Group and has obtained patents for various technological inventions he has developed. Dr. Sze graduated with a bachelor degree in electronic engineering from the Nanjiang Institute of Technology of China (中國南京工學院) in 1985 and a master degree in photo-electronics from East China Institute of Technology 華東工學院 in 1988. He also obtained a doctorate in photoelectric technology from the Shanghai Institute of Technical Physics of the Chinese Academy of Science (中國科學院技術物理研究所) in 1991.

LEE Tiong Hock (李長福), aged 61. Mr. Lee is an executive director of the Company. He has over 27 years of experience in commercial and investment banking. From 1987 to 1997, he served as the senior manager of marketing department of an international bank in Hong Kong and , concurrently, as general manager of its two deposit-take subsidiaries. During 1989 to 1997, he was engaged in corporate finance advisory business, and since then in private financial consultancy business in Hong Kong. He is currently an executive director of Goldwiz Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Lee is an Associate of The Chartered Institute of Bankers, London and has been appointed as an authorised representative of the Company. Mr. Lee joined the Group in June 2000.

TUNG Fai (董輝), aged 39. Mr. Tung is an executive director of the Company. He is responsible for the overall strategic planning and financial management of the Company. Mr. Tung has more than 12 years of experience in investment management and is very experienced with the investment business environment in Mainland China and Hong Kong. He holds a bachelor degree in economics from the Jiangxi Finance Institute in Mainland China and is currently an executive director of China Agrotech Holdings Limited, a company listed on the GEM. Mr. Tung joined the Group in June 2000.

YE Wei Fa (葉維發), age 43. Mr. Ye is a general manager of the Company. He is responsible for daily administration and operation of the subsidiary of the Company in Shenzhen of Mainland China. Mr. Ye has more than 15 years of experience in administration and operation management. Prior to joining the Company in September 2000, he was a managerial staff in the office of Shenzhen Municipal Government.

XIONG Jian Rui (熊劍瑞) aged 37. Mr. Xiong is a vice general manager of the Company. He is responsible for daily administration and operation of the Company. He graduated with a bachelor degree in Information Engineering from Xi Bei Institute of Telecommunications Engineering (中國西北電訊工程學院) in 1983. Mr. Xiong has more than 10 years of experience in administration and operation management. Prior to joining the Company in December 1997, he was a managerial staff in a Hunan TV station in Mainland China.

Independent Non-executive Directors

KUANG Ding Bo (匡定波) aged 71. Mr. Kuang is an independent non-executive director of the Company. He is an expert on infra-red and remote sensing. He is currently the Dean of Information College of Shanghai Institute (上海大學信息學院) and a director of the Academic Committee of the Shanghai Institute of Technical Physics of the Chinese Academy of Science (中國科學院上海技術物理研究所學術委員會). Mr. Kuang graduated with a bachelor degree in Physics from Shanghai Jiaotong University in 1952 and was elected Academician of Chinese Academy of Science in 1991. Mr. Kuang was appointed independent non-executive director of the Company in November 2000.

WEE Soon Chiang (黃循強), aged 55. Mr. Wee is an independent non-executive director of the Company. Mr. Wee graduated from the University of Newcastle in Australia with a Bachelor of Commerce (Accounting) in 1970 and qualified as a Charted Accountant (Australia) in 1975. He is currently the proprietor of Messrs. Henny Wee & Co., a firm of Certified Public Accountants. Mr. Wee was appointed as an independent non-executive director of the Company in September 2001.

WONG Kam Kau, Eddie (王鑑球), aged 53. Mr. Wong is an independent non-executive director of the Company. Mr. Wong graduated from the Chinese University of Hong Kong. He is a fellow member of the Chartered Institute of Secretaries and Life Management Institute. He is currently a director of Jithra Limited, Hornby Asia Limited, Belmont Capitals Limited and Belmont Corporate Services Limited. Mr. Wong was appointed as an independent non-executive director of the Company in September 2001.

Non-executive Director

LIN Gongshi (林功實) aged 63. Mr. Lin is a non-executive director of the Company. He is a professor at the Economic Faculty of Tsinghua University (清華大學) in Mainland China. Mr. Lin has more than 10 years of experience in the academic research on marketing and has developed extensive network with various influential corporations, hi-tech companies, sino-foreign joint ventures and chain supermarkets. He has also published a number of theses and case studies which were all highly received both in the academia and business arena. Mr. Lin is an independent non-executive director of Goldwiz Holdings Limited. He was appointed non-executive director of the Company in November 2000.

SENIOR MANAGEMENT

CHEN Lei (陳雷), aged 29. Mr. Chen is a vice general manager of the Company. On joining the Company in August 1998. Mr. Chen is responsible for external public relations and communications for the Company. He graduated with a bachelor degree in English Language and Literature in NanKai University (南開大學) in 1996.

ZHANG Jia Jun (張家駿), aged 58. Mr. Zhang is an engineer and the marketing director of the Company. He is responsible for sales and marketing of the Company. He graduated with a bachelor degree in Automation from the Shanghai University of Science and Technology (中國上海科技大學) in 1967 and received training from Yamata Honeywell Corporation. Mr. Zhang possesses strong technical expertise in automation technology and has more than 30 years of experience in the sales and marketing of automation products in metallurgy, petrochemical, steel and chemical industries. Prior to joining the Company in June 1999, Mr. Zhang was a sales manager of Honeywell Inc. in the United States and Yamata Honeywell Corporation Shanghai Business Office. He was also the marketing manager of Shanghai Electricity SIPAL.

SHUI Chuan (水川), aged 45. Mr. Shui is a senior engineer and the head of research and development department of the Company. He is responsible for monitoring the production development centre of TCS. Mr. Shui graduated with a bachelor degree in Computer Application from Huadong Metallurgy Institute in 1982. He has more than 18 years of experience in automation and control system. Prior to joining the Company in September 1998, he had been a senior engineer of Maanshan Iron & Steel Company Limited (馬鞍山鋼鐵股份有限公司) and was responsible for directing a number of projects for system integration of automation and control system for steel industry.

YANG Jun (楊俊), aged 34. Dr. Yang is an engineer of the research and development department of the Company. He graduated with a bachelor degree in automation from TangShan Engineering Technology Institute (中國唐山工程技術學院) 1988 and a master degree in industrial automation from Dong Bei University (中國東北大學) in 1994. He also obtained a doctorate in the National Laboratory of Steel-Rolling and Continuous Casting Automation (軋鋼及連鐵自動化國家點實驗室) of DongBei University in 1997. Dr. Yang has received training on the testing of TDC3000 and DCS control system from the Honeywell Inc. in the United States and from General Electric, Siemens and AB on PLC and DCS control system. Prior to joining the Company in October 1999, Dr. Yang participated in various design and development projects on the control system for blast furnace in the southwest part of Mainland China and has gained more than 12 years of experience in computer, and the integration of control systems and their research and development.

LI Sheng Li (李勝利), aged 35. Ms. Li is a quality control manager of the Company. She graduated with a bachelor degree in industrial automation from Beijing Iron and Steel Technology Institute (北京鋼鐵學院). Ms. Li has more than 10 years of experience in automation and control system and the quality control of related products. Prior to joining the Company in March 2000, she was the administration director of Beijing Shougang Co., Ltd. (北京首鋼公司重型機械公司) and Shenzhen Guangei Medical Equipment Co., Ltd. (深圳廣慈醫療設備有限公司), a sales manager of SDG Optical Fiber Co., Ltd (深圳市特發光纜有限公司) and business development manager of Shenzhen Optilink Technology Co., Ltd. (深圳市英海威光電子通信有限公司), where she was responsible for management, sales and product quality control from 1989 to 2000.

XIE Lan Ping (謝蘭平), aged 37. Mr. Xie is a finance manager of the Company. He graduated with a bachelor degree in industrial finance from An Hui Finance & Trade Institute (安徽財貿學院). Mr. Xie has more than 10 years of experience in financial management and auditing. Prior to joining the Company in March 2000, he worked in Tongling Audit Bureau & Public Accountants (銅陵市審計局及審計事務所) and was the finance manager of Shenzhen Cofry Cereals Oils and Foodstuffs Co., Ltd. (深圳市高富瑞進出口(集團)有限公司) from 1987 to 1999.

ZHANG Xiao Dong (張曉東), aged 30. Mr. Zhang is an engineer of the research and development department of the Company. He graduated with a bachelor degree in Electronic Engineering from DaQing Petroleum Institute (大慶石油學院) and a master degree in industrial electric automation from Jilin University of Industry (吉林工業大學). Mr. Zhang has extensive experience in research and development of automation and control system. Prior to joining the Company in September 2000, Mr. Zhang has participated in a number of research projects including the CIMS project for the gold ore of Paishan Lou of Liaoning Province (遼寧省排山樓), a project selected by Mainland China government as a priority project and has published a number of theses in international technical magazines.

LI Chi Yuen (李志遠), aged 34. Mr. Li is the financial controller and company secretary of the Company. He has more than 10 years of experience in finance, auditing, taxation and accounting. Prior to joining the Company in October 2000, Mr. Li had been the finance manager of many international companies in Hong Kong. Mr. Li is also an associate member of Hong Kong Society of Accountants and Chartered Institute of Management Accountants.

The Directors are pleased to present their first annual report together with the audited financial statements of Techwayson Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 30 June 2001.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 1 September 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme of the Group in preparation for the listing of the Company's shares on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 16 January 2001. The Company's shares were listed on the GEM on 8 February 2001.

Details of the group reorganisation scheme and the basis of presentation of the financial statements are set out in Note 1 to the accompanying financial statements.

PRINCIPAL ACTIVITIES

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

An analysis of the Group's turnover by product category for the year ended 30 June 2001 is as follows:

	Turnover
	RMB'000
Income from fixed price contracts	
— Sales of system control equipment and software products	111,023
— Fees for system integration services	19,938
Total turnover	130,961

No analysis of profit before taxation by product category is presented as it is generally in line with the distribution of turnover set out above. No analysis of the Group's turnover and profit before taxation by geographical location is presented because substantially all of the Group's turnover and profit before taxation for the year ended 30 June 2001 were derived from activities carried out in Mainland China.

CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2001, the five largest customers accounted for approximately 99% (2000 - 100%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 96% (2000 - 95%) of the Group's total purchases. The largest customer of the Group accounted for approximately 34% (2000 - 65%) of the Group's total turnover while the largest supplier accounted for approximately 47% (2000 - 63%) of the Group's total purchases.

As far as the Directors are aware, none of the directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 30 June 2001 are set out in the consolidated income statement on page 29 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the retained profit of approximately RMB63,789,000 as at 30 June 2001 be carried forward.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 18 to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 20 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 29 of this annual report.

As at 30 June 2001, the Company's reserves of approximately RMB73,764,000 (subject to provisions under the Companies Law (Revised) of the Cayman Islands) were available for distribution to the Company's shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws and the laws in the Cayman Islands.

EQUIPMENT AND FURNITURE

Details of movements in equipment and furniture during the year are set out in Note 10 to the accompanying financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 12 to the accompanying financial statements.

COMMITMENTS

Particulars of commitments as at 30 June 2001 are set out in Note 22 to the accompanying financial statements.

PENSION SCHEMES

Details of pension schemes are set out in Note 23 to the accompanying financial statements.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to approximately RMB318,000 (2000 - Nil).

CONNECTED TRANSACTIONS

The related party transactions disclosed in Note 3 to the accompanying financial statements constituted the connected transactions under Chapter 20 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

Executive Directors

Dr. Sze Kwan	(Appointed on 1 September 2000)
Mr. Tung Fai	(Appointed on 1 September 2000)
Mr. Lee Tiong Hock	(Appointed on 1 September 2000)
Mr. Xiong Jian Rui	(Appointed on 16 March 2001)
Mr. Ye Wei Fa	(Appointed on 20 June 2001)
Mr. Chen Lei	(Appointed on 16 March 2001 and resigned on 20 June 2001)

Non-Executive Director

Mr. Lin Gong Shi	(Appointed on 27 November 2000)

Independent Non-Executive Directors

Mr. Chao Fu Kun	(Appointed on 30 January 2001 and resigned on 7 September 2001)
Mr. Kuang Ding Bo	(Appointed on 27 November 2000)
Mr. Wee Soon Chiang	(Appointed on 7 September 2001)
Mr. Wong Kam Kau, Eddie	(Appointed on 7 September 2001)

In accordance with the Articles of Association of the Company, Mr. Tung Fai and Mr. Lee Tiong Hock will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of Dr. Sze Kwan, Mr. Tung Fai and Mr. Lee Tiong Hock, being executive director of the Company, has entered into a service contract with the Company for an initial term of two years commencing from 1 January 2001. The service contracts shall continue thereafter until terminated by either party giving the other not less than three months' notice after the expiration of the said initial fixed term.

None of the directors being proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

According to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI" Ordinance) or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rules 5.4 to 5.59 of the GEM Listing Rules, the interest of Directors in the securities of the Company and its associates were as follows:

Name of director	Personal Interests	Family Interests	Corporate Interests	Other interests	Total
Dr. Sze Kwan	—	—	168,000,000*	—	168,000,000

* These shares are held through Otto Link Technology Limited, which is beneficially owned as to 80% by Dr. Sze Kwan and 20% by Mr. Tung Fai, directors of the Company.

Save as disclosed above, as at 30 June 2001, none of the directors or their associates had any interests in the issued share capital of the Company or any of its associates (within the meaning of the SDI Ordinance).

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, save for the interests of the Directors disclosed above, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following shareholders (other than the Directors) were directly or indirectly interested in 10% or more of the Company's issued share capital:

Name	Number of shares held	Approximate shareholdings
Otto Link Technology Limited (a)	168,000,000	48.00%
Goldwiz Technology Limited	61,824,000	17.66%
Goldwiz Holdings Limited (b)	61,824,000	17.66%
Open Mission Assets Limited (c)	61,824,000	17.66%
Mr. Liu Xue Lin (d)	61,824,000	17.66%
Mr. Siu Ting	38,976,000	11.14%

Notes —

a. Otto Link Technology Limited is beneficially owned as to 80% by Dr. Sze Kwan who is the Chairman of the Company and 20% by Mr. Tung Fai, who is also a director.

b. Goldwiz Holdings Limited ("Goldwiz Holdings") is the holding company of Goldwiz Technology Limited ("Goldwiz") which holds 100% of the issued share capital of Goldwiz and is therefore deemed to be interested in 61,824,000 shares held by Goldwiz.

SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

c. Open Mission Assets Limited is deemed to be interested in the 61,824,000 shares held by Goldwiz by virtue of its approximately 35.26% equity interest in Goldwiz Holdings. Open Mission Assets Limited is beneficially owned as to 50% by Mr. Liu Xue Lin, 32.5% by Mr. Chim Kim Lun, Ricky, 15% by Mr. Kwok Lin through Cyber Ocean Limited and 2.5% by Mr. Lee Tiong Hock. Mr. Liu Xue Xin, Mr. Chim Kim Lun, Ricky, Mr. Kwok Lin and Mr. Lee Tiong Hock are all directors of Goldwiz Holdings and Mr. Lee Tiong Hock is also a director of the Company. Save as disclosed herein, each of Open Mission Assets Limited, Mr. Liu Xue Lin, Mr. Chim Kim Lun, Ricky, Mr. Kwok Lin and Cyber Ocean Limited is independent from the Company and is not connected with any of the chief executive, directors, management shareholders or substantial shareholders of the Company and does not have any competing business with the Group.

d. Mr. Liu Xue Lin is deemed to be interested in the 61,824,000 shares held by Goldwiz by virtue of his 50% equity interest in Open Mission Assets Limited.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Except for the employee share option scheme, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the directors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

EMPLOYEE SHARE OPTION SCHEME

On 22 January 2001, the Company conditionally adopted the employee share option scheme, the principal terms of which are set out in the Company's prospectus dated 31 January 2001.

As at 30 June 2001, no option was granted by the Company under the employee share option scheme.

COMPETING INTEREST

None of the directors or management shareholders (as defined in the GEM Listing Rules) of the Company have any interest in any business which competes with or may compete with the business of the Group.

SPONSOR'S INTEREST

None of the Company's sponsor, China Everbright Capital Limited ("China Everbright"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 June 2001.

Pursuant to an agreement dated 30 January 2001 entered into between the Company and China Everbright, China Everbright has been retained to act as the Company's sponsor for the period from 30 January 2001 to 30 June 2003 in return for a monthly advisory fee.

Given the removal of China Everbright from the list of GEM sponsors, the Company has terminated the engagement of China Everbright as sponsor of the Company effective 16 July 2001 and Celestial Capital Limited was appointed as the replacement sponsor on 16 July 2001 for the remaining period from 16 July 2001 to 30 June 2003.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with the GEM Listing Rules except that non-executive directors and independent non-executive directors are not appointed for a specific term. However, the non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-Laws. In the opinion of the Directors, this meets the same objective as the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 27 November 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Kuang Ding Bo, Mr. Wee Soon Chiang and Mr. Wong Kam Kau, Eddie. The Group's audited results for the year ended 30 June 2001 have been reviewed by the audit committee, who were of the opinion that the preparation of such result complied with applicable accounting standards, the GEM Listing Rules and legal requirements and that adequate disclosures had been made.

USE OF PROCEEDS

The net proceeds from the issue of new shares for the listing on GEM of The Stock Exchange of Hong Kong Limited, after deduction of share issuance expenses, amounted to approximately HK$41,754,000 (equivalent to approximately RMB44,259,000) and have been applied as follows:

	Original plan*		Amount utilised up to 20 September 2001	
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*
Research and development of new control system technologies	18,754	19,879	11,000	11,660
Corporation and investment projects with large-scale customers and government departments in Mainland China	7,000	7,420	—	—
Marketing and promotional activities	7,000	7,420	2,000	2,120
Geographical expansion of the Group	6,000	6,360	—	—
Establishment of a training centre for the Group's customers	2,000	2,120	—	—
Development of e-automation.com.cn website	1,000	1,060	—	—
	41,754	44,259	13,000	13,780

* Amounts are extracted from the Company's prospectus dated 31 January 2001 issued in relation to the Company's Placing exercise and proposed listing of shares on the GEM of the Stock Exchange after adjustments on share issuance expenses.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co and Messrs. Charles Chan, Ip & Fung CPA Ltd. A resolution for the re-appointment of Messrs. Arthur Andersen & Co and Messrs. Charles Chan, Ip & Fung CPA Ltd. as the auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors
SZE KWAN
Chairman

Hong Kong, 20 September 2001

ANDERSEN

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

CCIF

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

Auditors' Report to the Shareholders of
TECHWAYSON HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Report of the Auditors

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 June 2001, and of the profit and cash flows of the group for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO	**CHARLES CHAN, IP & FUNG CPA LTD.**
Certified Public Accountants	*Certified Public Accountants*
	Chan Wai Dune, Charles
	Practicing Certificate Number P00712

Hong Kong, 20 September 2001

Consolidated Income Statement

For the year ended 30 June 2001

	Note	2001 *RMB'000*	2000 *RMB'000*
Turnover	*4*	**130,961**	27,778
Materials and equipment		**(45,948)**	(11,697)
		85,013	16,081
Other revenue	*4*	**3,286**	—
Staff costs		**(7,224)**	(2,299)
Depreciation of equipment and furniture		**(1,104)**	(742)
Provision for product warranty costs		**(5,504)**	(1,174)
Other operating expenses	*3*	**(12,912)**	(2,430)
Profit from operations		**61,555**	9,436
Interest income	*4*	**429**	26
Profit before taxation	*5*	**61,984**	9,462
Taxation	*7*	**(1,547)**	—
Profit attributable to shareholders	*8*	**60,437**	9,462
Retained profit (Accumulated deficit), beginning of year		**7,358**	(801)
Transfer to reserves	*20*	**(4,006)**	(1,303)
Retained profit, end of year		**63,789**	7,358
Earnings per share — Basic	*9*	**RMB19.63 cents**	RMB3.38 cents

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

Balance Sheets

As at 30 June 2001

		Consolidated		Company
		2001	2000	**2001**
	Note	***RMB'000***	*RMB'000*	***RMB'000***
NON-CURRENT ASSETS				
Equipment and furniture	*10*	**3,543**	4,578	**—**
Software development costs	*11*	**27,710**	—	**—**
Investment in subsidiaries	*12*	**—**	—	**95,350**
Total non-current assets		**31,253**	4,578	**95,350**
CURRENT ASSETS				
Inventories	*13*	**512**	375	**—**
Prepayments, deposits and other current assets		**951**	2,167	**—**
Other receivable	*14*	**17,490**	—	**—**
Trade receivables	*15*	**35,918**	7,784	**—**
Due from a related company	*3*	**—**	3,573	**—**
Cash and bank deposits		**56,568**	15,677	**16,097**
Total current assets		**111,439**	29,576	**16,097**
CURRENT LIABILITIES				
Trade payables		**(887)**	(51)	**—**
Accruals and other payables		**(2,708)**	(2,710)	**(583)**
Warranty provision		**(6,946)**	(1,442)	**—**
Loan payable	*16*	**—**	(3,000)	**—**
Due to directors	*3*	**—**	(6,934)	**—**
Taxation payable	*17*	**(4,952)**	(611)	**—**
Total current liabilities		**(15,493)**	(14,748)	**(583)**
Net current assets		**95,946**	14,828	**15,514**
Total assets less current liabilities		**127,199**	19,406	**110,864**
NON-CURRENT LIABILITIES				
Loans from shareholders	*3*	**—**	(10,745)	**—**
Net assets		**127,199**	8,661	**110,864**
Representing —				
SHARE CAPITAL	*18*	**37,100**	—	**37,100**
RESERVES	*20*	**90,099**	8,661	**73,764**
Shareholders' equity		**127,199**	8,661	**110,864**

Approved by the Board of Directors on 20 September 2001:

DR. SZE KWAN
Director

MR. TUNG FAI
Director

Consolidated Cash Flow Statement

For the year ended 30 June 2001

	Note	2001 RMB'000	2000 RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21.a	**50,701**	5,029
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		**429**	26
INVESTING ACTIVITIES			
Additions of equipment and furniture		**(2,204)**	(2,612)
Proceeds from disposal of equipment and furniture		**1,267**	—
Increase in software development costs		**(27,710)**	—
Increase in other receivable		**(17,490)**	—
Investments in marketable securities		**(9,842)**	—
Proceeds from disposal of investments in marketable securities		**8,318**	—
		(47,661)	(2,612)
Net cash inflow before financing		**3,469**	2,443
FINANCING ACTIVITIES	21.b		
Proceeds from issue of shares		**57,876**	—
Shares issuance expenses		**(13,617)**	—
New loan payable		**—**	3,000
Repayment of loan		**(3,000)**	—
Advances from directors		**—**	6,934
Repayment to directors		**(6,934)**	—
Loans from shareholders		**3,097**	745
		37,422	10,679
Increase in cash and bank deposits		**40,891**	13,122
Cash and bank deposits, beginning of year		**15,677**	2,555
Cash and bank deposits, end of year		**56,568**	15,677

Notes to the Financial Statements

1. GROUP REORGANISATION, BASIS OF PRESENTATION AND PRINCIPAL ACTIVITIES

Techwayson Holdings Limited (the "Company") was incorporated in the Cayman Islands on 1 September 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 February 2001.

On 16 January 2001, the Company became the holding company of other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 30 June 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the year ended 30 June 2000 have been presented on the same basis. No balance sheet of the Company as at 30 June 2000 is presented as it was incorporated subsequent to that date.

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

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). Principal accounting policies are summarised below:

a. Basis of measurement

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

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together the "Group"). The results of subsidiaries acquired or disposed of during the year (other than those included in the Reorganisation described in Note 1 above) are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

d. Turnover and revenue recognition

Turnover comprises revenue generated from fixed price contracts.

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

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

(i) Sales of system control equipment and software products

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

(ii) Provision of system integration services

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

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

(iii) Interest income

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

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

e. Taxation

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

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

f. Advertising and promotion

Costs of advertising and promotion are expensed as incurred.

g. Staff retirement benefits

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

h. Software development costs

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

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

The Company's Directors review and evaluate the recoverability of the carrying value of the deferred software development costs periodically by reference to factors including, but not limited to, anticipated revenue to be generated from the deferred software development costs and changes in technology and know-how.

i. Product warranty

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

2. **PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

j. Equipment and furniture and depreciation

Equipment and furniture are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of equipment and furniture which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of equipment and furniture are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements	20% (over the lease term)
Equipment	18% to 20%
Furniture	18%
Motor vehicles	18%

The carrying value of equipment and furniture is assessed periodically or when factors indicating an impairment are present. Individual items of equipment and furniture carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than the carrying value, with the difference charged to the income statement. In determining the recoverable amount of individual items of equipment and furniture, expected future cash flows are not discounted to their present value.

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

k. Inventories

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

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

l. Investment in marketable securities

Investment in marketable securities is carried at fair value in the balance sheet. Any unrealised holding gain or loss for investment in marketable securities is recognised in the income statement in the period when it arises.

Upon disposal or transfer of investment in marketable securities, any profit and loss arising thereon is accounted for in the income statement.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

m. Provision and contingencies

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

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

n. Operating leases

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

o. Foreign currency translation

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

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

p. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

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

a. The Group entered into the following significant transaction with a related party:

	2001	2000
	RMB'000	*RMB'000*
Share of operating expenses charged to Broadlink Technology Ltd. *	**2,391**	2,385

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

b. Details of the amount due from a related company are:

	2001	2000	**Maximum balance outstanding during the year**
	RMB'000	*RMB'000*	*RMB'000*
Broadlink Technology Ltd.	**–**	3,573	**4,241**

The amount due from Broadlink Technology Ltd. was unsecured, non-interest bearing and was fully settled during the year ended 30 June 2001.

c. Details of the amounts due to directors were:

	2001	2000
	RMB'000	*RMB'000*
Dr. Sze Kwan	**–**	6,920
Mr. Tung Fai	**–**	14
	–	6,934

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

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

d. Details of loans from shareholders were:

	2001	2000
	RMB'000	*RMB'000*
Otto Link Technology Limited *	**—**	6,105
United Power Investments Limited **	**—**	4,640
	—	10,745

* Otto Link Technology Limited owns 48% of the issued share capital of the Company and is beneficially owned by Dr. Sze Kwan and Mr. Tung Fai, directors of the Company.

** United Power Investments Limited is beneficially owned by Goldwiz Technology Limited and Mr. Siu Ting, shareholders of the Company.

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

4. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2001	2000
	RMB'000	*RMB'000*
Income from fixed price contracts *		
— Sales of system control equipment and software products	**111,023**	22,746
— Fees for system integration services	**19,938**	5,032
Total turnover	**130,961**	27,778
Compensation received for termination of a project	**3,286**	—
Interest income	**429**	26
Total revenue	**134,676**	27,804

* The Group's revenue from fixed price contracts excludes Mainland China value-added tax and city and county maintenance tax (see Note 7.d).

Approximately 99% (2000 - 100%) of the Group's turnover was made to top five customers for the year ended 30 June 2001.

5. PROFIT BEFORE TAXATION

Profit before taxation was determined after charging and crediting the following:

	2001	2000
	RMB'000	*RMB'000*
After charging —		
Staff costs (including directors' emoluments) (a)	**7,224**	2,299
Less: Amount included in research and development expenditures	**(1,449)**	(261)
	5,775	2,038
Operating lease rentals of premises	**3,074**	1,005
Research and development expenditures	**2,785**	819
Advertising and promotion costs	**1,870**	361
Provision for impairment in value of equipment and furniture	**—**	571
Loss on disposal of equipment and furniture	**868**	346
Loss on disposal of investments in marketable securities (b)	**1,524**	—
Auditors' remuneration	**583**	400
After crediting —		
Interest on bank deposits	**429**	26

Notes —

a. Staff costs includes provision for staff welfare and bonus fund of approximately RMB578,000 (2000 - RMB284,000) provided by Techwayson Industrial Ltd., a wholly-owned subsidiary established in Mainland China. As stipulated by regulations in Mainland China, the provision for staff welfare and bonus fund is determined at the discretion of the board of directors of Techwayson Industrial Ltd. The fund can be utilised for the provision of special bonuses and for the collective welfare of the employees of the Company.

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

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2001	2000
	RMB'000	*RMB'000*
Fees for executive directors	—	—
Fees for non-executive directors	—	—
Other emoluments for executive directors		
— Basic salaries and allowances	579	109
— Contributions to pension scheme	10	13
	589	122

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year (2000 - Nil).

The emoluments of all directors for the year ended 30 June 2001 (2000 - All) fall within the band of nil to RMB1,060,000 (equivalent of HK$1,000,000).

During the year ended 30 June 2001, the three executive directors received individual emoluments of approximately RMB212,000 (2000 - Nil), RMB159,000 (2000 - Nil) and RMB218,000 (2000 - RMB122,000), respectively.

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

	2001	2000
	RMB'000	*RMB'000*
Basic salaries and allowances	1,154	444
Contributions to pension scheme	29	53
	1,183	497
Number of directors	2	1
Number of employees	3	4
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation of loss of office (2000 - Nil).

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

7. TAXATION

Taxation consisted of:

	2001	2000
	RMB'000	*RMB'000*
Current taxation		
— Mainland China enterprise income tax	1,547	—

a. Overseas income tax

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2020. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income taxes.

b. Hong Kong profits tax

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

c. Mainland China enterprise income tax

Techwayson Industrial Ltd., a wholly-owned subsidiary established and operating in a special economic zone of Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. 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% reduction for the next three years. The tax exemption period expired on 31 December 2000 and thereafter, the company is subject to Mainland China enterprise income tax at 7.5% until 31 December 2003.

d. Mainland China value-added tax and government surcharges

Techwayson Industrial Ltd. was classified as a small scale tax-payer by the Mainland China tax authority and was subject to Mainland China value-added tax ("VAT") at 6% of revenue from fixed price contracts and city and county maintenance tax at 1% of VAT levied prior to 23 March 2001. On 23 March 2001, Techwayson Industrial Ltd. was changed from a small scale tax-payer to a general tax-payer and thereafter, it is subject to VAT at 17% of income from fixed price contracts and is not subject to city and county maintenance tax. The VAT payable is determined after offsetting VAT paid by the Group on its purchases.

There was no significant unprovided deferred taxation for the year ended 30 June 2001.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately RMB1,010,000 (2000 - Nil) dealt with in the financial statements of the Company.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 30 June 2001 is based on the consolidated profit attributable to shareholders of approximately RMB60,437,000 (2000 - RMB9,462,000) and the weighted average number of approximately 307,808,000 shares (2000 - 280,000,000 shares) deemed to be in issue during the year, on the basis of presentation relating to the Reorganisation as described in Note 1.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the year ended 30 June 2001 (2000 - Nil).

10. EQUIPMENT AND FURNITURE

Movements of equipment and furniture (consolidated) were:

	2001					2000
	Leasehold improvements	**Equipment**	**Furniture**	**Motor vehicles**	**Total**	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*
Cost						
Beginning of year	**297**	**5,180**	**388**	**403**	**6,268**	4,198
Additions	**310**	**1,362**	**157**	**375**	**2,204**	2,612
Disposals	**—**	**(2,650)**	**(71)**	**—**	**(2,721)**	(542)
	607	**3,892**	**474**	**778**	**5,751**	6,268
Accumulated depreciation						
Beginning of year	**30**	**1,599**	**25**	**36**	**1,690**	573
Provision for the year	**189**	**711**	**81**	**123**	**1,104**	742
Disposals	**—**	**(573)**	**(13)**	**—**	**(586)**	(196)
Provision for impairment in value	**—**	**—**	**—**	**—**	**—**	571
	219	**1,737**	**93**	**159**	**2,208**	1,690
Net book value						
End of year	**388**	**2,155**	**381**	**619**	**3,543**	4,578
Beginning of year	**267**	**3,581**	**363**	**367**	**4,578**	3,625

11. SOFTWARE DEVELOPMENT COSTS

Software development costs (consolidated) consisted of:

	2001 *RMB'000*	2000 *RMB'000*
Cost	27,710	—
Less: Accumulated amortisation	—	—
	27,710	—

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

12. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consists of:

	2001 *RMB'000*
Unlisted shares, at cost	67,627
Due from subsidiaries	27,734
Due to a subsidiary	(11)
	95,350

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

The underlying value of investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 30 June 2001.

12. INVESTMENT IN SUBSIDIARIES *(Cont'd)*

Details of the subsidiaries as at 30 June 2001 are:

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group		Principal activities
			Directly	Indirectly	
Usualink Development Limited	British Virgin Islands	US$1,250	100%	—	Investment holding
Techwayson Industrial Ltd. *	Mainland China	HK$10,000,000	—	100%	Design, supply and integration of automation and control systems
Techwayson Management Limited	Hong Kong	HK$10,000	100%	—	Provision of management services
Topart Development Limited	British Virgin Islands	US$100	100%	—	Investment holding

* Techwayson Industrial Ltd. is a wholly foreign owned enterprise established in a special economic zone of Mainland China to be operated for 15 years up to September 2012.

None of the subsidiaries had any loan capital in issue at any time during the year ended 30 June 2001 (2000 - Nil).

13. INVENTORIES

Inventories consisted of:

	2001	2000
	RMB'000	*RMB'000*
Raw materials	**403**	136
Finished goods	**109**	239
	512	375

No inventory was stated at net realisable value as at 30 June 2001 (2000 - Nil).

14. OTHER RECEIVABLE

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

15. TRADE RECEIVABLES

Trade receivables consisted of:

	2001	2000
	RMB'000	*RMB'000*
Trade receivables	**30,918**	6,610
Retention monies receivable *	**5,000**	1,174
	35,918	7,784

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

16. LOAN PAYABLE

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

17. TAXATION PAYABLE

Taxation payable consisted of:

	2001	2000
	RMB'000	*RMB'000*
Mainland China enterprise income tax	**1,547**	—
Mainland China value-added tax	**3,405**	611
	4,952	611

18. SHARE CAPITAL

Movements of share capital were:

	Number of shares *'000*	Amount *RMB'000*
Authorised — ordinary shares of RMB0.106 each (equivalent of HK$0.1)		
Upon incorporation of the Company (a)	3,900	413
Increase in authorised share capital (b)	996,100	105,587
As at 30 June 2001	1,000,000	106,000
Issued and fully paid — ordinary shares of RMB0.106 each (equivalent of HK$0.1)		
Issue of shares upon incorporation (a)	2	—
Issue of shares arising from the Reorganisation (c)	8	1
Issue of shares through a placing (d)	70,000	7,420
Capitalisation of share premium (e)	279,990	29,679
As at 30 June 2001	350,000	37,100

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

Notes —

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

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

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

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

e. Immediately after the aforementioned placing, share premium of approximately HK$27,990,000 (equivalent to approximately RMB29,679,000) was capitalised for the issuance of 279,900,000 shares of HK$0.10 each on a pro-rata basis to the Company's shareholders immediately before the placing.

19. EMPLOYEE SHARE OPTIONS

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

20. RESERVES

Movements of reserves were:

	Share premium	Statutory reserve funds (a)	Capital reserve	Contributed surplus (b)	(Accumulated deficit) Retained profit	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Consolidated						
As at 1 July 1999	–	–	–	–	(801)	(801)
Transfer from retained profit to reserves	–	1,303	–	–	(1,303)	–
Profit attributable to shareholders	–	–	–	–	9,462	9,462
As at 30 June 2000	–	1,303	–	–	7,358	8,661
Premium on issue of shares *(Note 18.d)*	50,456	–	–	–	–	50,456
Share issuance expenses *(Note 18.d)*	(13,617)	–	–	–	–	(13,617)
Capitalisation of share premium *(Note 18.e)*	(29,679)	–	–	–	–	(29,679)
Capitalisation of shareholders' loans by a subsidiary *(Note 3.d)*	–	–	13,842	–	–	13,842
Effect of Reorganisation *(Note 1)*	–	–	(1)	–	–	(1)
Profit attributable to shareholders	–	–	–	–	60,437	60,437
Transfer from retained profit to reserves	–	4,006	–	–	(4,006)	–
As at 30 June 2001	7,160	5,309	13,841	–	63,789	90,099
Company						
As at 1 July 2000	–	–	–	–	–	–
Premium on issue of shares *(Note 18.d)*	50,456	–	–	–	–	50,456
Share issuance expenses *(Note 18.d)*	(13,617)	–	–	–	–	(13,617)
Capitalisation of share premium *(Note 18.e)*	(29,679)	–	–	–	–	(29,679)
Effect of the Reorganisation *(Note 1)*	–	–	–	67,614	–	67,614
Loss attributable to shareholders	–	–	–	–	(1,010)	(1,010)
As at 30 June 2001	7,160	–	–	67,614	(1,010)	73,764

20. RESERVES *(Cont'd)*

Notes —

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

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

b. Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).

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

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

21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	RMB'000	*RMB'000*
Profit before taxation	**61,984**	9,462
Interest income	**(429)**	(26)
Depreciation of equipment and furniture	**1,104**	742
Provision for impairment in value of equipment and furniture	**—**	571
Loss on disposal of equipment and furniture	**868**	346
Loss on disposal of investments in marketable securities	**1,524**	—
(Increase) Decrease in inventories	**(137)**	8,503
Decrease (Increase) in prepayments, deposits and other current assets	**1,216**	(2,126)
Increase in trade receivables	**(28,134)**	(6,037)
Decrease (Increase) in due from a related company	**3,573**	(3,573)
Increase (Decrease) in trade payables	**836**	(4,027)
(Decrease) Increase in accruals and other payables	**(2)**	1,729
Increase in warranty provision	**5,504**	1,174
Decrease in receipts in advance	**—**	(1,892)
Increase in Mainland China value-added tax payable	**2,794**	183
Net cash inflow from operating activities	**50,701**	5,029

21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

b. Analysis of changes in financing:

	Share capital and share premium	Loan payable	Due to directors	Loans from shareholders	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 July 1999	10,000	—	—	—	10,000
Loan payable	—	3,000	—	—	3,000
Advance from directors	—	—	6,934	—	6,934
Loans from shareholders	—	—	—	745	745
Non-cash transaction *(Note 21.c)*	(10,000)	—	—	10,000	—
As at 30 June 2000	—	3,000	6,934	10,745	20,679
Issue of shares through a placing	57,876	—	—	—	57,876
Share issuance expenses	(13,617)	—	—	—	(13,617)
Effect of Reorganisation *(Notes 1 and 18)*	1	—	—	—	1
Repayment of loan	—	(3,000)	—	—	(3,000)
Repayment to directors	—	—	(6,934)	—	(6,934)
Loans from shareholders	—	—	—	3,097	3,097
Capitalisation of shareholders' loans *(Notes 3.d and 21.c)*	—	—	—	(13,842)	(13,842)
As at 30 June 2001	44,260	—	—	—	44,260

c. Non-cash transactions:

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

22. COMMITMENTS

a. Capital commitments

	Consolidated		Company
	2001	2000	**2001**
	RMB'000	*RMB'000*	***RMB'000***
Authorised and contracted for			
— Purchase of equipment and furniture	**—**	74	**—**
— Software development costs	**6,927**	—	**—**

b. Operating lease commitments

Total commitments payable under various non-cancellable operating lease agreements in respect of premises are analysed as follows:

	Consolidated		Company
	2001	2000	**2001**
	RMB'000	*RMB'000*	***RMB'000***
Amounts payable			
— within one year	**1,917**	2,367	**—**
— between two and five years	**2,046**	3,858	**—**
	3,963	6,225	**—**

The commitments payable within the next twelve months are analysed as follows:

	Consolidated		Company
	2001	2000	**2001**
	RMB'000	*RMB'000*	***RMB'000***
Leases expiring			
— within one year	**1,098**	224	**—**
— within two to five years	**819**	2,143	**—**
	1,917	2,367	**—**

23. PENSION SCHEMES

From 1 December 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of $1,000 per month and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, Techwayson Industrial Ltd. is required to contribute to a state-sponsored retirement plan for all of its employees at rates of 7% to 12% of the basic salaries of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 30 June 2001, the aggregate employer's contributions made by the Group amounted to approximately RMB278,000 (2000 - RMB155,000). As at 30 June 2001, there were no material forfeitures available to offset the Group's future contributions (2000 - Nil).

NOTICE IS HEREBY GIVEN that the First Annual General Meeting ("Meeting") of Techwayson Holdings Limited (the "Company") will be held at Boardroom 1/F., South Pacific Hotel 23, Morrison Hill Road, Wanchai, Hong Kong on Friday, 26 October, 2001 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the reports of the directors and auditors for the year ended 30 June 2001;

2. To re-elect retiring directors and to authorize the board of directors to fix the directors' remuneration;

3. To re-appoint the auditors and to authorize the board of directors to fix their remuneration; and

4. As special business, to consider and, if thought fit, pass the following resolutions ("Resolutions") which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

(1) "**THAT:**

(a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal value of the share capital allotted or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares upon the exercise of subscription rights attaching to any existing warrants issued by the Company; or (iii) an issue of shares in the Company upon the exercise of options which may be granted under Share Option Scheme (as approved by an Ordinary Resolution passed on 22 January, 2001 or any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the Company; or (iv) any scrip dividend scheme or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-Laws of the Company; or (v) a specific authority granted by the shareholders of the Company in general meeting, shall not exceed 20 per cent. of the nominal value of the share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable laws to be held; or

(iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this Resolution; and

"Right Issue" means an offer of shares of the Company or issue of options, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of shareholders of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate, such other securities), (subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

(2) "**THAT:**

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company, including to determine the manner of the repurchase, to repurchase shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or requirements of the GEM Listing Rules (as defined in Resolution No. (1) set out in item 4 of the notice of this meeting) or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal value of the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the nominal value of the share capital of the Company in issue at the date of the passing of this Resolution and the authority granted pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or

(iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this Resolution."

(3) "**THAT** conditional upon the Resolutions Nos. (1) and (2) set out in item 4 of the notice of this meeting being passed, the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Resolution No. (1) set out in item 4 of the notice of this meeting be and is hereby extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. (2) set out in item 4 of the notice of this meeting, provided that such extended amount shall not exceed 10 per cent. of the nominal value of the share capital of the Company in issue at the date of the passing of this Resolution."

By order of the Board
SZE KWAN
Chairman

Hong Kong, 20 September, 2001

Principal place of business:
Room 1810, 18th Floor
Harbour Centre
25 Harbour Road
WanChai
Hong Kong

Notes:

1. In order to qualify for attending the forthcoming Meeting of the Company, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrar Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 48 hours before the appointed time for holding the Meeting.

2. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.

3. To be valid, a form of the proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Hong Kong Registrar Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.

4. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the Meeting if the shareholder so desires.