ESOFTBANK COM INC
Form 10KSB
April 19, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________.

Commission File No. 1-12293

BROADENGATE SYSTEMS, INC.

(Name of small business issuer in its charter)

Nevada	87-0394313
(State or other jurisdiction of Identification Number)	(I.R.S. Employer incorporation or organization)

3/F, Block 2, Cyber City, South Hi-tech Industrial Park,
Shenzhen, Guangdong Province

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Include Area Code: 011-86-755-671-6656

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve (12) months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past ninety (90) days. Yes X No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for its most recent fiscal year were $1,230,211.

As of March 25, 2002, 14,393,000 shares of our common stock, $.001 par value were outstanding. As of such date, the aggregate market value of the common stock held by non-affiliates, based on the closing bid price on the NASD Bulletin Board, was approximately $1,529,901.

DOCUMENTS INCORPORATED BY REFERENCE

Transitional Small Business Disclosure Format: Yes No X

TABLE OF CONTENTS

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Corporate History

World Concept Development Limited (World), a development stage enterprise, was incorporated on October 27, 1999, in the British Virgin Islands. World incorporated a wholly owned subsidiary, eSoftBank Networks (Shenzhen) Co. Ltd. (Shenzhen) on December 30, 1999, in the Peoples' Republic of China (PRC). World and Shenzhen were formed to effect a merger, exchange of capital stock, asset acquisition or other business combination with a domestic or foreign, private or publicly held business.

On February 21, 2000, World, via Shenzhen, acquired 9.52% of the outstanding capital of SiTech Hainan Limited. (SiTech), a company related through common ownership and management from Dr. Hongbing Lan, a director and shareholder of both World and SiTech for approximately $62,650. On the same date, Shenzhen acquired an additional 42.86% of SiTech from SiTech Hainan Holding Co., Ltd. (Holdings), a company related through common ownership and management, for approximately $280,000. SiTech is a software designer and markets both packaged and custom designed Internet-related software applications. Since both entities involved in the acquisition were under common control, the transaction was accounted for at historical cost in a manner similar to that in pooling-of-interests accounting. The consolidated financial statements include the results of operations for World and its subsidiary from their inception.

On February 21, 2000, Shenzhen also acquired an 80% of the newly issued and outstanding stock of eSoftBank (Beijing) Software Systems Co., Ltd. (Beijing), a PRC company, from Holdings for an initial capital investment of approximately $116,000. The remaining 20% of Beijing is owned by Mr. Hongyu Lan, the brother of Dr. Hongbing Lan.

On March 31, 2000, Natural Way Technologies, Inc. (Natural Way) entered into an Exchange agreement (the Exchange) with World, an independent third party. In accordance with the Exchange, Natural Way acquired 100% of the issued and outstanding shares of World in exchange for 9,300,000 post reverse split shares of Natural Way. Prior to closing, Natural Way effected a one for five reverse stock split and changed the name of the Company to eSoftBank.com, Inc.

The Exchange has been accounted for using the purchase method of accounting as a reverse acquisition, whereby the company issuing its shares to effect the business combination is determined to be the acquiree in the business combination. This occurs when the shareholders of the issuer have less than a majority of voting control of the combined entity. The company whose shareholders retain the majority voting interest in the combined entity is presumed the acquirer. In the current Exchange, the existing shareholders of Natural Way will retain a 27% voting interest in the combined entity on completion of the Exchange. Accordingly, World is deemed to be the acquirer and the assets of Natural Way were required to be fair valued at acquisition. As Natural Way had no assets, as of the date of the Exchange, no fair value adjustment was required. The historical financial information prior to the Exchange are those of World.

On October 15, 2001, Shenzhen acquired 70% of the outstanding capital of Tongzhou (Dalian) Computer Co., Ltd. (Dalian), a PRC company for 307,000 shares of eSoftBank.com, Inc. common stock, from Holdings. The remaining 30% of Dalian is owned by Leasci Technologies Co., Ltd., which is a subsidiary of Dalian University of Technologies.

On November 13, 2001, the Company changed its name from eSoftBank.com, Inc. to BroadenGate Systems, Inc. to better describe out business model

Business of the Company

BroadenGate Systems, Inc. was among the first software outsourcing service providers in China information technology industry. From its inception, the company has worked to develop comprehensive outsourcing solutions for systems development and implementation projects and provide consulting services in the telecom, network security, e-Business, ERP, CRM and GIS sectors. The company also offers a diverse array of related products and services.

BroadenGate has offices in Beijing, Shenzhen, our headquarters, Haikou and Dalian, the People Republic of China (PRC). The Company employs over 200 software-development and system-consulting professionals and more than 30 project managers. BroadenGate objective is to be the leading Chinese provider of comprehensive outsourcing solutions and project management tools, using industry-leading technical standards and business practices.

To develop core infrastructure for the Chinese information technology outsourcing market, BroadenGate offers complete solutions to its outsourcing clients as well as providing project management tools. We have a professional outsourcing team, a Chinese collaborative information technology website, the exclusive rights to software engineering management tools, and outsourcing experience and standardized management processes.

We changed our company's name from Natural Way Technologies, Inc. to eSoftBank.com, Inc. on March 31, 2000 when we acquired (the "Acquisition") all of the issued and outstanding shares of World Concept Development Limited ("WCD"). WCD owns the software development and Internet-based software subcontracting platform operations conducted in China under the name eSoftBank.com. This platform is a facilitator to make experienced personnel available to companies needing software expertise. The company charges a fee from the participants for this service.

eSoftBank.com built the first software outsourcing infrastructure in China. Currently, we have in excess of 75,000 individual and corporate members who are available to develop software or assist those who need advice using the eSoftBank.com platform. There are also approximately 1200 Chinese software companies who contract with members for software collaboration and development.

Market Strategy

To gain greater visibility with Japan outsourcing businesses, we formed a new business operation in Dalian, PRC, a city much closer to Japan. This visibility has assisted the Company in its international marketing efforts.

The Company is concentrating its efforts on developing strategic alliances with both Chinese information technology (IT) companies and American consulting companies. These strategic alliances will have a dual benefit (1) they help develop expertise in major software programming fields and (2) generated outsourcing engagements for the Company.

The Company continues to develop its position in online software outsourcing by serving as an e-market, to bring buyers and sellers of information technology services together. During the fourth calendar quarter of 2001, we upgraded and expanded the Software Outsourcing Platform to provide a matching of information technology service providers and information technology service contractors not just for the Chinese market, but also for the international market.

The Company is continuing its effects to establish more outsourcing partnerships which should produce more recurring projects and a more stable source of revenue.

Competition

Competition in software outsourcing market is intense. We have competitors in China such as NEU-Apline and TopSoft as well as foreign competitors. However our business model is unique. While NEU-Alpine and TopSoft provide software development by using their own technical resources but have no core technologies. We believe that we have the following advantages: professional software outsourcing services for an international clientele; experienced project managers and software developers; industry-leading project management and collaborative software development platforms, good business practices in management and software development, competency groups with industry and technical focuses, and diverse partners for both software development and marketing.

Because we are a service company, we are not dependant on any suppliers for raw materials, nor do we have any principal suppliers for our operating requirements.

Research and Development

Research and development has a high priority:

* We continue to develop our core project management platform n Team which assists software companies in improving their software project management. A new version will be launched in 2002.

* We continue to develop and upgrade roject Management Center the software outsourcing business model of BroadenGate. We have successfully formed a close relationship with Huawei, one of the largest telecom equipment manufacturers in Asia to assist us with this development and upgrade.

* We are developing and expanding our network and project management solutions. BroadenGate and TZ-Project, now we have over 1000 clients in the PRC.

For the year ended December 31, 2000, we expended US$134,188 on research and development and an additional $134,475 during calendar year 2001.

Patents and Trademarks

OnTeam is our leading project management platfor m for the CMMII and ISO 9000 series users. This platform integrates the functions including project management, development process, quality assurance, communication, configuration management and bug report. Now we are applying for patents for On Team in both China and the United States.

We have the following trademarks in the PRC:

* ESOFTBANK: the brand of our company, as well as the collaborative development and software outsourcing;

* ONTEAM: a standardized project management platform, which can manage the whole process of software development. It provides an integrated software development and project environment;

* BROADENGATE and E*LINUX the product trademarks for our internet service package/platform;

Government Regulation

We are not subject to any government regulations other than copyright and trademarks laws.

Employees

We have over 200 employees; 30 of which are managerial and more than 170 of which are software engineers.

ITEM 2. DESCRIPTION OF PROPERTIES

We do not own any real estate, but lease three separate offices in Beijing, Shenzhen, Haikou and Dalian.

In Beijing, we lease 400 square meters (approximately 5,166 square fee) of office space at 7/F, Beiji Building, No.249, South Dongsi Street, Dongcheng, Beijing, 100005, the People's Republic of China. The rent for this facility is $4,216 per month and the lease extends through March 2003.

In Shenzhen, we lease 300 square meters (approximately 3,875 square feet) of office space at 3/F, Block 2, Cyber City, South Hi-tech Industrial Park, Shenzhen, Guangdong Province, 518057, the People's Republic of China. The rent for this facility is $1,300 per month and the lease extends through April 30, 2001. This facility also serves as our corporate headquarters.

In Haikou we lease 700 square meters (approximately 9,042 square feet) of office space at Room 1001, Haikou International Commercial Center, No. 38, Datong Road, Haikou, Hainan, The People's Republic of China. The rent for this facility is $3,500 per month and the lease extends through August 2005.

In Dalian we lease 400 square meters (approximately 5,167 square feet) office space at Room 409,No.1,LinBei Road, Hi-tech Industrial Park, DaLian, Liaoning, The People's Republic of China. The rent for this office is $2,500 per month and the lease will expire in May, 2002 with an option to renew.

All of our officers are located in class A office buildings.

ITEM 3. LEGAL PROCEEDINGS

To the best of management's knowledge, there are no legal proceedings threatened or pending against us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the shareholders during the fourth quarter of our fiscal year, nor were any voted upon other than at a meeting of shareholders.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

There is limited trading in our Common Stock. The following table sets forth the high and low bid price by calendar quarter of the Company's common stock.

Quarter Ended	High	Low	Quarter Ended	High	Low
March 30, 2001	$0.563	$0.563	March 31, 2000	$ -	$ -
June 30, 2001	0.37	0.37	June 30, 2000	9.50	.937

September 28 2001	0.25	0.25	September 30, 2000	3.125	1.25
December 31, 2001	0.15	0.15	December 31, 2000	1.50	.469

Shareholders of Record

As of March 20, 2002, there were approximately 301 record holders of our common stock. Our common stock trades on the OTC:BB under the symbol BROG.

Dividends

Apart from a deemed dividend in 2000, we have never declared or paid any cash dividend on our Common Stock nor do we expect to declare or pay any dividend on our Common Stock in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

We believe that we are well positioned for growth in the developing information technology ("IT") industry in the PRC and internationally. With the PRC joining the WTO and the Beijing's 2008 Olympics, the IT outsourcing demand should increase during the next several years.

Since its inception in 1996, the company has grown with the Chinese domestic IT industry. BroadenGate is now leveraging its domestic expertise to enter the global outsourcing market, and to co-op with leading multinational software vendors in the Chinese market, such as Oracle and IBM. Building on the synergy between the Chinese and global markets, BroadenGate hopes to continue to increase its market share at home and win higher-margined contracts abroad.

Recent Developments

In 2001, the company increased its business base by forming close partnerships with some of the leading companies in the PRC, including Huawei Technology, which is among the largest manufacturers of telecommunications equipment in Asia. As a result of Huawei outsourcing projects, we have substantially improved our project management framework, and establish four project management centers (PMCS).

1. A Telecommunication & Internet Center: We have over 100 engineers currently working in this PMC, and have outstanding contracts for over 30 million RMB in 2002 with Huawei. We have reached an agreement of cooperation with the China Policy Security Bureau, to use our solutions in Internet access, network management and security, which should produce significant marketing potential in China.
2. A Development & International Center: We recently won a COBOL software development contract for approximately 15 million Yen (US1,150,000) in Dalian with SCM a subsidiary of Mitsubishi Corporation.
3. A Project Management Software & System Integration Center: This division is based on the Dalian Tongzhou Computer Software Co., Ltd. System (Tongzhou), and serves more than 1000 clients in architectural, chemical, metallurgical, transportation, manufacturing and energy;
4. An E-Business and E-Banking Center: This center is new, but during the coming year, we anticipate building a local e-banking system in Hainan island.

In 2002, we will focus on the Chinese and Japanese markets. However, if the Company is to be a dominent player in the industry, it is critical to establish a physical presence in the US.

The business of BroadenGate Systems is currently conducted in Renminbi, the currency of China ("RMB"), which for purposes of this section and our financial statements are converted at an exchange rate of $1.00 = RMB 8.30.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000.

Revenues. Revenues increased by $89,988 or 7.89% to $1,230,211 for the year ended December 31, 2001 from $1,140,223 for the year ended December 31, 2000. This increase in revenues resulted from software outsourcing.

Cost of Sales. Cost of sales increased by $251,956 or 49.21% to $763,997 for the year ended December 31, 2001 from $512,041 for the year ended December 31, 2000. Cost of sales as a percent of revenues was 62.10% for the year ended December 31, 2001 compared to 44.91% for the year ended December 31, 2000. This increase in cost of sales resulted from increased revenues and a change in the mix of products sold. The increase in cost of sales as a percentage of revenue is attributable to an increased percentage of sales from human resource outsourcing which has a lower profit margin than software development.

Selling and Administrative Expenses. Selling and administrative expenses decreased by $813,787 or 39.27% to $1,258,711 for the year ended December 31, 2001 from $2,072,498 for the year ended December 31, 2000. This decrease in selling and administrative expenses resulted from decreased marketing expenses, decreased research and development expenses and decreased professional fees.

Other Expenses, Net. Other expenses consists of interest income and expense, bank charges, recovery of prior expenses foreign exchange gains or losses and other miscellaneous income. Other expenses, net increased by $933 or 3.20% to $30,130 for the year ended December 31, 2001 from $29,197 for the year ended December 31, 2000. This increase in other expenses, net resulted principally from increased interest expense which was partially offset by interest and miscellaneous income.

Income Taxes. Income tax decreased by $60,188 or 100% to $0 for the year ended December 31, 2001 from $60,188 for the year ended December 31, 2000. Although the income of the Company increased, our company has been certificated as Hi-Tech company by local authority, and the government has refunded all necessary taxes.

Minority Interest. Minority interest represents the 20% interest in eSoftBank (Beijing) Software Systems Co. Ltd., the 47.6% of SiTech Hainan Ltd. and 30% of Tongzhou (Dalian) Computer Co., Ltd., not owned by the Company.

As a result of the foregoing, the net loss of the Company decreased by $333,009 or 27.72% from net loss of $1,201,244 for the year ended December 31, 2000 to a net loss of $868,235 for the year ended December 31, 2001.

Liquidity and Capital Resources

As of December 31, 2001, we had cash of $963,259 and a deficit in working capital of $2,351,089. This compares with cash of $388,159 and negative working capital of $1,967,031 as of December 31, 2000. Our cash increased because of increased borrowings and the sale of common stock. However, our working capital derived principally as a result of our net operating loss.

Cash used by operating activities totaled $977,747 for the year ended December 31, 2001. This compares with cash used by operations of $1,038,548 for the year ended December 31, 2000. The change in cash flows from operating activities resulted from a reduced net operating loss for current year and increased depreciation, amortization and abandonment of product which was offset by changes in the current accounts, principally an increase in accounts receivable.

Cash used in investing activities decreased to $29,927 for the year ended December 31, 2001 from $511,276 for the year ended December 31, 2000. This decrease resulted from an decrease in capital expenditures , a reduction in capital expenditures for product development and purchases of long-term investments which was partially offset by advances to employees.

Cash provided by financing activities totaled $1,582,775 for the year ended December 31, 2001 compared to $1,862,158 for the year ended December 31, 2000. The net change in cash provided by financing activities is attributable to a decrease in borrowings partially offset by an increase in issuance of common stock and a decrease in dividends paid.

For the year ended December 31, 2002, we have no plans for any major capital expenditures.

Based on the current level of cash, the deficit in working capital and current level of expenditures in our business, it will be necessary to seek additional sources of funding over the next twelve months. Management is negotiating with its banks for more project finance to fund operations for the current year. However, without outside financing or the sale of stock the Company has insufficient resources to continue its business operation for the next twelve months. No assurance can be given that the Company will be able to obtain any financing or sell any of its shares.

Cautionary Statements

In addition to the other information in this Annual Report on Form 10-KSB, the following factors should be considered carefully in evaluating the Company.

Demand for our products softens in a weakened economy. In a general economic downturn, our customers generally curtail information technology expenses. This can result in lower sales revenues and a lengthening of sales cycles during these periods. If we experience a decrease in demand for our products, we can't assure you that we will be able to cut costs quickly and effectively in response to decreased sales or increased returns.

Our Quarterly and Annual Revenues. Expenses and Operating Results May Fluctuate Significantly. These fluctuations may be due to a number of factors, including:

* demand for our products;

* size and timing of significant orders and their fulfillment;

* our ability to develop and upgrade our technology;

* changes in our level of operating expenses;

* our ability to compete in a highly competitive market

* undetected software errors and other product quality problems;

* changes in our sales incentive plans and staffing of sales territories; and

* change in the mix of domestic and international revenues and the level of international expansion.

Intra-Quarter Fluctuations. Orders booked throughout a quarter may substantially impact product revenues in that quarter. Our sales also fluctuate throughout the quarter as a result of customer buying patterns. In addition, we base our expenses to a significant extent on our expectations of future revenues. Most of our expenses are fixed in the short term, and we may not be able to reduce spending quickly if our revenues are lower than we had projected. If our revenue levels do not meet our projections, we expect our operating results to be adversely and disproportionately affected.

Fixed Expenses. We base our expenses to a significant extent on our expectations of future revenues. Most of our expenses are fixed in the short term, and we may not be able to reduce spending quickly if our revenues are lower than we had projected. If our revenue levels do not meet our projections, we expect our operating results to be adversely and disproportionately affected.

Our Markets are Highly Competitive and Rapidly Changing. Our markets are highly competitive and rapidly changing. We face competition from small companies with niche offerings as well as public companies with a breadth of offerings. New competitors have arisen and can be expected to continue to arise in a rapidly evolving market.

Our Products are Subject to Rapid Technological Change. The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, uncertain product life cycles, changes in customer demands and evolving industry standards. Our products could be rendered obsolete if new products based on new technologies are introduced or new industry standards emerge.

Limited Protection of Proprietary Technology: Risks of Infringement. Our success depends to a significant degree upon our software and other proprietary technology. The software industry has experienced widespread unauthorized reproduction of software products. We rely on a combination of copyright and trade secret law as well as contractual restrictions to protect our technology. However, we may not be able to detect unauthorized use or take appropriate steps to enforce our intellectual property rights. If we litigated to enforce our rights, litigation would be expensive, would divert management resources and may not be adequate to protect our business. We also could be subject to claims alleging infringement of third-party intellectual property rights. In addition, we may be required to indemnify our distribution partners and end-users for similar claims made against them. Any claims against us could require us to spend significant time and money in litigation , pay damages, develop non-infringing intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. As a result, claims against us could materially adversely affect our business.

Risks Associated with Completed and Potential Acquisitions. We have made and may continue to make investments in complementary companies, technologies, services or products if we find appropriate opportunities. If we buy a company, we could have difficulty assimilating the personnel and operations of the acquired company. If we make other types of acquisitions, assimilating the technology, services or products into our operations could be difficult. Acquisitions can disrupt our ongoing business, distract management and other resources and make it difficult to maintain our standards, controls and procedures. We may not succeed in overcoming these risks or in any other problems we might encounter in connection with any future acquisitions. We may be required to incur debt or issue equity securities to pay for any future acquisitions. In addition, there can be no assurance that we will be able to successfully integrate our recent acquisition of Dalian Tongzhou or that we will be able to integrate the products and technology we acquired into our sales model or product offerings.

Risks of Undetected Software Errors. Our software products are complex and may contain certain undetected errors, particularly when first introduced or when new versions or enhancements are released. We have previously discovered software errors in certain of our new products after their introduction. We cannot be certain that, despite our testing, such errors will not be found in current versions, new versions or enhancements of our products after commencement of commercial shipments. Such undetected errors could result in adverse publicity, loss of revenues, delay in market acceptance or claims against us by customers, all of which could materially adversely affect our business.

Country Risk. Substantially all of the Company operations are conducted in the PRC and accordingly, the Company is subject to special considerations and significant risks not typically associated with companies operating in North America and Western Europe. These include risks associated with the political, economic and legal environments and with foreign currency exchange, among others. The Company's results may be affected by, among other things by changes in the political and social conditions in the PRC and changes in government policies with respect to laws and regulations, anti-inflation measures, currency conversion, remittance abroad and rates and method of taxation. The PRC government has implemented economic reform policies in recent years, and these reforms may be refined or changed by the government at any time. It is possible that a change in the PRC leadership could lead to changes in economic policy. In addition, a substantial portion of the Company revenue is denominated in Renminbi, which must be converted into other currencies before remittance outside the PRC. Both the conversion of the Reminbi and other foreign currencies and remittance of foreign currencies abroad require approval of the PRC government.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements of the Company, together with the independent auditors' report on these statements by Blackman Kallick Bartelstein LLP are included on pages F-2 through F-20 of this Form 10-KSB. (See Index to Financial Statements on page F-1 of this Form 10-KSB.)

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with the certifying accountants or on any accounting or financial disclosure item during any period covered by this Form 10-KSB.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following are the names, ages and positions held by each of our officers and directors:

Name Director Since	Age	Title	Date of First Election or Appointm
Dr. Hongbing Lan	35	Chairman, Chief Executive Officer and Director	2001
Mr. Hongyu Lan	29	Chief Financial Officer	
Mr. Xinmin Gao	63	Director	2001
Mr. Fa Ding Liu	39	Director	2001
Mr. Daniel A. Norcross	28	Chief Marketing Officer	2001

The term of office of each director is one year, subject to removal by the shareholders, or until his successor is elected and qualified at our annual meeting of shareholders. The term of office for each officer is for one year, subject to removal by the Board of Directors, or until a successor is elected. None of our directors serves on the board of directors of any other listed company.

Biographical Information

Dr. Hongbing Lan. Dr. Hongbing Lan, Chairman, Chief Executive Officer and director received a doctorate degree in Automation Control from Wuhan HuaZhong Science University. In 1995, he established the State Information Center Software Laboratory. In 1996, Dr. Lan formed SiTech Hainan Co. Ltd. where he worked until 1999 when he formed eSoftBank Networks (Shenzhen) Co., Ltd.

Mr. Daniel A. Norcross. Mr. Daniel Norcross joined the Company in May 2001 and serves as our Chief Marketing Officer and director. Prior to joining the Company, Mr. Norcross was employed by QwikQuote Development, Inc. as a Project Manager from 2000 to 2001. He also acted as a software developer in Atlantic Media Corporation from 1998 to 2000 and in Great Easter Reinsurance Inc. from 1997 to 1997. He the a Bachelor's degree of Computer in Williams College in 1997 and a Master's degree from Harvard University in 2000.

Mr. Hongyu Lan. He joined the Company in 1998 and serves as our Chief Technical Officer. Prior to joining the Company, Mr. Lan was employed by Hainan Telecom from 1997 to 1998. From 1990 to 1997, he finished his bachelor and master study plan. Mr. Lan holds a Masters Degree in Computer Science from Huazhong University of Science and Technology. Mr. Hongyu Lan is the brother of Dr. Hongbing Lan.

Mr. Xinmin Gao. Mr. Xinmin Gao was selected as a director of our Company in

April 2001 and is the Chief Scientist of the Company. Prior to joining the Company, Mr. Gao was employed by China Information Association as the deputy Director from 2000. He also acted as the director of State Information Center of China for nearly 8 years from the year 1991.

Mr. FaDing Liu. Mr. FaDing Liu was selected as a director of our Company in April 2001. Prior to joining the Company, Mr. Liu had been employed by New York Office, Nanfang Security Co., Ltd as the office manager for over 5 years.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Under the Securities laws of the United States, our Executive Officers, Directors and beneficial owners of more than ten percent (10%) of any class of our securities are required to report their initial ownership of our securities and any subsequent changes in that ownership to the Securities and Exchange Commission. However, none of these persons has yet filed the forms as required with the Securities and Exchange Commission.

ITEM 10. EXECUTIVE COMPENSATION

The following tables set forth certain summary information concerning the compensation paid or accrued for each of the Company's last completed fiscal years to the Company's or its principal subsidiaries chief executive officer and each of its other executive officers that received compensation in excess of $100,000 during such period (as determined at December 31, 2001, the end of the Company's last completed fiscal year):

Summary Compensation Table

					Long-Term Compensation	
	Annual Compensation					Awards
Name and Principal Position	Year	Salary	Bonus(1)	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options)
Dr. Hongbing Lan	1998	$10,200	0	0	0	0
Chairman, Chief	1999	11,800	0	0	0	0
Executive Officer	2000	14,200	0	0	0	0
and Director	2001	14,200	0	0	0	0

Options /SAR Grants in Last Fiscal Year

The Company has never granted options or stock appreciation rights.

Bonuses and Deferred Compensation

None

Compensation Pursuant to Plans

The Company does not have any compensation or option plans.

Pension Plans

Not applicable

Other Compensation

	Warrants Guaranteed	Exercise Price	Term
Pacific			
1-30-01	2,400,000	$3.00	1-31-00
1-30-02	1,600,000	$4.00	1-31-00
1-31-03	1,600,000	$5.00	1-31-00

Directors who are not officers of the Company receive $2,000 per year as compensation.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number of shares of the Company's Common Stock, par value $0.01, held by each person who is believed to be the beneficial owner of 5% or more of the shares of the Company's common stock outstanding at March 22, 2002, based on the Company's transfer agent's list, representations and affidavits from shareholders and beneficial shareholder lists provided by the Depository Trust and securities broker dealers, and the names and number of shares held by each of the Company's officers and directors and by all officers and directors as a group.

Title and Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent
Common	Dr. Hongbing Lan (1)(2)	4,193,660	29.13%
Common	Pacific Winner Development Ltd. (1)(2)	4,193,660	29.13%
Common	World Concept Holding 2/F, Flat D & E, Cheong Ming Bldg. 80-86 Argyle Street, Mongkok Kowloon, Hong Kong	1,120,800	7.78%
Common	Shenzhen Commercial Bank No. 1099, Shen Nan Zhonghu Shenzhen Commercial Bank Building Shenzhen, PRC	1,020,000	7.09%
Common	Hunan Huayin Electric Power Co. Ltd No. 428, Shaoshanbei Road Changsha, PRC	1,000,000	6.94%
Common	Greatime Management Corp 2/F, Flat D&E, Cheong Ming Building Kowloon, Hong Kong	1,000,000	6.94%
All officers and Directors, and as a Group (5 Person)		4,193,660	29.14%

(1) Address for all persons and entities is 3/F, Block 2, Cyber City, South Hi-Tech Industrial Park, Shenzhen, P.R.China, 518057

(2) Beneficially owned by Dr. Hongbing Lan

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Name of related party	Existing relationship with the Company
National Communication Centre	Stockholder
Hong Yu Lan	Officer and brother of Dr. Hongbing Lan
Dr. Hongbing Lan	Director and stockholder
Leasci Technologies Co., Ltd. (Leasci)	Stockholder of a subsidiary
Sitech Holding (Hainan) Company Limited	Common ownership - Dr. Hongbing Lan

Name of parties and nature of amounts (due to) due from	2000 Rmb	2001 Rmb	2001 US$
National Communication Centre - Cash advance	-	(33,271)	$(4,009
Dr. Hongbing Lan - Travel and trip expenses paid on behalf of the Company and cash advances	(2,316,408)	(4,163,531)	$(501,630
Leasci - Cash advance	-	(200,000)	$(24,096
Lan Hong Yu - Cash advance	-	(157,118)	$(18,930

The balance with Leasci is secured, interest bearing at 3% and repayable on demand.

The balances with Dr. Hongbing Lan, National Communication Centre and Hong Yu Lan are unsecured, interest-free and repayable on demand.

PART IV
ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

2.1* Exchange Agreement by and among Natural Way Technologies, Inc. and the shareholders of World Concept Development Limited

3.1* Amended and Restated Articles of Incorporation

3.2* Certificate of Decrease and Increase in Authorized Shares 3.3 Bylaws, as amended to date (1)

21.1* Subsidiaries of Registrant

* As previously filed with the Form 10-KSB for year ended December 31, 2000

(b) Reports on Form 8-K

1. Form 8-K dated November 13, 2001 reporting the change in the Company name from eSoftBank.com, Inc. to BroadenGate Systems, Inc. and the change in the Company trading symbol to ROG

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BroadenGate Systems, Inc.

By: /s/ Dr. Hongbing Lan

Dr. Hongbing Lan
Chief Executive Officer

By: /s/ Hongyu Lan

Hongyu Lan
Principal Accounting Officer

Dated: April 19, 2002

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Hongbing Lan Dr. Hongbing Lan	Chairman, Chief Executive Officer	April 19, 2002
/s/ Xinmin Gao Mr. Xinmin Gao	Director	April 19, 2002
/s/ Fa Ding Liu Mr. Fa Ding Liu	Director	April 19, 2002

Broadengate Systems, Inc. and Subsidiaries

Years Ended December 31, 2000 and 2001

C o n t e n t s

Independent Auditor's Report

Stockholders and the Board of Directors
Broadengate Systems, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Broadengate Systems, Inc. and Subsidiaries (the Company) as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Broadengate Systems, Inc. and Subsidiaries as of December 31, 2000 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred a significant loss from operations and has a deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

S/Blackman Kallick Bartelstein, LLP

Chicago, Illinois
January 29, 2002

Broadengate Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2000 and 2001

Assets

	2000 Rmb	2001 Rmb	2001 US$
Current Assets			
Cash	3,221,718	7,995,053	$ 963,259
Accounts receivable	640,900	3,192,662	384,658
Deposits and other	1,000,271	555,987	66,986
Advances to employees	427,395	389,008	46,869
Costs and estimated earnings in excess of billings on uncompleted contracts	207,944	-	-
Total Current Assets	5,498,228	12,132,710	1,461,772
Noncurrent Assets			
Long-term investment	2,800,000	2,800,000	337,349
Product development costs, net	852,995	-	-
Fixed assets	2,929,976	2,432,328	293,052
Other	265,068	-	-
Advances to employees	-	326,000	39,277
Intangibles	-	1,508,106	181,700
Total Noncurrent Assets	6,848,039	7,066,434	851,378
Total Assets	12,346,267	19,199,144	$ 2,313,150

The accompanying notes are an integral part of the consolidated financial statements.

-3-

Liabilities and Stockholders' Deficit

	2000 Rmb	2001 Rmb	200 US
Current Liabilities			
Short-term borrowings - Bank	16,000,000	24,000,000	$ 2,
Accounts payable	159,900	-	
Accrued expenses			
Salaries, wages and other compensation	669,171	337,048	
Employee fringe benefits	635,988	1,539,271	
Taxes	355,713	17,458	
Other	1,588,513	1,183,523	
Customer deposits	41,000	15,000	
Billings in excess of costs and estimated earnings on uncompleted contracts	57,890	-	
Due to directors	2,316,408	4,163,531	
Due to related parties	-	390,919	
Total Current Liabilities	21,824,583	31,646,750	3,
Minority Interest	261,925	-	
Stockholders' Equity (Deficit)			
Common stock, par value US$0.001; issued and outstanding - 14,393,000 shares and 12,920,000 shares as of December 31, 2001 and 2000, respectively	107,236	119,462	
Additional paid-in capital	52,715,431	57,969,605	6,9
Subscription receivable	-	(767,411)	(
Reserve funds	347,148	347,148	
Accumulated deficit	(62,910,056)	(70,116,410)	(8,4
Total Stockholders' Deficit	(9,740,241)	(12,447,606)	(1,4
Total Liabilities and Stockholders' Deficit	12,346,267	19,199,144	$ 2,3

The accompanying notes are an integral part of the consolidated financial statements.

Broadengate Systems, Inc. and Subsidiaries

Consolidated Statements of Operations

Years Ended December 31, 2000 and 2001

	2000 Rmb	2001 Rmb	2001 US$
Revenue	9,463,849	10,210,749	$ 1,230,211
Cost of Sales	(5,045,379)	(6,341,176)	(763,997)
Gross Profit	4,418,470	3,869,573	466,214
Selling and Administrative Expenses	(16,406,295)	(10,447,304)	(1,258,711)
Abandonment of Product Development	-	(545,902)	(65,772)
Loss from Operations	(11,987,825)	(7,123,633)	(858,269)
Other Expense (Income)			
Interest expense	497,640	1,057,202	127,374
Other income, net	(255,304)	(807,121)	(97,244)
Total Other Expense, Net	242,336	250,081	30,130
Loss before Income Taxes	(12,230,161)	(7,373,714)	(888,399)
Income Taxes	499,561	-	-
Loss before Minority Interest	(12,729,722)	(7,373,714)	(888,399)
Minority Interest in Loss	(2,759,393)	(167,360)	(20,164)
Net Loss	(9,970,329)	(7,206,354)	$ (868,235)
Loss per Share - Basic and Diluted	(.78)	(.53)	$ (.06)
Weighted Average Common Shares Outstanding - Basic and Diluted	12,845,699	13,712,979	13,712,979

The accompanying notes are an integral part of the consolidated financial statements.

Broadengate Systems, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity (Deficit)

Years Ended December 31, 2000 and 2001

	Common Stock Par Value US $1.00		Series A Convertible and Redeemable Preferred Stock		
	No. of Shares	Amount Rmb	No. of Amount Shares	of Rmb	N Amo Sha
Balance as of January 1, 2000	1,000	8,300	-	-	
Reclassification of Reserve Funds	-	-	-	-	
Effect of Merger	(1,000)	(8,300)	600	5	17
One for Five Reverse Stock Split	-	-	-	-	(14
Issuance of Common Stock	-	-	-	-	9
Conversion of Preferred Stock	-	-	(600)	(5)	
Assumption of Liabilities by Stockholder Contributed to Capital	-	-	-	-	
Net Loss	-	-	-	-	
Deemed Dividends	-	-	-	-	
Balance as of December 31, 2000	-	-	-	-	12
Issuance of Common Stock	-	-	-	-	1
Net Loss	-	-	-	-	
Balance as of December 31, 2001	-	-	-	-	14

The accompanying notes are an integral part of the
consolidated financial statements.

Additional Paid-in Capital Rmb	Subscription Receivable Rmb	Retained Earnings (Accumulated Deficit) Rmb	Reserve Funds Rmb	Total Rmb
1,209,012	-	1,462,034	306,386	2,985,732
-	-	(40,762)	40,762	-
51,383,974	-	(51,520,999)	-	-
116,270	-	-	-	-
(77,190)	-	-	-	-
(991)	-	-	-	-
84,356	-	-	-	84,356
-		(9,970,329)	-	(9,970,329)
-	-	(2,840,000)	-	(2,840,000)
52,715,431	-	(62,910,056)	347,148	(9,740,241)
5,254,174	(767,411)	-	-	4,498,989
-	-	(7,206,354)	-	(7,206,354)
57,969,605	(767,411)	(70,116,410)	347,148	(12,447,606)

The accompanying notes are an integral part of the consolidated financial statements.

Broadengate Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2000 and 2001

==

	2000 Rmb	2001 Rmb	2001 US$
Cash Flows from Operating Activities			
Net loss	(9,970,329)	(7,206,354)	$ (868,235
Adjustments to reconcile net loss to to net cash used in operating activities			
Depreciation	400,808	688,579	82,961
Amortization of product development costs and intangibles	327,049	448,437	54,028
Abandonment of product development	-	545,902	65,772
Provision for losses on receivables - Customers	1,675,881	958,959	115,537
Minority interest	(2,759,393)	(167,360)	(20,164
(Increase) decrease in			
Accounts receivable	(302,451)	(3,330,421)	(401,256
Deposits and other	(217,984)	325,404	39,205
Other	-	375,987	45,300
Costs and estimated earnings in excess of billings on uncompleted projects	(207,944)	207,944	25,053
Increase (decrease) in			
Accounts payable and accrued expenses	2,434,138	(878,485)	(105,841
Customer deposits	(64,098)	(26,000)	(3,132
Billings in excess of costs and estimated earnings on uncompleted contracts	57,890	(57,890)	(6,975
Total Adjustments	1,343,896	(908,944)	(109,512
Net Cash Used in Operating Activities	(8,626,433)	(8,115,298)	(977,747

The accompanying notes are an integral part of the
consolidated financial statements.

Broadengate Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2000 and 2001

	2000 Rmb	2001 Rmb	2001 US$

Cash Flows from Investing Activities			
Capital expenditures	(2,571,251)	(16,792)	$ (2,023)
Capitalized expenditures for product development costs	(357,772)	-	-
Purchase of long-term investment	(2,800,000)	-	-
Net repayments from stockholders	1,485,426	-	-
Repayment of (advances to) employees	6,483	(286,218)	(34,484)
Cash from Dalian acquisition	-	54,612	6,580
Net Cash Used in Investing Activities	(4,237,114)	(248,398)	(29,927)
Cash Flows from Financing Activities			
Net short-term borrowings	16,000,000	8,000,000	963,856
Issuance of common stock	-	3,098,989	373,372
Net borrowings from directors and related parties	2,055,914	2,038,042	245,547
Initial investment of minority stockholder	240,000	-	-
Dividends	(2,840,000)	-	-
Net Cash Provided by Financing Activities	15,455,914	13,137,031	1,582,775
Net Increase in Cash	2,592,367	4,773,335	575,101
Cash, Beginning of Year	629,351	3,221,718	388,158
Cash, End of Year	3,221,718	7,995,053	$ 963,259

The accompanying notes are an integral part of the consolidated financial statements.

Broadengate Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Years Ended December 31, 2000 and 2001

1. Organization and Principal Activities

Broadengate Systems, Inc. (formerly known as eSoftBank.com, Inc.) and Subsidiaries (the "Company") is incorporated under the laws of the State of Nevada, in the United States of America. The parent company's principal business activity is a 100% investment in World Concept Development Limited (World), primarily a holding company for investments in operating companies. World is incorporated under the laws of the British Virgin Islands. The Company is a software designer and markets both packaged and custom-designed Internet related software applications. Custom-designed applications represent the primary source of the Company's revenue.

The consolidated financial statements include the accounts of the Company, World and its wholly owned subsidiary eSoftBank Networks (Shenzhen) Co. Ltd. (Shenzhen) and its majority owned subsidiaries eSoftBank (Beijing) Software Systems Co. Ltd. (Beijing) (80% owned), SiTech Hainan Limited (SiTech) (52.38% owned) and Dalian Tong Zhou Computer Limited (Dalian) (70% owned) as more fully described below. All material intercompany balances and transactions have been eliminated on consolidation.

On March 31, 2000, Natural Way Technologies, Inc. (Natural Way) entered into an Exchange agreement (the Exchange) with World, an independent third party. In accordance with the Exchange, Natural Way acquired 100% of the issued and outstanding shares of World in exchange for 9,300,000 post-reverse split shares of Natural Way. Prior to closing, Natural Way affected a one for five reverse stock split and changed the name of the Company to eSoftBank.com, Inc. and Subsidiaries. In addition, Natural Way issued warrants to two parties for future purchases of common stock in the Company. See Note 8.

The Exchange has been accounted for using the purchase method of accounting as a reverse acquisition, whereby the company issuing its shares to effect the business combination is determined to be the acquiree in the business combination. A reverse acquisition occurs when the stockholders that retain the majority voting interest in the combined entity are presumed to be the acquirer. In the current Exchange, the existing stockholders of Natural Way will retain a 27% voting interest in the combined entity on completion of the Exchange. Accordingly, World is deemed to be the acquirer and the assets of Natural Way were required to be fair valued at acquisition. As Natural Way had no assets, as of the date of the Exchange, no fair value adjustment was required. The historical financial information prior to the Exchange is that of World and subsidiaries.

World, then a development stage enterprise, was incorporated on October 27, 1999, in the British Virgin Islands. World incorporated its wholly owned subsidiary Shenzhen on December 30, 1999, in the Peoples' Republic of China (PRC). World and Shenzhen were incorporated to effect a merger, exchange of capital stock, asset acquisition or other business combination with a domestic or foreign, private or publicly held business.

-10-

1. Organization and Principal Activities (Continued)

On February 21, 2000, World via Shenzhen, acquired 9.52% of the outstanding capital of SiTech, a company related through common ownership and management from Dr. Hongbing Lan, a director and stockholder of both World and SiTech for approximately $62,650. On the same date, Shenzhen acquired an additional 42.86% of SiTech from SiTech Hainan Holding Co., Ltd. (Holdings), a company related through common ownership and management, for approximately $280,000. Since both entities involved in the acquisition were under common control, the transaction was accounted for at historical cost in a manner similar to that in pooling-of-interests accounting. The cash consideration paid in these transactions was classified as a deemed dividend in the amount of Rmb 2,840,000. The consolidated financial statements include the results of operations for World and its subsidiaries from their inception.

On February 21, 2000, Shenzhen also acquired 80% of the newly issued and outstanding stock of Beijing, a PRC company, from Holdings for an initial capital investment of approximately $116,000. The remaining 20% of Beijing is owned by Mr. Lan Hong Yu, the brother of Dr. Hongbing Lan.

During August of 2000, Shenzhen acquired a 2.67% interest for Rmb 2,800,000 in a newly formed entity, whose primary stockholder and initiator is the Hunan Post Office (governmental agency). The new entity's development projects are to include: a postage computing system, telecommunication technology development, a postage machinery manufacturing line and other various technology related systems. The acquisition will be accounted for at the lower of cost or net realizable value.

On October 14, 2001, Shenzhen acquired 70% of the outstanding capital of Dalian, an unrelated PRC company, in exchange for 307,000 shares of the Company valued at $.55 per share or approximately $168,675. Dalian is a software company in Northeastern China focusing on project management software and system integration. This acquisition was accounted for as a purchase in accordance with the SFAS No. 141, "Business Combinations." The accompanying statement of operations includes the activity of Dalian from the purchase date through December 31, 2001.

2. Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company incurred a net loss of Rmb 9,970,329 and Rmb 7,206,354 during the years ended December 31, 2000 and 2001, and has an accumulated deficit of Rmb 62,910,056 and Rmb 70,116,410 as of December 31, 2000 and 2001.

2. Going Concern (Continued)

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to (a) generate sufficient cash flow to meet its obligations on a timely basis, (b) obtain additional financing as may be required, and (c) ultimately sustain profitability. Management's plan to continue as a going concern relies heavily on returning to profitability in 2002. This return to profitability is based upon expense control, cost reductions, and increased revenue growth. Management may also seek additional funding sources should the need arise. There is no assurance that management's plans will be successful or, if successful, that they will result in the Company continuing as a going concern.

3. Summary of Significant Accounting Policies

(a) Cash

Substantially all of the Company's cash is held at Shenzhen Commercial Bank as of December 31, 2001. The Company believes it is not exposed to any significant credit risk on cash.

(b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated on the straight-line basis to write off the costs less estimated residual value of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land lease rights	1.5%
Leasehold improvements	20%
Furniture and office equipment	20%
Automobiles	20%
Computer equipment	20%

Land lease rights in the PRC are stated at cost less accumulated amortization. Amortization of land lease rights is calculated on the straight-line basis over the lesser of their estimated useful life or the lease term. The principal annual rate used for this purpose is 1.5%.

3. Summary of Significant Accounting Policies (Continued)

(c) Product development costs

The Company capitalizes costs incurred for the production of computer software developed for sale to outside parties. Capitalized costs include direct labor and related overhead for software produced by the Company. All costs in the software development process which are classified as research and development are expensed as incurred until technological feasibility has been established. Once technological feasibility has been established, such costs are capitalized until the software has completed beta testing and is generally available for sale. Amortization, a cost of revenue, is provided on a product-by-product basis, using the straight-line method over three years, commencing the month after the date of product release. Annually, the Company reviews and expenses the unamortized cost of any feature identified as being impaired. During 2001, the Company decided to no longer support this software developed for sale and the remaining capitalized costs were written off. The Company also reviews recoverability of the total unamortized cost of all features and software products in relation to estimated relevant other revenues and, when necessary, makes an appropriate adjustment to net realizable value.

Capitalized product development costs consist of the following:

	2000 Rmb	2001 Rmb	2001 US$
Balance, beginning of year	822,272	852,995	$ 102,770
Costs capitalized	357,772	28,799	3,471
Costs amortized	(327,049)	(335,892)	(40,469)
Costs abandoned	-	(545,902)	(65,772)
Balance, end of year	852,995	-	$ -

The accumulated amortization of product development costs related to the production of computer software totalled Rmb 0 and Rmb 543,971 as of December 31, 2001 and 2000, respectively.

Included in selling and administrative expenses are research and development costs totalling Rmb 1,719,794 and Rmb 1,113,761 in the years ended December 31, 2001 and 2000, respectively.

(d) Intangibles

The cost of an acquired customer list and software is being amortized over three years, using the straight-line method.

-13-

3. Summary of Significant Accounting Policies (Continued)

(e) Employee fringe benefits

All companies registered in the PRC must appropriate the following percentage of staff salary for employee fringe benefits: 14% for staff welfare, 2% for labor union fees and 1.5% for the education fund. The accrued benefit is decreased by actual cash payments.

(f) Revenue recognition

Contracts

The Company reports income from contracts on the percentage-of-completion method of accounting. The determination of completion is based upon the proportion of costs incurred to total estimated costs for such contracts. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Administrative and general costs are expensed in the period incurred and are not allocated to contracts in process.

Software

The Company recognizes income from the sale of computer software when the merchandise is shipped.

(g) Income taxes

Income taxes are provided under the provisions of Statement of Financial Accounting Standards No. 109.

(h) Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Advertising

Advertising is expensed the first time the advertising takes place. Advertising expense was Rmb 166,231 and Rmb 3,171,852 for 2001 and 2000, respectively.

3. Summary of Significant Accounting Policies (Continued)

(j) Foreign currency translation

Foreign currency transactions denominated in foreign currencies are translated into Renminbi (Rmb) at the respective applicable rates of exchange. Monetary assets and liabilities denominated in foreign currencies are translated into Rmb at the applicable rate of exchange at the balance sheets date. The resulting exchange gains or losses are credited or charged to the statements of income.

Translation of amounts from Rmb into United States dollars (US$) for the convenience of the reader has been made at the unified exchange rate (see Note 14) on December 31, 2001 of US$ 1.00: Rmb 8.30. No representation is made that the Rmb amounts could have been or could be converted into US$ at that rate on the above dates or at any other date.

(k) Fair value of financial instruments

The carrying amounts of certain financial instruments, including cash, accounts receivable and accounts payable approximate their fair values as of December 31, 2001 and 2000 because of the relatively short-term maturity of these instruments. The fair value of the Company's related party receivables and payables cannot be determined due to the nature of the transactions.

(l) Related party

A related party is an entity that can control or significantly influence the management or operating policies of another entity to the extent one of the entities may be prevented from pursuing its own interests. A related party may also be any party the entity deals with that can exercise that control.

(m) Earnings per share

Basic and diluted net earnings (loss) per share were computed in accordance with SFAS No. 128, "Earnings per Share." Basic net earnings per share is computed by dividing net earnings available to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period and excludes the dilutive effect of stock options and convertible debentures. Diluted net earnings per share gives effect to all dilutive potential common shares outstanding during a period. In computing diluted net earnings per share, the average stock price for the period is used in determining the number of shares assumed to be reacquired under the treasury stock method from the exercise of stock options and the if converted method to compute the dilutive effect of convertible debentures.

The 9,300,000 shares issued as consideration for the reverse merger are considered outstanding for all periods presented.

-15-

3. Summary of Significant Accounting Policies (Continued)

(n) New accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to recognize all derivative contracts as either assets or liabilities in the balance sheets and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized as income in the period of change. SFAS No. 133 as amended by SFAS No. 137 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Based on its current and planned future activities relative to derivative instruments, the Company believes that the adoption of SFAS No. 133 as amended has not had and will not have a significant effect on its financial statements.

On December 3, 1999, the SEC issued Staff Accounting Bulleting 101 (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes some of the SEC's interpretations of the application of accounting principles generally accepted in the United States of America to revenue recognition. Revenue recognition under SAB 101 was initially effective for the Company's first quarter 2000 financial statements. However, SAB 101B, which was released on June 26, 2000, delayed adoption of SAB 101 until no later than the fourth fiscal quarter of 2000. Changes resulting from SAB 101 require that a cumulative effect of such changes for 1999 and prior years be recorded as an adjustment to net income on January 1, 2000, plus an adjustment of the statement of operations for the three months ended in the quarter of adoption.

The Company believes that its revenue recognition practices are in substantial compliance with SAB 101 and that the adoption of its provisions was not material to its annual or quarterly results of operations.

-16-

3. Summary of Significant Accounting Policies

(n) New accounting pronouncements (Continued)

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for acquisitions after June 30, 2001 and for years beginning after December 15, 2001, respectively. Under the new rules, goodwill and certain other intangible assets will no longer be amortized, but will be subject to annual impairment tests in accordance with the standards. Other intangible assets will continue to be amortized over their useful lives. The pooling of interests method is no longer permitted for business combinations after June 30, 2001. See Note 1 regarding the company's October 14, 2001 acquisition. Early adoption of SFAS No. 142 is permitted for companies with fiscal years beginning after March 15, 2001, provided that their first quarter financial statements have not been issued prior to the adoption. The Company is not required to adopt this new standard until its fiscal year ended December 31, 2002. Based upon management's preliminary analysis, no impairment of goodwill under the new SFAS No. 142 is expected.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Requirement Obligations," effective for the years beginning after June 15, 2002. Under this standard asset retirement obligations will be recognized at a discounted fair value basis and capitalized and allocated to expense over the asset's useful life. The Company does not expect that adoption of SFAS No. 143 will have a material impact on its consolidated financial position or results of operation.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for years beginning after December 15, 2001. the new rules for long-lived assets to be disposed by sale excludes the allocation of goodwill to be tested for impairment of such assets, establishes a primary asset approach to be used for the estimation of future cash flows and allows for probability-weighted future cash flow estimation for impairment testing. Adoption is required for fiscal years beginning after December 15, 2001. Based upon management's preliminary analysis, the Company does not expect any material implications for the Company's financial statements.

4. Taxation

The Company is subject to PRC business tax at the applicable effective tax rate (5% for both 2001 and 2000) for income derived from services rendered.

The Company enjoyed profits tax exemptions for two years from 1997 which was the first adjusted-for-tax profitable year and a 50% reduction on the standard tax rate of 15% for the three consecutive years in accordance with provincial and national regulations on certain industries. In addition, the income earned from providing high-technology service by the Company has been deemed business tax exempt by the PRC. This is determined on a project-by-project basis.

-17-

4. Taxation (Continued)

It is management's intention to reinvest all the income attributable to the Company as earned by its operations, outside the United States. Accordingly, no United States corporate income taxes have been provided in these financial statements.

Under the current law of the British Virgin Islands, any dividends the

Company may distribute in the future, and capital gains arising from the Company's investments are not subject to income tax in the British Virgin Islands.

5. Fixed Assets

	2000 Rmb	2001 Rmb	2001 US$
Cost			
Land lease rights	211,225	211,225	$ 25,449
Leasehold improvements	330,865	564,665	68,032
Furniture and office equipment	683,411	709,009	85,423
Automobiles	662,173	1,045,126	125,919
Computer equipment	2,075,105	2,523,670	304,057
	3,962,779	5,053,695	608,880
Less: Accumulated Depreciation and Amortization			
Land lease rights	18,390	21,543	2,596
Leasehold improvements	21,396	280,417	33,785
Furniture and fixtures	286,184	444,715	53,580
Automobiles	95,800	514,687	62,011
Computer equipment	611,033	1,360,005	163,856
	1,032,803	2,621,367	315,828
Net book value	2,929,976	2,432,328	$ 293,052

The land lease rights are held in the PRC for 67 years from March 1, 1995.

6. Costs and Estimated Earnings on Uncompleted Contracts

	2000 Rmb	2001 Rmb	200 US
Costs incurred on uncompleted contracts	676,313	-	$
Estimated earnings	710,291	-	
	1,386,604	-	

Less billings to date	(1,236,550)	-	
	150,054	-	$
Included in the accompanying balance sheets under the following captions:			
Costs and estimated earnings in excess of billings on uncompleted contracts	207,944	-	$
Billings in excess of costs and estimated earnings on uncompleted contracts	(57,890)	-	
	150,054	-	$

7. Intangibles

Intangible assets consist of the following:

	2000 Rmb	2001 Rmb	2001 US$
Customer list	-	859,651	$ 103,572
Acquired software	-	761,000	91,687
	-	1,620,651	195,259
Less accumulated amortization	-	112,545	13,559
	-	1,508,106	$ 181,700

8. Short-Term Borrowings - Bank

As of December 31, 2000, the Company was obligated under a line of credit with Shenzhen Commercial Bank for Rmb 16,000,000. Borrowings under this line of credit bear interest at 5.36% and are secured by 3,193,660 shares of stock in the Company owned by Dr. Hongbing Lan. As of December 31, 2000, no additional borrowings were available on this line of credit. The agreement expires on May 29, 2002, but it is management's expectation that this agreement will be renewed by the bank or that a similar arrangement with another lender will be concluded.

During December of 2001, the Company obtained another line of credit with Shenzhen Commercial Bank for Rmb 8,000,000 for one month bearing interest at 6.138% per annum. The borrowing was fully settled in January 2002.

9. Warrants

In connection with the Exchange agreement between Natural Way and World, Natural Way issued stock warrants to Pacific Winner Development Limited (Pacific), owned by Dr. Hongbing Lan, and World Concept Holding Limited (World Holding), an unrelated third party, for the purchase of shares of common stock in the Company for the following terms:

	Warrants Granted	Exercise Price	Term
Pacific	2,400,000	$3.00	1/31/00 - 1/30/01
	1,600,000	$4.00	1/31/01 - 1/31/02
	1,600,000	$5.00	1/31/02 - 1/31/03
World Holding	600,000	$3.00	1/31/00 - 1/31/01
	400,000	$4.00	1/31/01 - 1/31/02
	400,000	$5.00	1/31/02 - 1/31/03

10. Related Party Balances and Transactions

Name of related party	Existing relationship with the Company
National Communication Centre	Stockholder
Hong Yu Lan	Officer and brother of Dr. Hongbing Lan
Dr. Hongbing Lan	Director and stockholder
Leasci Technologies Co., Ltd. (Leasci)	Stockholder of a subsidiary
Sitech Holding (Hainan) Company Limited	Common ownership - Dr. Hongbing Lan

Name of parties and nature of amounts (due to) due from	2000 Rmb	2001 Rmb	2001 US$
National Communication Centre - Cash advance	-	(33,271)	$(4
Dr. Hongbing Lan - Travel and trip expenses paid on behalf of the Company and cash advances	(2,316,408)	(4,163,531)	$(501
Leasci - Cash advance	-	(200,000)	$(24

Lan Hong Yu - Cash advance	-	(157,118)	$(18
	=============	=============	========

The balance with Leasci is secured, interest bearing at 3% and repayable on demand.

The balances with Dr. Hongbing Lan, National Communication Centre and Hong Yu Lan are unsecured, interest-free and repayable on demand.

-21-

11. Operating Leases

The Company has entered into leases for its office and production facilities. The leases are with unrelated third parties. Total rental expense for all operating leases, except those with terms of one month or less that were not renewed, were Rmb 1,231,779 and Rmb 1,032,545 for 2001 and 2000, respectively.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year, as of December 31, 2001:

Year ending December 31:		
	2002	924,279
	2003	676,485
	2004	446,188
	2005	161,040

Total minimum payments required		2,207,992

12. Reserve Funds

In accordance with the PRC Companies Law, the Company is required to transfer a percentage of its profit after taxation, as determined in accordance with PRC accounting standards and regulations, to the surplus reserve funds. The surplus reserve funds are comprised of the statutory surplus reserve fund and the public welfare fund. Subject to certain restrictions set out in the PRC Companies Law, the statutory surplus reserve fund may be distributed to stockholders in the form of share bonus issues and/or cash dividends. The public welfare fund is nondistributable and must be used for capital expenditures on staff welfare facilities.

13. Major Customers

For the year ended December 31, 2001, sales to two major customers amounted to more than 10% of total sales. The amount of revenue from each customer was Rmb 4,744,383 and Rmb 2,869,129.

For the year ended December 31, 2000, sales to a major customer amounted to more than 10% of total sales. The amount of revenue from the customer was Rmb 5,985,185. The receivable balances for major customers as of December 31, 2001 and 2000 were Rmb 2,638,000 and Rmb

0, respectively.

14. Operating Risks

(a) Country risk

As substantially all of the Company's activities were conducted in the PRC, the Company is subject to special considerations and significant risks not typically associated with companies operating in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. In addition, a significant portion of the Company's prior revenue was denominated in Rmb, which must be converted into other currencies before remittance outside the PRC. Both the conversion of Rmb into foreign currencies and the remittance of foreign currencies abroad require approvals of the PRC government.

(b) On January 1, 1994, the PRC government introduced a single rate of exchange as quoted daily by the Peoples' Bank of China (the Unified Exchange Rate).

The quotation of the exchange rates does not imply free convertibility of Rmb into Hong Kong dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the Peoples' Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the Peoples' Bank of China. Approval of foreign currency payments by the Peoples' Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

15. Supplemental Disclosures of Cash Flow Information

	2000 Rmb	2001 Rmb	2001 US$
Cash payments of taxes	599,749	-	$ -
Cash payments of interest	497,640	1,072,400	129,205

On October 14, 2001, Shenzhen acquired a 70% interest in Dalian in exchange for 307,000 shares of the Company. As a result, the following noncash transaction was recorded:

Rmb

Cash	54,612
Accounts receivable	300
Deposits and other	61,120
Advances to employees	1,395
Product development costs	28,799
Fixed assets	285,058
Intangibles	1,620,651
Accrued expenses	(546,500)
Due to related party	(200,000)
Minority interest	94,565
Common stock	(2,548)
Additional paid-in capital	(1,397,452)
Total	-

16. Reclassification

For comparability, the 2000 financial statements reflect reclassifications where appropriate to conform to the financial statement presentation used in 2001.