

### Techwayson Holdings Limited 德維森控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

# SECOND QUARTERLY RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

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This announcement for which the directors of Techwayson Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Techwayson Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

#### **HIGHLIGHTS**

- Turnover slightly decreased by approximately 5% for the six months ended 31 December 2001 compared with the corresponding period in 2000.
- Profit attributable to shareholders for the six months ended 31 December 2001 amounted to approximately RMB35,606,000.
- Earnings per share for the six months ended 31 December 2001 were RMB10.17 cents.

#### **INTERIM RESULTS (UNAUDITED)**

The Board of Directors (the "Directors") of Techwayson Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months and three months ended 31 December 2001, together with the comparative figures for the corresponding periods in the year 2000 as follows and which have been reviewed by the Company's audit committee and the Company's independent auditors, Charles Chan, Ip & Fung CPA Limited.:

		For the six months ended 31 December		For the three months ended 31 December		
		2001	2000	2001	2000	
	Note	RMB'000	RMB'000	RMB'000	RMB'000	
Turnover	3	90,229	95,062	83,684	64,824	
Materials and equipment	3	(47,897)	(33,461)	(45,546)	(21,820)	
		42,332	61,601	38,138	43,004	
Other revenue		3,208	_	2,890	_	
Staff costs		(3,607)	(4,688)	(1,930)	(1,793)	
Depreciation of equipment and furniture		(547)	(527)	(356)	(238)	
Provision for warranty costs		(1,259)	(4,753)	(1,259)	(3,363)	
Other operating expenses		(3,774)	(8,088)	(1,994)	(5,002)	
Profit from operations		36,353	43,545	35,489	32,608	
Interest income		71	52	51	39	
Profit before taxation		36,424	43,597	35,540	32,647	
Taxation	4	(818)	_	(702)		
Profit attributable to shareholders		35,606	43,597	34,838	32,647	
Earnings per share — Basic	5	RMB10.17 cents	RMB15.57 cents	RMB9.93 cents	RMB11.66 cents	

#### NOTES TO THE INTERIM FINANCIAL STATEMENTS

#### 1. 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. 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 six months and three months ended 31 December 2000, rather than from the date on which the Reorganisation was completed.

The interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting" and No. 26, "Segment Reporting", issued by the Hong Kong Society of Accountants, and the disclosure requirement 18.55 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM" Listing Rules").

#### 2. Principal accounting policies

The principal accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual audited financial statements for the year ended 30 June 2001 except as described below.

The Group's turnover was classified as (i) sales of system control equipment and software products, and (ii) fees for system integration services in prior periods. Since the adoption of revised SSAP 26 in August 2001, the turnover classified under heading (i) and (ii) was further detailed into two parts: Industrial automation services and Building automation services. Both the interim results and comparative results have been reclassified to conform with the requirement of the revised SSAP.

Industrial automation is divided into factory automation and process automation.

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.

#### 3. Turnover

The Group's turnover represented revenue generated from fixed price contracts in respect of (i) sales of system control equipment and software products, and (ii) fees for system integration services and was further classified under the heading of industrial automation services and building automation services. The Group's revenue from fixed price contracts is stated after deducting Mainland China value-added tax and city and county maintenance tax.

	For the six months ended 31 December					
	Building	Industrial		Building	Industrial	
	automation	automation	Total	automation	automation	Total
	2001	2001	2001	2000	2000	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income from fixed price contracts						
<ul> <li>Sales of system control equipment</li> </ul>						
and software products	63,221	787	64,008	_	88,155	88,155
— Fees for system integration services	26,171	50	26,221		6,907	6,907
	89,392	837	90,229	_	95,062	95,062
Materials and equipment	(47,316)	(581)	(47,897)		(33,461)	(33,461)
	42,076	<u>256</u>	42,332		61,601	61,601
		For the	three months	ended 31Decei	nber	
	Building	Industrial		Building	Industrial	
	automation	automation	Total	automation	automation	Total
	2001	2001	2001	2000	2000	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income from fixed price contracts						
<ul> <li>Sales of system control equipment</li> </ul>						
and software products	56,971	492	57,463	_	60,935	60,935
— Fees for system integration services	26,171	50	26,221	<u> </u>	3,889	3,889
	83,142	542	83,684	_	64,824	64,824
Materials and equipment	(45,158)	(388)	(45,546)		(21,820)	(21,820)
	37,984	154	38,138	_	43,004	43,004

#### 4. Taxation

Taxation consists of:

	For the six months ended 31 December		For the three months ended 31 December	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Current taxation				
— Mainland China enterprise income tax	818		702	

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 eight 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 2008.

#### 5. Earnings per share

The calculation of basic earnings per share for the six months and three months ended 31 December 2001 is based on the consolidated profit attributable to shareholders of approximately RMB35,606,000 and RMB34,838,000 (2000: RMB43,597,000 and RMB32,647,000) respectively and the weighted averaged number of approximately 350,000,000 shares (2000: 280,000,000 shares) deemed to be in issue during the period.

Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in issue during the six months and three months ended 31 December 2000 and 2001.

#### 6. Reserves

Movements of reserves of the Group are as follows:

		Statutory			
	Share	reserve	Capital	Retained	
	premium	funds	reserve	profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2001	7,160	5,309	13,841	63,789	90,099
Profit attributable to shareholders				35,606	35,606
As at 31 December 2001	7,160	5,309	13,841	99,395	125,705

#### INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2001. (2000: Nil)

#### MANAGEMENT DISCUSSION AND ANALYSIS

#### **Business Review**

For the six months ended 31 December 2001, the Group has recorded a turnover of approximately RMB90,229,000 representing a 5% decrease from approximately RMB95,062,000 for the corresponding period of 2000. Turnover for the second quarter in 2001 is approximately RMB83,684,000 which shows an increase of 29% and 1179% as compared to the corresponding period of 2000 and the previous quarter ended 30 September 2001 respectively. Turnover for the six-month period slightly declined due to certain contracts under negotiation were delayed.

The profit margin derived from fixed price contracts (after deduction of related materials and equipment costs) shrank from 65% to 47% for the first half of 2001 as compared to the same period of 2000. The drop is owing to firstly, a price cut in the Group's product for industrial automation under keen competition from international suppliers with new product range; secondly, thinner profit margin for the Group's Building Automation System which contributed significantly to the Group's turnover in the second quarter of 2001. However, the Group has kept down its cost of operation and maintained its operational margin at a high level of averaging 33%.

Profit attributable to shareholders decreased by approximately RMB7,991,000 to approximately RMB35,606,000 for the first half of 2001, representing a 18% decrease as compared with the corresponding period last year. Such decrease was primarily due to a decrease in profit margin derived from fixed price contracts (after deduction of related materials and equipment costs). As a result, earnings per share for the six months period ended 31 December 2001 declined to approximately RMB10.17 cents, from approximately RMB15.57 cents for the corresponding period in 2000.

In September 2001, the Group has entered into an agreement to acquire a subsidiary, Techwire Enterprises Ltd which holds a 18.52% interest in Tongling Huarui Electronic Materials Co. Ltd., at a total consideration of HK\$49 million. Upon completion of the transaction, the Directors expect that there will be a positive contribution to the future earnings of the Group from the year of 2002. This long term investment is funded from internal resources and profit of the Group as to the payment of HK\$31 million cash consideration and as to the balance of HK\$18 million (approximately RMB19,080,000), payable over 8 years by equal semi-annual instalments of principal with interest bearing at LIBOR plus 1%. The balance will be funded from future profit of the Groups and bank borrowing (if necessary).

The borrowing maturity profile of the Group as at 31 December 2001 is analysed as follows:

The borrowing maturity profile of the Group as at 31 December 2001 is analys	as follows.
	At 31 December 2001
	(Unaudited)
	RMB'000
Repayable within one year	4,385
Repayable after 1 year but within 2 years	2,385
Repayable after 2 years but within 5 years	7,155
Over 5 years	7,155
	21,080

At 31 December 2001, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets, was 10% (2000: NIL). The management believes that the gearing ratio is at acceptable level for the Group and the Group would be able to create sufficient financial resources to discharge its debts.

Save as disclosed in this report, the Group's current information in respect of exchange risk has not changed materially from the information disclosed in the latest annual financial statements.

As at 31 December 2001, the Group had current assets of approximately RMB122,219,000, which principally comprised cash and bank balances of approximately RMB48,327,000, trade receivables of approximately RMB65,539,000, inventories of approximately RMB114,000, and prepayments and deposits and other current assets of approximately RMB8,239,000.

As at 31 December 2001, the Group's current liabilities were approximately RMB23,795,000, comprising trade payables of approximately RMB5,492,000, accruals and other payables of approximately RMB5,802,000, warranty provision of approximately RMB8,206,000, loan payable of RMB2,000,000 and taxation payables of approximately RMB2,295,000.

As at 31 December 2001, the Group had 100 employees.

Market for automation in traditional industries such as oil refining and petrochemical has slowed down in the last six months ending December 2001. The Group has thus focused on expanding its market base by entering the emerging industries and tapping the overseas markets. Special attention has also been given to improvement of sales network and R&D. The Group feels confident in achieving an annual turnover of approximately RMB140 millions by the end of the year, which will better the Group's performance for the year ended June 2001.

#### Sales and Marketing

The Group has found opportunities in supplying automation and control systems to the infrastructure related sector which includes Power Plant, Metro Transit, Building and Logistics centers. Many sizable projects are open for tenders or joint venture such as Shenzhen MRT, Tianjin Metro Transit and Shenzhen Airport Logistics Centre. As a domestic company, the Group has certain advantage over foreign suppliers. Several breakthroughs in marketing in the infrastructure related industries were recorded as below. Although it will take some time for the deals to be materialized, because of significant project size and the complicated tender process, the effort in these areas are expected to be rewarding. However, due to accounting principles adopted, the results can only be seen upon substantial completion of the projects.

First, building automation. Following the first contract for Building Automation System (BAS) in Shanghai, the Group has secured contracts of total amount of RMB 63 millions from major residential estates in Beijing and Fuzhou. This is a significant contribution to our turnover in the second quarter of 2001. The BAS contracts cover design, supply and contracting of the intelligent system, providing total solutions to our clients.

Second, the power generation industry. Shenzhen West Power Co., Ltd. (深圳西部電力公司) has signed with the Group a contract for control system for chemical water processing, following the previous one signed in July 2001 for transformer system. The total contract sum of both is around RMB 20 million. This is expected to contribute to the Group's turnover in the third and fourth quarter.

Third, metro transit railway. The Group has entered into strategic partnership with Qinghua Tongfang Corp. (清華同方), Shanghai Electrical Automation Institute (上海電氣集團) and Guangzhou Auto Control Engineering Limited (奧特控制工程有限公司) to service this emerging industry. Furthermore, the Group has signed a Memorandum of Understandings with GE Transportation, a worldwide leader in Metro Railway, in November 2001 for the incorporation of a joint venture to be established in the PRC. Progress of the establishment of the joint venture will be made known to the shareholders as soon as practicable when a final agreement is reached.

To complement our product range and strengthen our sales network, the Group has confirmed with Rockwell to become its sole distributor in Southern China (Guangdong, Guangxi and Hainan). Rockwell is the largest automation system supplier and driving system manufacturer in the United States. The Group will represent Rockwell's products such as controllers, controlling software, motor automation and electrical products. The turnover is expected to reach approximately RMB30 million in 2002.

In tapping the overseas markets, the Group has started discussion with counter partners in Hong Kong and North America for the supply of the Group's automation in BAS, SmartHome, and Rail Transit Automation. Marketing survey is being conducted to identify the best distribution channel and pricing strategy relating to this project.

#### **Research And Development**

To keep pace with the development of the hi-tech industry, the Group has been investing in R&D to maintain its leading position. As a result, some of the Group's proprietary products have gained the industry's attention. Negotiation with General Electric (GE) regarding the sales and application of the Group's rail control system is already in progress. Subject to the formalization of the joint venture with GE, the new joint venture will be responsible for the sales of the Group's rail products and GE's transportation products in the PRC.

The Group has completed internal testing for its hot back-up controller and the anti-explosion intrinsic safe modules to ensure that its products can withstand extreme environmental situations such as in oil refineries and petrol-chemical plants. Further field tests and official tests will be carried out in the future.

The Group has enhanced its Tailored Control System (TCS) compatibility with other softwares. This will shorten the installation and run-in time of the system, especially in traditional industries such as petrol-chemical, oil refining and steel refining. The advantages of TCS will raise our clients' productivity and minimize their resources wastage.

In BAS, the Group has made advancement in its digital image control technology which has dramatically raised the transmission speed by five times. This advancement is in complement its other product range in systems integration and engineering application.

The Group will continue to make investment in R&D which is maintained at approximately 5% of the revenue. The Group believes that, to stay abreast in this competitive market of hi technology, constant reviewing and upgrading of products are essential. Therefore, R&D plays an important part in the Group's expansion in its technology and services.

#### **COMPETING INTEREST**

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

#### **DIRECTORS' INTEREST IN SHARES**

As at 31 December 2001, 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 Rule 5.40 to 5.59 of the GEM Listing Rules, the interests 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

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

Saved as disclosed above, as at 31 December 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).

#### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

Except for the employee share option scheme of the Company, 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 31 December 2001, no option was granted by the Company under the employee share option scheme.

#### SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 hold	Approximate Shareholding
Otto Link Technology Limited <sup>1</sup>	168,000,000	48.00%
Goldwiz Technology Limited	61,824,000	17.66%
Goldwiz Holdings Limited <sup>2</sup>	61,824,000	17.66%
Mr. Siu Ting	38,976,000	11.14%

#### Note:

- 1. 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.
- 2. 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 the 61,824,000 Shares held by Goldwiz.

#### SPONSOR'S INTEREST

Pursuant to an agreement dated 16 July 2001 entered into between the Company and Celectial Capital Limited ("CASH"), CASH has been appointed as the Company's sponsor for the period from 16 July 2001 to 30 June 2003 in return for a monthly advisory fee.

None of the Company's sponsor, CASH, 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 31 December 2001.

#### COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's Shares on the GEM on 8 February 2001.

#### **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 to 5.25 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. The Group's unaudited results for the six months ended 31 December 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.

The Group's independent auditors, Charles Chan, Ip & Fung CPA Ltd, has carried out a review of the unaudited interim financial statements in accordance with the statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

#### PURCHASE, SALE OR REDEMTION OF THE COMPANY'S LISTED SHARES

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

By Order of the Board
SZE Kwan
Chairman

Hong Kong, 5th February, 2002

This announcement will remain on GEM Website at www.hkgem. com on the "Latest Company Announcements" page at least for 7 days from the date of its posting and on the website of Techwayson Holdings Limited at www.techwayson.com.hk.

\* For identification purpose only