



Techwayson Holdings Limited
德維森控股有限公司
(Incorporated in the Cayman Islands with Limited Liability)



Annual Report

2003



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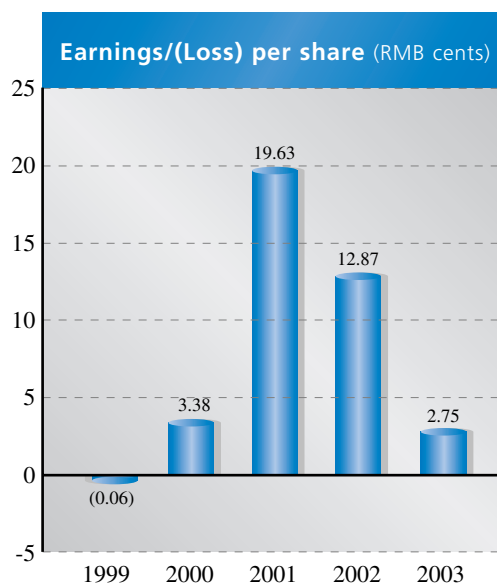
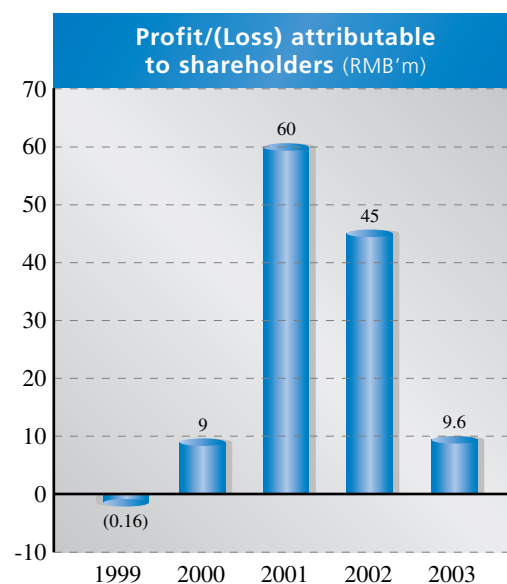
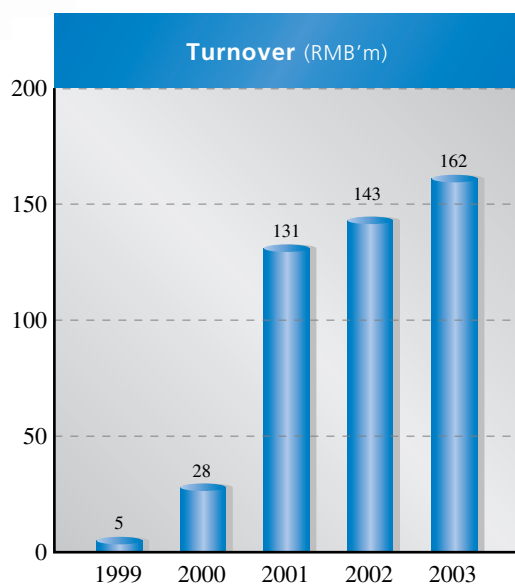
TECHWAYSON HOLDINGS LIMITED

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Financial Highlights

TECHWAYSON HOLDINGS LIMITED

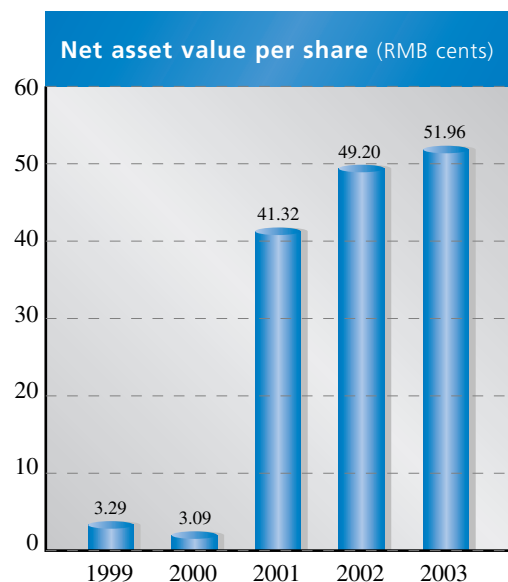
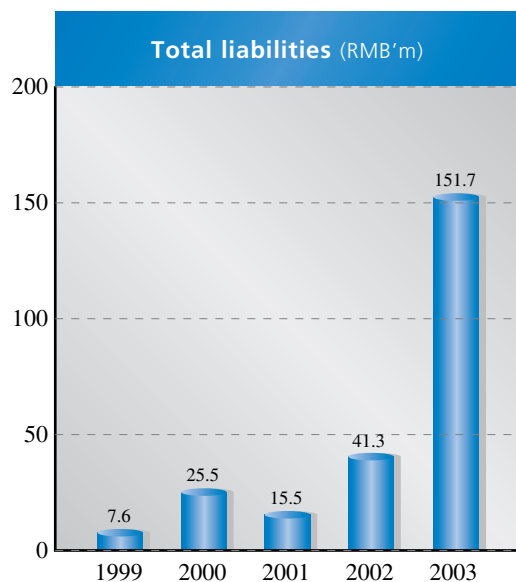
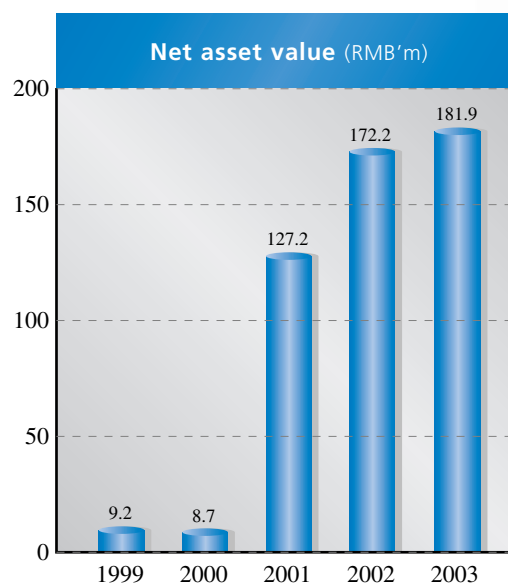
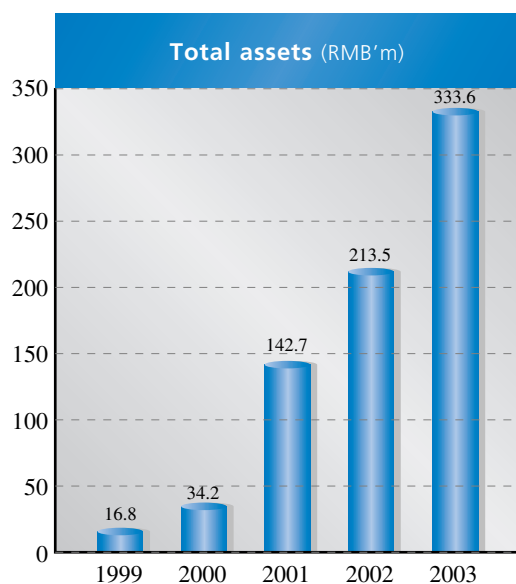
	2003	2002	2001	2000	1999
Turnover (RMB' million)	162	143	131	28	5
Profit/(Loss) attributable to shareholders (RMB' million)	9.6	45	60	9	(0.16)
Earnings/(Loss) per share (RMB cents)	2.75	12.87	19.63	3.38	(0.06)



Financial Highlights

TECHWAYSON HOLDINGS LIMITED

	2003	2002	2001	2000	1999
Total assets (RMB' million)	333.6	213.5	142.7	34.2	16.8
Total liabilities (RMB' million)	151.7	41.3	15.5	25.5	7.6
Net asset value (RMB' million)	181.9	172.2	127.2	8.7	9.2
Net asset value per share (RMB cents)	51.96	49.20	41.32	3.09	3.29





Corporate Information

TECHWAYSON HOLDINGS LIMITED

DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. LIN Gongshi

Independent Non-executive Directors

Mr. WEE Soon Chiang, Henny
Mr. WONG Kam Kau, Eddie

COMPANY SECRETARY

Mr. LI Chi Yuen

AUDITORS

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

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Rooms 1509-10, 15th Floor
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hong Kong and
Shanghai Banking Corporation Limited
Wing Hang Bank Limited
Indover Bank (Asia) Ltd
Natexis Banques Populaires, Hong Kong Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations
(China) Limited
Unit A, 29/F, Admiralty Centre I
18 Harcourt Road
Hong Kong

COMPANY HOMEPAGE

<http://www.techwayson.com.hk>



Chairman's Statement

TECHWAYSON HOLDINGS LIMITED

I am pleased to present this annual report of Techwayson Holdings Limited (the "Company") for the period from 1 July 2002 to 30 June 2003.

For the period under review, the Group has recorded a total audited turnover of approximately RMB161,811,000 (2002:143,269,000). Profit from operations was RMB29,846,000. Net profit attributable to shareholders was approximately RMB9,623,000. Basic earnings per share were RMB2.75 cents. The decline in net profit is due to the time-lag in contributory income from the distribution and OEM businesses as well as the provision for the impairment in its long-term investment in Tongling Huarui Electronic Materials Company Limited.

This is the first report after the Company has successfully transferred its listing status to the Main Board in January 2003. It is believed that the listing on the Main Board will enhance the Company's status in the market. In addition, the Company expects that the transfer will in the long term provide better liquidity of its shares. As part of a good corporate governance practice, the Company will continue reporting of its business review and financial report to shareholders and investors quarterly.

The year under review was a challenging year for its business operation. The SARS outbreak had interrupted many of the business activities. The Company has remodeled its business strategy to engage in the distribution and OEM businesses during the period. The strategic move will broaden the Group's income base, enabling the Group to maintain its steady income. The Group expects income will continue to grow as the sales and distribution network developed. The Company is also convinced that the restructuring of its business model will take the Group in the right track by providing the Group with more flexibility and opportunities for expansion.

In the course of developing the distribution business, the Group has identified the demand of low-end automation products among local machinery manufacturers. Coupled with its R&D strength, the Company is confident that it will be able to take advantage in expanding its business into this market in the foreseeable future.

The Company expects the year ahead to be more demanding as competition is getting more keen investment in product development and training will continue. However, the Group will employ tight measures in cost control and will have to be more cautious in business expansion. Thus the Group will adopt a flexible marketing strategy in order to keep its market positioning.



Chairman's Statement

TECHWAYSON HOLDINGS LIMITED

I would like to take this opportunity to thank our customers for their patronage and our staff for their dedication. I look forward to your continuous support in the coming year.

Sze Kwan
Chairman

Hong Kong, 19 September 2003

BUSINESS REVIEW

The Group's audited profit from operation for the year ended 30 June 2003 amounted to approximately RMB30 million (2002: RMB48.3 million). Net profit for the year was approximately RMB9.6 million (2002: RMB45 million). Earning per share for the year under review was RMB2.75 cents, representing a decrease of 78.6% when compared with the same period last year. The decline is due to the time-lag in contributory income from the distribution and OEM business as the Company remodeled its business strategy and to the provision for impairment in the value of Tongling Huarui Electronic Materials Co. Ltd ('Tongling'), the Group's long-term investment securities.

The year under review saw the Company's change of listing status. The Company was founded in 1999 and it was listed on the Growth Enterprises Market ("GEM") in February 2001. In the second quarter of the financial year under review, the Company applied to the Hong Kong Stock Exchange Limited for admission to the Main Board by way of introduction and its listing was approved in January, 2003. The first trading day of its shares was on 29 January 2003 and on the same day the Company withdrew its listing from the GEM Board. The Company believes that the listing on the Main Board will enhance its status as a more matured corporation and will in the long term provide better liquidity of its shares. As part of a good corporate governance practice, the Company will continue reporting of its business review and financial report to shareholders and investors quarterly.

The year under review was also a year of challenge to the Group as it begins to adopt a new business model, gradually switching from its contracting works to more distribution and OEM businesses. The PRC economy continues to keep up its buoyancy in both consumer and industrial sectors, which was affected temporarily down during the SARS breakout. There is a growing sign of a rising demand for industrial automation services and products as more plants of varying scales are being planned or established. Although the market demand remains strong, keen competition, however, has driven profit margin down. This is even more obvious for engineering projects. According to our internal sales research, this trend will still continue for quite a while.

Large-scale projects require a lot of manpower and a high level of technical skills in systems integration. The selling cycle and warranty period are long. Moreover, delays of these projects in the PRC are common due to various reasons. The Company believes that a low profit margin would lead to tight cash flow and thus making the risk associated with such projects not justifiably. Although such engineering projects have been the main source of income of the Group since its establishment, the Group believes that it is necessary to broaden the Group's income base and adopt a flexible marketing strategy in order to address the risks involved in such activities. Therefore, the Group has taken steps to start developing the distribution and OEM business since early 2002/2003.

Over 95% of the automation market in the PRC is still dominated by international players. The Group has conducted an extensive market research in the second quarter of the financial year under review. Results showed that existing distribution channels support mainly products of international brand names. Following



Management Discussion and Analysis

TECHWAYSON HOLDINGS LIMITED

the distribution contract of Rockwell signed in the first quarter of 2002/2003, the Group thus has entered during the financial year into agreements with various principals including Omron, Invensys, Greystone, Siemens and Ortronics. The contracts cover different products and different area. Distribution business contributes significantly to the turnover of the Group this year and was the least affected during the SARS outbreak.

The Group's Research & Development strength enables the development and production of controllers custom-made to the needs of machinery manufacturers. In May 2002, the Group has signed a contract with a local merchandising company working on behalf of a foreign enterprise for the supply of specialized controllers for large-scale injectors on OEM basis. The OEM business has expanded to cover controllers for moulding machine this year.

While the PRC remains as the Group's principal area of operation, the Group has started a trading business in Hong Kong to cater export business since the first quarter of fiscal year 2002/2003. It serves as a sourcing arm for the Group and a value added service to our customers in the PRC who would like to deliver their products to overseas.

Land-Use-Right Certificate for the Group's R&D Centre was issued officially to the Company by the Shenzhen Government in January 2003. The architectural design and planning are expected to be finalized by mid-October, 2003. If the design and planning of the building get its approval from the various governmental departments by the end of December 2003, the 7-storey building will be expected to be completed by October 2004.

PROSPECT

The coming year will be a more demanding year as it faces the challenges of aggressive market competition which lies ahead. The Group believes that the restructuring of its business model will take the Group in the right track by providing the Group with more flexibility, opportunities for expansion and to better manage its risk. To date, the contribution in turnover from distribution business is encouraging. Barring unforeseen circumstances, the Group expects income from this sector will continue to grow as the sales network is widen with more distribution channels being developed.

Product manufacturing and sales have been nominal. Following the development of the distribution business, the Group has identified the potentiality of the low-end market in the PRC and is considering expanding the sales in this sector. At present, the R&D Centre is working on the development of PLCs for the local manufacturers. The Group expects the products will be available commercially to the market before the end of the coming financial year. In addition, special attention will also be made as to manufacturing cost control of these products in order to make them more competitive. The Company is confident that the continuity of the market demand of these items remains high in the long term.

Specialization of the Group's proprietary TCS products will focus on its application on train control system as well as printing and packaging machineries. The Group believes that specialized application will enable the Group to go further in its OEM business.

To get prepared for the new challenges, the Group will take prudent steps in financial control and be cautious in business expansion. R&D and Human Resources strength are the most valuable assets of the Group. Investment in product development and training will continue. The Group will keep adopting a market-oriented strategy in order to maximize the return to our investors.

FINANCIAL REVIEW

Liquidity and financial resources

All of the Group's borrowings are denominated in Hong Kong dollars and Renminbi while the turnover of the Group are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

The borrowing maturity profiles of the Group as at 30 June 2003 is analysed as follows:

	At 30 June 2003 (audited) RMB'000
Repayable within one year	35,578
Repayable after 1 year but within 2 years	2,385
Repayable after 2 years but within 5 years	7,155
Over 5 years	3,578
	<hr/>
	48,696
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As at 30 June 2003, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 14.6% (2002: 9.9%). The management believes that the gearing ratio is at an acceptable level for the Group and the Group would be able to create sufficient financial resources to discharge its debt.

As at 30 June 2003, subsidiaries was granted banking facilities. As at 30 June 2003, the Company had contingent liabilities amounting to approximately RMB81.4 million, due to the provision of guarantee in respect of banking facilities granted to and utilised by that subsidiaries.



Management Discussion and Analysis

TECHWAYSON HOLDINGS LIMITED

As at 30 June 2002, the Group has had no charge on their assets nor any contingent liabilities.

Other than those disclosed in the Company's prospectus and listing documents dated 31 January 2001 and 30 December 2002 respectively under the section headed "Business Objectives and Future Prospects" and "Future Plans and Prospects" respectively, there has been no material change in the Group's future plan for material investments and acquisition of material capital assets as at 30 June 2003.

Significant Investment

In September 2001, the Group acquired an effective 18.52% interest in Tongling Huarui Electronic Materials Co. Ltd. ("Tongling"), a sino-foreign joint venture enterprise established in the PRC, as a long-term investment. Tongling is primarily engaged in the production and distribution of (i) epoxide woven glass fabric copper clad laminate (FR-4); and (ii) thin and rigid laminate used in multi-layer printed circuit board (PCB). As of 31 December 2002, Tongling reported an unaudited net tangible asset value of approximately RMB103.76 million (as of 31 December 2001: approximately RMB64.51 million). As no dividend was declared by Tongling for its financial year ended 31 December 2002, no dividend income was received by the Company during the year under review in respect of the investment in Tongling.

Segmental Information

With the contribution from the OEM and distribution business, the segment of Industrial Automation System (IAS) has recorded a significant increase in turnover by 1.8 times when compared with the corresponding year of 2001/2002. The profit margin reduced to about 26%. The Company believes such business will grow as the sales channels become more mature and more principals join hands with the Company.

Turnover from Building Automation System (BAS) has declined by 97%, compared with the corresponding year of 2001/2002, due to keen competition and the delay of projects in the year. The fluctuation in turnover of this segment is mainly due to the project basis nature of BAS. The Company expects the situation to be improved in 2004 when SmartHome and the Company's other proprietary products for BAS are ready to market. In the meantime, the Company is developing the sales channels for distribution.

Employee information

For the year ended 30 June 2003, the Group has recorded staff costs of approximately RMB8 million representing 7% increase from approximately RMB7.5 million for the corresponding year in 2001/2002. The number of staff was increased from 80 employees (as of 30 June 2002) to 82 employees (as of 30 June 2003). The Group provides competitive remuneration packages to employees commensurable to market level in the business in which the Group operates their qualifications. Incentive schemes composed of discretionary bonus and other merit payments to reward employees based on performance are also offered. The Group also provides mandatory provident fund, medical benefits and training programs for all staff.

DIRECTORS

Executive Directors

SZE Kwan (史琚), aged 38. 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 manager 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 vice-chairman of Shenzhen Instrumentation & Control Society (深圳市儀器儀表行業協會) 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 (中國科學院上海技術物理研究所) in 1991.

TUNG Fai (董輝), aged 41. 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. Mr. Tung joined the Group in June 2000 and has been appointed as an authorised representative of the Company.

LEE Tiong Hock (李長福), aged 63. 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. Mr. Lee joined the Group in June 2000.

XIONG Jian Rui (熊劍瑞), aged 39. 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 Group in December 1997, he was a managerial staff in a Hunan TV station in Mainland China.



Biographical Details of Directors

TECHWAYSON HOLDINGS LIMITED

Non-executive Director

LIN Gongshi (林功實) aged 65. 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 academic and business areas. He was appointed non-executive director of the Company in November 2000.

Independent Non-executive Directors

WEE Soon Chiang, Henny (黃循強), aged 57. 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 Chartered 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 55. 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.

The Directors are pleased to present their third 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 2003.

BACKGROUND OF THE COMPANY

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 29 January 2003, the Company withdrew the listing its shares on GEM and on the same date, the Company’s shares were listed on the Main Board of the Stock Exchange by way of introduction.

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 business segments and geographical segments for the year ended 30 June 2003 is set out in Note 4 to the financial statements.

CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2003, the five largest customers accounted for approximately 77% (2002: 99%) of the Group’s total turnover and the five largest suppliers of the Group accounted for approximately 61% (2002: 93%) of the Group’s total purchases. The largest customer of the Group accounted for approximately 37% (2002: 65%) of the Group’s total turnover while the largest supplier accounted for approximately 16% (2002: 36%) 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 2003 are set out in the consolidated income statement on page 20 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the retained profit of approximately RMB118,442,000 as at 30 June 2003 (2002: RMB108,819,000) be carried forward.



Report of the Directors

TECHWAYSON HOLDINGS LIMITED

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 24 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 20 of this annual report.

As at 30 June 2003, the Company's reserves of approximately RMB50,143,000 (2002: RMB72,508,000) were available for distribution to the Company's shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 11 to the accompanying financial statements.

PROPERTY UNDER DEVELOPMENT

Details of movements in property under development during the year are set out in Note 12 to the accompanying financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 15 to the accompanying financial statements.

COMMITMENTS

Particulars of commitments as at 30 June 2003 are set out in Note 26 to the accompanying financial statements.

RETIREMENT SCHEMES

Details of retirement schemes are set out in Note 29 to the accompanying financial statements.

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in Note 22 to the accompanying financial statements.

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

Mr. TUNG Fai

Mr. LEE Tiong Hock

Mr. XIONG Jian Rui *(Appointed on 16 May 2003)*

Mr. YE Wei Fa *(Resigned on 16 May 2003)*

Non-Executive Director

Mr. LIN Gongshi

Independent Non-Executive Directors

Mr. WEE Soon Chiang, Henny

Mr. WONG Kam Kau, Eddie

Mr. KUANG Ding Bo *(Resigned on 1 October 2002)*

In accordance with the Articles of Association of the Company, Mr. Wee Soon Chiang, Henny and Mr. Wong Kam Kau, Eddie 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 a term of two years commencing from 1 December 2002. 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 fixed term. Mr. Wee Soon Chiang, Henny and Mr. Wong Kam Kau, Eddie, being independent non-executive directors of the Company have entered into a service contracts with the Company commencing from 7 September 2001.

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).



Report of the Directors

TECHWAYSON HOLDINGS LIMITED

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2003, the interests of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited were as follows:

Name of Director	Nature of Interests	Number of share held
Dr. Sze Kwan	Corporate	161,700,000*

* *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 2003, none of the directors or their associates had any interests in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interest of the persons in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholders	Number of shares held	Approximate shareholdings
Otto Link Technology Limited (a)	161,700,000	46.20%
Goldwiz Technology Limited	61,824,000	17.66%
Goldwiz Holdings Limited (b)	61,824,000	17.66%
Mr. Siu Ting	38,976,000	11.14%

Notes:—

- 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 of the Company.
- 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.

Save as disclosed above, as at 30 June 2003, the Company has not been notified of any other interests in any shares or underlying shares of the Company which is to be disclosed under the SFO.

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

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 20 January 2003, the share option scheme adopted by the Company on 22 January 2001 (the "Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted. The purpose of the New Scheme is to provide incentive and to recognise the contribution of the eligible participants, including directors and employees of the Group, to the growth of the Group and to provide more flexibility to the Group in terms of remunerating the participants.

As at 30 June 2003, no option was granted by the Company under the employee share option scheme.

COMPETING INTEREST

None of the directors of the Company have any interest in any business which competes with or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code. The audit committee comprises the two independent non-executive directors of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In so far as the Directors are aware, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year except that the independent non-executive directors of the Company have not been appointed for a specific term of office but retire from office on a rotational basis in accordance with the Company's Bye-Laws.



Report of the Directors

TECHWAYSON HOLDINGS LIMITED

AUDITORS

Messrs. Arthur Andersen & Co. have ceased to be one of the Company's two joint auditors with effect from 23 January 2002 and Messrs. Charles Chan, Ip & Fung CPA Ltd. remains as the Company's sole auditors with effect from the same date.

The accompanying financial statements were audited by Messrs. Charles Chan, Ip & Fung CPA Ltd. A resolution for the re-appointment of 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, 19 September 2003



Report of the Auditors

TECHWAYSON HOLDINGS LIMITED



Charles Chan, Ip & Fung CPA Ltd.

37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF TECHWAYSON HOLDINGS LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

We have audited the financial statements on pages 20 to 56 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 Statement 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.

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 2003, 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.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong, 19 September 2003

Chan Wai Dune, Charles

Practising Certificate Number P00712

Consolidated Income Statement

TECHWAYSON HOLDINGS LIMITED / FOR THE YEAR ENDED 30 JUNE 2003

	<i>Note</i>	2003 RMB'000	2002 <i>RMB'000</i>
TURNOVER	3	161,811	143,269
MATERIALS AND EQUIPMENT		(106,560)	(75,517)
		55,251	67,752
OTHER REVENUE	3	1,133	7,542
STAFF COSTS		(8,047)	(7,519)
DEPRECIATION AND AMORTISATION		(6,173)	(5,896)
IMPAIRMENT LOSS ON SOFTWARE DEVELOPMENT COSTS		–	(6,000)
PROVISION FOR WARRANTY COSTS		(6)	(84)
OTHER OPERATING EXPENSES		(12,312)	(7,405)
PROFIT FROM OPERATIONS		29,846	48,390
IMPAIRMENT LOSS ON INVESTMENT SECURITIES		(16,324)	–
FINANCE COSTS	5	(456)	(511)
PROFIT BEFORE TAXATION	6	13,066	47,879
TAXATION	8	(3,443)	(2,849)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	9	9,623	45,030
EARNINGS PER SHARE – BASIC	10	RMB2.75 cents	RMB12.87 cents

Balance Sheets

TECHWAYSON HOLDINGS LIMITED / AS AT 30 JUNE 2003

	Note	The Group		The Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS					
Fixed assets	11	2,550	2,990	–	–
Property under development	12	68,291	11,886	–	–
Software development costs	13	18,746	23,691	–	–
Investments in securities	14	35,616	51,940	–	–
Investment in subsidiaries	15	–	–	114,904	132,711
Total non-current assets		125,203	90,507	114,904	132,711
CURRENT ASSETS					
Inventories	16	11,979	1,594	–	–
Prepayments, deposits and other current assets		49,185	1,328	–	–
Pledged time deposits		6,834	–	–	–
Trade receivables	17	67,330	49,552	–	–
Cash and bank deposits		73,066	70,547	30	30
Total current assets		208,394	123,021	30	30
CURRENT LIABILITIES					
Due to subsidiaries	15	–	–	(10,373)	(363)
Trade payables	18	(35,863)	(7,341)	–	–
Bills payable, secured	18	(51,416)	–	–	–
Accruals and other payables		(5,803)	(9,282)	(622)	(3,690)
Warranty provision	19	(27)	(84)	–	–
Receipts in advance		(6,006)	(775)	–	–
Loans payable – current portion	20	(3,578)	(3,578)	(3,578)	(3,578)
Short term loans payable	21	(32,000)	(2,000)	–	–
Taxation payable		(3,934)	(2,737)	–	–
Total current liabilities		(138,627)	(25,797)	(14,573)	(7,631)
NET CURRENT ASSETS/(LIABILITIES)		69,767	97,224	(14,543)	(7,601)
TOTAL ASSETS LESS CURRENT LIABILITIES		194,970	187,731	100,361	125,110
NON-CURRENT LIABILITIES					
Loans payable	20	(13,118)	(15,502)	(13,118)	(15,502)
NET ASSETS		181,852	172,229	87,243	109,608
Representing:					
SHARE CAPITAL	22	37,100	37,100	37,100	37,100
RESERVES	24	144,752	135,129	50,143	72,508
SHAREHOLDERS' EQUITY		181,852	172,229	87,243	109,608

Approved by the Board of Directors on 19 September 2003.

DR. SZE KWAN
Director

MR. TUNG FAI
Director



Consolidated Statement of Changes in Equity

TECHWAYSON HOLDINGS LIMITED / YEAR ENDED 30 JUNE 2003

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Shareholders' equity at 1 July	172,229	127,199
Net profit for the year	9,623	45,030
Shareholders' equity at 30 June	<u>181,852</u>	<u>172,229</u>

Consolidated Cash Flow Statement

TECHWAYSON HOLDINGS LIMITED / FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before taxation	13,066	47,879
Adjustment for:		
Interest income	(54)	(122)
Interest expenses	456	511
Loans payable waived	–	(22)
Depreciation of fixed assets	1,228	950
Amortisation of software development costs	4,945	4,946
Goodwill written off	–	22
Impairment loss on investment securities	16,324	–
Impairment loss on software development costs	–	6,000
Loss recognised for impairment in value of fixed assets	–	222
Loss on disposal of fixed assets	43	38
	<hr/>	<hr/>
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	36,008	60,424
Increase in inventories	(10,385)	(1,082)
Increase in prepayments, deposits and other current assets	(47,857)	(377)
Increase in trade receivables	(17,778)	(13,634)
Increase in trade payables	28,522	6,454
Increase in bills payable	51,416	–
(Decrease)/increase in accruals and other payables	(3,252)	2,658
Decrease in warranty provision	(57)	(6,862)
Increase in receipts in advance	5,231	775
	<hr/>	<hr/>
CASH GENERATED FROM OPERATIONS	41,848	48,356
TAX PAID		
PRC enterprise income tax paid	(2,246)	(1,659)
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	39,602	46,697
INVESTING ACTIVITIES		
Interest received	54	122
Additions of fixed assets	(839)	(952)
Proceeds from disposal of fixed assets	8	295
Increase in property under development	(56,405)	(11,886)
Increase in pledged time deposit	(6,834)	–
Increase in software development costs	–	(6,927)
Decrease in other receivable	–	17,490
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(64,016)	(1,858)

Consolidated Cash Flow Statement

TECHWAYSON HOLDINGS LIMITED / FOR THE YEAR ENDED 30 JUNE 2003

	2003 RMB'000	2002 <i>RMB'000</i>
FINANCING ACTIVITIES		
New loans payable	30,000	2,000
Repayment of loan	(2,384)	(32,860)
Interest paid	(683)	–
	<hr/>	<hr/>
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	26,933	(30,860)
	<hr/>	<hr/>
INCREASE IN CASH AND BANK DEPOSITS	2,519	13,979
	<hr/>	<hr/>
CASH AND BANK DEPOSITS, BEGINNING OF YEAR	70,547	56,568
	<hr/>	<hr/>
CASH AND BANK DEPOSITS, END OF YEAR	73,066	70,547
	<hr/> <hr/>	<hr/> <hr/>

1. BACKGROUND OF THE COMPANY 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. During the year, the Company withdrew the listing of its shares on GEM. On 29 January 2003, the Company has by way of introduction listed its entire issued share capital on the Main Board of the Stock Exchange.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are investment holding, design, supply and integration of automation and control systems.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) BASIS OF PREPARATION

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA"), 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 Stock Exchange (the "Listing Rules"). The financial statements have been prepared under the historical cost convention.

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits



Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) BASIS OF PREPARATION *(Continued)*

The adoption of these standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) GOODWILL

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of acquisitions of subsidiaries and associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill in respect of subsidiaries is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisition of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) GOODWILL *(Continued)*

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(d) SUBSIDIARIES

A subsidiary is a company in which the Company directly or indirectly, controls more than 50% of its voting power or issued share capital or controls the composition of its board.

Investment in subsidiaries in the Company's balance sheet are stated at cost less provision for impairment loss, if necessary. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable.

(e) TURNOVER AND REVENUE RECOGNITION

Turnover comprises revenue generated from fixed price contracts.

The Group enters into contracts with customers for the sales of system control equipment and software products and the provision of related system integration services. 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 goods are delivered and/or the installation work is completed and the customer has accepted the goods together with the risks and rewards of ownership.



Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) TURNOVER AND REVENUE RECOGNITION *(Continued)*

(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.

(f) SEGMENT REPORTING

In accordance with the Group internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Unallocated costs represent corporate expenses. Segment assets consist primarily of software development costs, inventories and receivables and mainly exclude property under development and investment securities. Segment liabilities comprise operating liabilities and exclude items such as corporate borrowings.

(g) ADVERTISING AND PROMOTION

Costs of advertising and promotion are expensed as incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(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 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.

(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.

(j) FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Fixed assets are depreciated at rates sufficient to write off their cost less residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20% or over the lease term, if shorter
Equipment	18% to 20%
Furniture	18%
Motor vehicles	18%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the company.



Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) FIXED ASSETS AND DEPRECIATION *(Continued)*

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(k) PROPERTY UNDER DEVELOPMENT

Property in the course of construction are carried at cost, less any identified impairment loss. Cost includes development and construction expenditure incurred and borrowing costs and other costs directly attributable to the development.

(l) IMPAIRMENT

Both internal and external sources of information are considered at each balance sheet date to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(m) 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 and appropriate portion of overhead absorbed. 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) INVESTMENT IN SECURITIES

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

(o) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(p) 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.

(q) OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.



Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) 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 Renminbi. On consolidation, the assets and liabilities of group companies with functional currencies other than Renminbi are translated into Renminbi at the rate of exchange in effect at the balance sheet 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 adjustment. There were no material cumulative translation adjustments during the years ended 30 June 2002 and 2003.

(s) RELATED PARTY

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

(t) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realization is assured beyond reasonable doubt.

(u) EMPLOYEE BENEFITS

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) EMPLOYEE BENEFITS *(Continued)*

- (ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan organized by municipal government as stipulated by the regulations of the People's Republic of China (the "PRC") are recognized as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

3. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	2003 RMB'000	2002 <i>RMB'000</i>
Income from fixed price contracts *		
– Sales of system control equipment and software products	160,592	115,249
– Fees for system integration services	1,219	28,020
	<hr/>	<hr/>
Total turnover	161,811	143,269
	<hr/>	<hr/>
Reversal of warranty provision	39	6,909
Sundry income	1,040	511
Interest income	54	122
	<hr/>	<hr/>
	1,133	7,542
	<hr/>	<hr/>
Total revenue	162,944	150,811
	<hr/> <hr/>	<hr/> <hr/>

* *The Group's revenue from fixed price contracts excludes PRC value-added tax.*

Approximately 77% (2002: 99%) of the Group's turnover was made to top five customers for the year ended 30 June 2003.



Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

4. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

Business segments

For management purpose, the Group's turnover is divided into two business segments: sales of system control equipment and software products and provision of system integration services and was further divided into two parts: Industrial automation services and Building automation services, which have been regarded as the Group reporting format during the year.

Industrial automation is divided into factory automation and control and process automation and control.

Factory automation and control refers to operations which manufacture individual items used mainly within the automotive, packaging and consumer goods industries. Products mainly consist of items such as programmable logic controllers (PLCs), robots, drives and standardised solutions.

Process automation and control refers to the continuous control solutions applied in processes where the main objective is to control the continuous production of products including raw oil, electricity and paper at preferred levels. Its products consist of process automation systems, distributed control systems (DCSs), control instrumentation and analytical products such as meters.

Building automation services comprise product lines and application solutions particularly targeted at building industries. Product lines for this market include security and alarm, ventilating, heating, fire protection, gas warning, air conditioning and access control systems.

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

4. SEGMENT REPORTING (Continued)

Business segments (Continued)

Segment information about these businesses for the year is presented below:

	Building automation RMB'000	Industrial automation RMB'000	Consolidated RMB'000
For the year ended 30 June 2003			
Revenue			
Sales of system control equipment and software products	2,105	158,487	160,592
System integration	509	710	1,219
	2,614	159,197	161,811
Segment results			
Sales of system control equipment and software products	175	41,444	41,619
System integration	266	604	870
	441	42,048	42,489
Sundry income			1,133
Unallocated expenses			(13,776)
Profit from operations			29,846
Impairment loss on investment securities			(16,324)
Finance costs			(456)
Profit before taxation			13,066
Taxation			(3,443)
Profit after taxation			9,623
Balance sheet			
Assets			
Segment assets			
Sales of system control equipment and software products	1,212	157,423	158,635
System integration	278	454	732
	1,490	157,877	159,367
Unallocated assets			174,230
Consolidated total assets			333,597

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

4. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Building automation	Industrial automation	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

For the year ended 30 June 2003 (Continued)

Liabilities

Segment liabilities

Sales of system control equipment and
software products
System integration

1,492	121,167	122,659
363	291	654
1,855	121,458	123,313

Unallocated liabilities

28,432

Consolidated total liabilities

151,745

Other information

Software development costs incurred

Sales of system control equipment
and software products
System integration

-	-	-
-	-	-
-	-	-

Amortisation of software development costs

Sales of system control equipment and
software products
System integration

-	4,945	4,945
-	-	-
-	4,945	4,945

Impairment loss on software development costs

Sales of system control equipment
and software products
System integration

-	-	-
-	-	-
-	-	-

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

4. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Building automation <i>RMB'000</i>	Industrial automation <i>RMB'000</i>	Consolidated <i>RMB'000</i>
For the year ended 30 June 2002			
Revenue			
Sales of system control equipment and software products	66,530	54,571	121,101
System integration	27,628	1,449	29,077
	94,158	56,020	150,178
Segment results			
Sales of system control equipment and software products	6,412	28,565	34,977
System integration	27,265	1,426	28,691
	33,677	29,991	63,668
Sundry income			633
Unallocated expenses			(15,911)
Profit from operations			48,390
Finance costs			(511)
Profit before taxation			47,879
Taxation			(2,849)
Profit after taxation			<u>45,030</u>
Balance sheet			
Assets			
Segment assets			
Sales of system control equipment and software products	301	58,565	58,866
System integration	15,635	336	15,971
	15,936	58,901	74,837
Unallocated assets			138,691
Consolidated total assets			<u>213,528</u>

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

4. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Building automation <i>RMB'000</i>	Industrial automation <i>RMB'000</i>	Consolidated <i>RMB'000</i>
For the year ended 30 June 2002			
Liabilities			
Segment liabilities			
Sales of system control equipment and software products	64	8,892	8,956
System integration	1,151	461	1,612
	1,215	9,353	10,568
Unallocated liabilities			30,731
Consolidated total liabilities			41,299
Other information			
Software development costs incurred			
Sales of system control equipment and software products	–	6,927	6,927
System integration	–	–	–
	–	6,927	6,927
Amortisation of software development costs			
Sales of system control equipment and software products	–	4,946	4,946
System integration	–	–	–
	–	4,946	4,946
Impairment loss on software development costs			
Sales of system control equipment and software products	–	6,000	6,000
System integration	–	–	–
	–	6,000	6,000

4. SEGMENT REPORTING *(Continued)***Geographical segments**

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Revenue from external customers		
PRC (including Hong Kong and Macau)	62,690	150,178
Singapore	65,327	–
Taiwan	20,300	–
Korea	13,494	–
	161,811	150,178

All segment assets and capital expenditures are in the PRC (including Hong Kong).

5. FINANCE COSTS

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Interest on bank borrowing and overdraft wholly repayable within 5 years	172	–
Interest on other borrowing wholly repayable after 5 years	284	511
	456	511

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

6. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2003 RMB'000	2002 <i>RMB'000</i>
Staff costs		
Salaries and allowances (including directors' emoluments)	7,544	7,302
Contributions to defined contribution plan	503	217
	8,047	7,519
Less: Amount included in research and development expenditures	(172)	(1,286)
	7,875	6,233
Operating lease rentals of premises	1,711	2,024
Research and development expenditures	524	1,549
Advertising and promotion costs	90	419
Loss recognised for impairment in value of fixed assets	–	222
Depreciation of fixed assets	1,228	950
Amortisation of software development costs	4,945	4,946
	6,173	5,896
Less: Amount included in research and development expenditures	(264)	–
	5,909	5,896
Professional fees in respect of listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction	4,116	–
Loss on disposal of fixed assets	43	38
Auditors' remuneration	339	408

Notes:

- (a) Staff costs include provision for staff welfare and bonus fund of approximately RMB239,000 (2002: RMB468,000) provided by Techwayson Industrial Limited, a wholly-owned subsidiary established in the PRC. As stipulated by regulations in the PRC, the provision for staff welfare and bonus fund is determined at the discretion of the board of directors of Techwayson Industrial Limited. The fund can be utilised for the provision of special bonuses and for the collective welfare of the employees of the subsidiary.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Group during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Fees for executive directors	–	–
Fees for non-executive directors	223	257
Other emoluments for executive directors		
– Basic salaries and allowances	1,043	1,270
– Contributions to pension scheme	14	31
	<hr/> 1,280 <hr/>	<hr/> 1,558 <hr/>

During the year, two directors waived emoluments of RMB678,000 (2002: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year (2002: Nil).

The emoluments of all directors for the year ended 30 June 2003 (2002: All) fall within the band of nil to RMB1,060,000 (equivalent of HK\$1,000,000).

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2002: two) is a director whose emoluments are disclosed in Note 7(a). The aggregate of the emolument in respect of the other four (2002: three) individuals are as follows:

	2003 RMB'000	2002 <i>RMB'000</i>
Basic salaries and allowances	1,360	1,854
Contributions to pension scheme	25	55
	1,385	1,909

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 for loss of office (2002: Nil)

The emoluments of all of the four (2002: three) individuals with the highest emoluments are within the band of nil to RMB1,060,000 (equivalent of HK\$1,000,000).

8. TAXATION

Taxation consisted of:

	2003 RMB'000	2002 <i>RMB'000</i>
Current taxation		
– PRC enterprise income tax	1,874	2,849
– Hong Kong profits tax	106	–
– Macau complementary profits tax	1,463	–
	3,443	2,849

8. TAXATION *(Continued)*

(a) Overseas income tax

The Company was 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 were 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

Hong Kong profits tax has been provided at the rate of 17.5% (2002: Nil) on the estimated assessable profit earned by a subsidiary operated in Hong Kong for the year.

(c) PRC enterprise income tax

Taxation arising in the PRC is calculated at the rates prevailing in the PRC.

Techwayson Industrial Limited, being a High-Tech enterprise and a wholly-owned subsidiary established and operating in a special economic zone of the PRC, is subject to the PRC enterprise income tax at a rate of 15%. However, it is exempted from the PRC 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 eight years. The tax exemption period expired on 31 December 2000 and thereafter, the subsidiary is subject to the PRC enterprise income tax at 7.5% until 31 December 2008. The PRC Tax Bureau later shortened the tax reduction period after the tax exemption period. As a result, Techwayson Industrial Limited is subject to the PRC enterprise income tax of 7.5% for 3 years until 31 December 2003, and the other 3 years until 31 December 2006 provided it still be a High-Tech enterprise.

(d) Macau complementary profits tax

Macau complementary profits tax has been calculated at 15% on the estimated assessable profits arising in Macau.

There was no significant unprovided deferred taxation for the year ended 30 June 2003 (2002: Nil).

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately RMB22,365,000 (2002: RMB1,256,000) dealt with in the financial statements of the Company.

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 30 June 2003 is based on the consolidated profit attributable to shareholders of RMB9,623,000 (2002: RMB45,030,000) and the weighted average number of 350,000,000 shares (2002: 350,000,000 shares) in issue during the year.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the year ended 30 June 2003 (2002: Nil).

11. FIXED ASSETS

	The Group					2002 Total RMB'000
	2003					
	Leasehold improvements RMB'000	Equipment RMB'000	Furniture RMB'000	Motor vehicles RMB'000	Total RMB'000	
Cost						
Beginning of year	687	4,002	474	1,172	6,335	5,751
Additions	367	220	252	-	839	952
Disposals	(687)	(55)	(6)	-	(748)	(368)
End of year	367	4,167	720	1,172	6,426	6,335
Accumulated depreciation and impairment						
Beginning of year	408	2,448	163	326	3,345	2,208
Provision for the year	306	655	83	184	1,228	950
Disposals	(668)	(26)	(3)	-	(697)	(35)
Impairment loss recognised	-	-	-	-	-	222
End of year	46	3,077	243	510	3,876	3,345
Net book value						
End of year	<u>321</u>	<u>1,090</u>	<u>477</u>	<u>662</u>	<u>2,550</u>	<u>2,990</u>
Beginning of year	<u>279</u>	<u>1,554</u>	<u>311</u>	<u>846</u>	<u>2,990</u>	<u>3,543</u>

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

12. PROPERTY UNDER DEVELOPMENT

	The Group			2002 Total RMB'000
	2003		Total RMB'000	
	Land cost RMB'000	Development cost RMB'000		
Beginning of year	1,648	10,238	11,886	–
Additions during the year	380	56,025	56,405	11,886
End of year	<u>2,028</u>	<u>66,263</u>	<u>68,291</u>	<u>11,886</u>

The property under development is located in the PRC and the Group has obtained the land use right certificate for the leasehold land with a lease period of 50 years in January 2003.

13. SOFTWARE DEVELOPMENT COSTS

	The Group	
	2003 RMB'000	2002 RMB'000
Cost		
Beginning of year	34,637	27,710
Additions	–	6,927
End of year	<u>34,637</u>	<u>34,637</u>
Accumulated amortisation and impairment		
Beginning of year	10,946	–
Amortisation for the year	4,945	4,946
Impairment loss for the year	–	6,000
End of year	<u>15,891</u>	<u>10,946</u>
Net book value		
End of year	<u>18,746</u>	<u>23,691</u>
Beginning of year	<u>23,691</u>	<u>27,710</u>

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

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

14. INVESTMENTS IN SECURITIES

	The Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Investment securities		
Equity securities – Unlisted, at cost	51,940	51,940
Less: Impairment loss	(16,324)	–
	35,616	51,940

Investment securities represent the Group's 18.52% holding of the registered capital of Tongling Huarui Electronic Materials Company Limited, a company incorporated in the PRC.

15. INVESTMENT IN SUBSIDIARIES

	The Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted shares, at cost	67,638	67,627
Due from subsidiaries	47,266	65,084
	114,904	132,711
Due to subsidiaries	10,373	363

Amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

15. INVESTMENT IN SUBSIDIARIES (Continued)

Details of principal subsidiaries as at 30 June 2003 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group		Principal activities
			Directly	Indirectly	
Usualink Development Limited	British Virgin Islands/ British Virgin Islands	US\$1,250	100%	–	Investment holding
Techwayson Industrial Limited *	PRC/PRC	HK\$10,000,000	–	100%	Design, supply and integration of automation and control systems
Techwayson Management Limited	Hong Kong/ Hong Kong	HK\$10,000	100%	–	Provision of management services
Techwayson Enterprises Limited	British Virgin Islands/ PRC	US\$100	100%	–	Design and integration of automation and control systems
Techwire Enterprises Limited	British Virgin Islands/ British Virgin Islands	US\$100	100%	–	Investment holding
Techwayson Trading Limited	Hong Kong/ Hong Kong	HK\$10,000	100%	–	Trading of automation products
Realtop Limited	British Virgin Islands/ British Virgin Islands	US\$100	100%	–	Investment holding

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

Note: On 30 June 2003, a wholly-owned subsidiary namely 海維深科技(深圳)有限公司 was established in the PRC. Initial capital contribution to this subsidiary is due for payment within 3 months from date of incorporation. No capital contribution was paid as at the balance sheet date.

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

16. INVENTORIES

	The Group	
	2003 RMB'000	2002 RMB'000
Raw materials	78	627
Work in progress	2,198	–
Finished goods	–	967
Merchandises	9,703	–
	<u>11,979</u>	<u>1,594</u>

No inventory was stated at net realisable value as at 30 June 2003 (2002: Nil).

17. TRADE RECEIVABLES

Trade receivables consisted of:

	The Group	
	2003 RMB'000	2002 RMB'000
Trade receivables	65,950	48,019
Retention monies receivable *	1,380	1,533
	<u>67,330</u>	<u>49,552</u>

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

Customers are normally required to settle the debts within one month upon issue of invoices, except for certain well established customers where the terms are extended to two to three months.

Ageing analysis of trade receivables at the year end date is as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
0 – 60 days	55,755	33,655
61 – 90 days	14	168
91 – 365 days	11,531	15,729
Over 365 days	30	–
	<u>67,330</u>	<u>49,552</u>

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

18. TRADE PAYABLES AND BILLS PAYABLE

Ageing analysis of trade payables and bills payable at the year end date is as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
<i>Trade payables</i>		
0 – 60 days	28,828	7,295
61 – 90 days	–	1
91 – 365 days	2,403	45
Over 365 days	4,632	–
	35,863	7,341
<i>Bills payable</i>		
0 – 60 days	51,416	–

19. WARRANTY PROVISION

	The Group	
	2003	2002
	RMB'000	RMB'000
Beginning of year	84	6,946
Provision during the year	6	84
Utilisation of provision	(24)	(37)
Unused amounts reversed during the year	(39)	(6,909)
End of year	27	84

The warranty provision represents management's best estimate of the Group's liability under one to three years warrants granted on system control equipment and software products and system integration services based on historical experience and management's estimate of level of future claims.

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

20. LOANS PAYABLE

	The Group		The Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Other loans, unsecured	16,696	19,080	16,696	19,080

The above loans were not wholly repayable within five years and the maturity is as follows:

	The Group		The Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
On demand or within one year	3,578	3,578	3,578	3,578
More than one year, but not exceeding two years	2,385	2,385	2,385	2,385
More than two years, but not exceeding five years	7,155	7,155	7,155	7,155
More than five years	3,578	5,962	3,578	5,962
	16,696	19,080	16,696	19,080
Less: Amounts due within one year shown under current liabilities	(3,578)	(3,578)	(3,578)	(3,578)
	13,118	15,502	13,118	15,502

The loans bore interest at LIBOR plus 0.5% p.a. and are repayable in 16 equal instalments over a period of 8 years.

21. SHORT TERM LOANS PAYABLE

	The Group		The Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Bank loan, secured	30,000	–	–	–
Other loan, unsecured	2,000	2,000	–	–
	32,000	2,000	–	–

The above loans are repayable on demand or within one year.

22. SHARE CAPITAL**The Company**

Ordinary shares of RMB0.106 each (equivalent of HK\$0.1)

	Number of shares	Amount <i>RMB'000</i>
<i>Authorised:</i>		
As at 30 June 2002	<u>1,000,000,000</u>	<u>106,000</u>
As at 30 June 2003	<u>1,000,000,000</u>	<u>106,000</u>
<i>Issued and fully paid:</i>		
As at 30 June 2002	<u>350,000,000</u>	<u>37,100</u>
As at 30 June 2003	<u>350,000,000</u>	<u>37,100</u>

Note: During the year, there was no changes in the company's authorised and issued share capital.

23. EMPLOYEE SHARE OPTIONS

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive, non-executive or independent non-executive directors of the Company and/or any of its subsidiaries) 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 Main Board of the Stock Exchange 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.

Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

24. RESERVES

	Share premium RMB'000	General reserve funds (Note (a)) RMB'000	Capital reserve (Note (b)) RMB'000	Contributed surplus (Note (c)) RMB'000	(Accumulated deficit)/ Retained profit RMB'000	Total RMB'000
The Group						
As at 1 July 2001	7,160	5,309	13,841	-	63,789	90,099
Profit attributable to shareholders	-	-	-	-	45,030	45,030
As at 30 June 2002	7,160	5,309	13,841	-	108,819	135,129
Profit attributable to shareholders	-	-	-	-	9,623	9,623
As at 30 June 2003	7,160	5,309	13,841	-	118,442	144,752
The Company						
As at 1 July 2001	7,160	-	-	67,614	(1,010)	73,764
Loss attributable to shareholders	-	-	-	-	(1,256)	(1,256)
As at 30 June 2002	7,160	-	-	67,614	(2,266)	72,508
Loss attributable to shareholders	-	-	-	-	(22,365)	(22,365)
As at 30 June 2003	7,160	-	-	67,614	(24,631)	50,143

24. RESERVES (Continued)

Notes:–

- (a) As stipulated by regulations in the PRC, Techwayson Industrial Limited 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.

The balance of the general reserve fund has reached 50% of the share capital of Techwayson Industrial Limited and the board of directors has determined that no further appropriation is necessary unless there is an increase in share capital of the company.

- (b) Capital reserve represents effect of the group reorganisation and capitalisation of shareholders' loans by a subsidiary.
- (c) 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 group reorganisation on 16 January 2001.

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 2003, the Company's reserves available for distribution to shareholders amounted to approximately RMB50,143,000 (2002: RMB72,508,000) 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 RMB7,160,000 (2002: RMB7,160,000) and contributed surplus of RMB67,614,000 (2002: RMB67,614,000), less accumulated deficit of RMB24,631,000 (2002: RMB2,266,000), 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.



Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

During the year ended 30 June 2002, the Group acquired 100% of shares of a subsidiary, Techwire Enterprises Limited. The fair value of assets acquired and liabilities assumed were as follows:

	<i>RMB'000</i>
Investment in securities	51,940
Amount due to a shareholder	(32,882)
Other loan	(19,080)
	<hr/>
	(22)
Goodwill on acquisition	22
	<hr/>
	—
	<hr/> <hr/>

The subsidiary acquired during the year ended 30 June 2002 utilised RMB32,860,000 for financing activities, but had no significant impact in respect of the Group's net operating cash flows or investing activities.

The subsidiary acquired during the year ended 30 June 2002 made no significant contribution to the Group's turnover and the profit attributable to the shareholders for the year ended 30 June 2002.

26. COMMITMENTS**(a) Capital commitments**

	The Group		The Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Authorised and contracted for				
– Investment in a subsidiary	10,000	–	–	–
– Property under development	59,500	115,500	–	–
	<u>69,500</u>	<u>115,500</u>	<u>–</u>	<u>–</u>

(b) Operating lease commitments

At the balance sheet date, the Group had commitments for future lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	The Group		The Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within one year	2,795	1,337	–	–
Between two and five years	2,897	1,432	–	–
	<u>5,692</u>	<u>2,769</u>	<u>–</u>	<u>–</u>

27. CONTINGENT LIABILITIES

The Company has executed corporate guarantee to banks for securing banking facilities granted to its subsidiaries. At the balance sheet date, the amount utilised by the subsidiaries amounted to approximately RMB81,416,000 (2002: Nil).

28. PLEDGE OF ASSETS

Time deposits of RMB6,834,000 (2002: Nil) have been pledged to banks to secure banking facilities granted to the Group.



Notes to the Financial Statements

TECHWAYSON HOLDINGS LIMITED / 30 JUNE 2003

29. RETIREMENT SCHEMES

From 1 December 2000, the Group has arranged 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 HK\$1,000 per month and thereafter contributions are voluntary.

As stipulated by rules and regulations in the PRC, Techwayson Industrial Limited is required to contribute to a state-sponsored retirement plan for all of its employees at a certain percentage 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 2003, the aggregate employer's contributions made by the Group amounted to RMB503,000 (2002: RMB217,000). As at 30 June 2003, there were no material forfeitures available to offset the Group's future contributions (2002: Nil).

30. MATERIAL RELATED PARTY TRANSACTIONS

Banking facilities granted to a subsidiary, Techwayson Industrial Limited, to the extent of RMB100 million are secured by a corporate guarantee given by the Company and a personal guarantee given by a beneficial shareholder ("the Guarantor") of Open Mission Assets Limited ("Open Mission"). Open Mission is a major shareholder of a substantial shareholder of the Company. The chairman of the Company, Dr. Sze Kwan, has given a personal counter-indemnity to the Guarantor (2002: Nil).

31. COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities have been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.



Schedule of Property

TECHWAYSON HOLDINGS LIMITED / FOR THE YEAR ENDED 30 JUNE 2003

PROPERTY UNDER DEVELOPMENT

Description	Use	Area	Stage of completion (estimated completion date)	percentage of attributable interest
Land Parcel No. T205-0035 located at High-tech Industrial Park Nanshan District Shenzhen City Guangdong Province The PRC	under development	Site area – approximately 8,159 sq.m. Gross floor area – approximately 15,263 sq.m.	work in progress (year 2004)	100



Notice of Annual General Meeting

TECHWAYSON HOLDINGS LIMITED

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Basement Function Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 24 October 2003, at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 30 June 2003;
2. To re-elect retiring Directors and to fix the remuneration of the Directors;
3. To re-appoint auditors and authorize Directors to fix their remunerations.

By Order of the Board

Li Chi Yuen

Secretary

Hong Kong, 19 September 2003

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, a proxy form, and the power of attorney or other authority, (if any), under which it is signed or a notarially certified copy of such power of attorney must be deposit at the Company's Hong Kong Registrars, Hong Kong Registrars Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be).