INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the period, the Group recorded turnover of approximately HK$28.2 million, while net loss from ordinary activities attributable to shareholders amounted to approximately HK$3.1 million representing a decline of 72% and 80%, respectively compared to the corresponding period last year. The drop in turnover as the Group was operated under a very tight cashflow position during the period. The drop in net loss from ordinary activities attributable to shareholders as the management have adopted strict cost control measures so as to reduce operating costs of the Group and the Group has take more prudent approach in receiving of purchase orders so as to minimise the pressure on the financial position of the Group and exchange for a better overall profit margin ratio.

Liquidity and financial resources

With an aim to improve tight liquidity position of the Group, the Group has issued convertible bonds to certain independent investors with aggregate principal sum of HK$13.5 million. The net proceed of approximately HK$13.1 million has been used as HK$0.9 million for payment of professional fees for the re-domicile and the capital restructuring, HK$9.2 million for the settlement with creditors and HK$3 million for general working capital of the Group.

On 2 October 2003, the Group raised of approximately HK$9.5 million, net of issue expenses, by issuing 32,500,000 new shares of HK$0.30 each by way of top-up placing to independent investors. The net proceeds from the placing intended to be used as general working capital of the Group.

Subsequent to the period end date, the Company has reached settlement agreements with certain creditors whereby the Company issued 8,900,000 new shares at HK$0.40 each to settle the outstanding debt owed by the Company to these creditors of an aggregate amount of HK$3,560,000.

In light of the various financial measures taken to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

As at 30 September 2003, the Group had current assets of approximately HK$33.7 million (31 March 2003: HK$26.5 million) and current liabilities of approximately HK$66.4 million (31 March 2003: HK$ 82.8 million). The Group's current ratio has been improved from approximately 0.32 times as at 31 March 2003 to approximately 0.51 times as at 30 September 2003. The Group had total assets of approximately HK$153.3 million (31 March 2003: 146.2 million) and total liabilities of approximately HK$79.9 million (31 March 2003: HK$91.8 million) representing a gearing ratio (expressed as total liabilities to total assets) of approximately 52% as at 30 September 2003 as compared with approximately 62.7% as at 31 March 2003.

Prospects

As the Iraq War ended and the SARS in PRC having subsided coupled with recovery of U.S. economy which supported by economic statistics announced recently. Moreover, the globe economy including Hong Kong have improved future economic outlook. Internally, the management has exercise stringent controls on the operating costs including factory overheads and administrative expenses. With various financial measures adopted as mentioned previously, the directors believe that the financial position of the Group is improving and the electronic business of the Group will rebound in the second half of the year in term of profitability and scale of operation and also left rooms for the directors to explore other profitable diversification opportunities in particular the PRC region.

Electronics Industry

The Group's electronic business comprise of trading, provision of subcontracting services and manufacture of electronic products i.e. electronic calculators, electronic toys and electronic components.

At present, the Group has two production factories which located in Humen Town and Tang Xia Town, Dongguan, PRC, respectively. The production factory in Humen Town (the "Humen Town Factory") mainly involve in the manufacture of electronic calculators and electronic components while the production factory in Tang Xia (the "Tang Xia Town Factory") involve in the manufacture of electronic toys, electronic calculators and other electronic products with distribution regions mainly in North America and Europe.

The Company have also strengthened and tightened internal control systems. Details of such measures have been stated out in the Company's press announcement dated 10 November 2003. The management are regularly monitoring the operation of the Humen Town Factory. Moreover, the Group has plans to set up another factory in Humen Town to meet the production requirements.

Currently, new production lines is setting in the Tang Xia Town Factory which an aim to explore premium calculators' market with target of customers in well-developed countries such as U.S.A. and European countries. At present, the distribution of electronic products in PRC is at very limited scale. Therefore, the directors have plans to establish a logistic centre in Zhengzhou Xinzheng Airport Economy Development District ("Zhengzhou") which will equipped with a high standard production facilities to explore the electronic market in PRC. Moreover, the Group has entered a sale and purchase agreement with Zhengzhou Xinzheng Airport Economy Development District Management Construction Committee ("Zhengzhou Committee") to acquire a land of 134 mu for such development in October 2003.

Zhengzhou, due to its favourable geographical location and being one of the major aviation hub in center of China and conjunction of major railways and highways such as No.107 National Highway (Beijing- Guangzhou), Jingzhu (Beijing-Zhuhai) Expressway and railways of Beijing-Guangzhou, is presently occupied and heavily invested by many well-known Taiwanese enterprises such as Taiwanese Unify Enterprise Corp. At present, about 120 foreign enterprises are moved into to set up their factories.

Diversification

Urban City Water Supply

China is the most populous country in the world, and also the country with the meagrest of water resources. Given the accelerating economic development and urbanization of China, one of the principal tasks of the PRC Government is to ensure and increase the water supply to urban areas and solve the problem of sewage treatment in urban areas.

Currently, China has officially commenced the project of "diverting waters in the South for use in the North", which involves RMB 500 billion. The project will bring considerable business opportunities to the water supply market in China. Water supply industry is an irreplaceable sun-rising industry without any life cycle.

On the other hand, as a relatively low water tariff structure has long been one of the unsolved problems, the reform of water tariff structure has already been included in the Tenth Five-Year Plan of the PRC Government, which is committed to build up a reasonable water tariff structure under which water tariff and sewage treatment charges are to be adjusted subject to different cities, seasons and other factors. This policy is currently implemented in a number of cities, such as Beijing and Shanghai. Therefore, the industry is expected to have outstanding prospects for high returns.

Currently, the Group intended to diversify into water supply industry in the form of joint venture and on a small scale basis. As stated out in the Annual Report 2003, China Water Supply Group Limited ("China Water Supply"), a wholly owned subsidiary of the Company, has entered into a joint venture agreement with a PRC independent third party to establish a Sino-Foreign owned joint venture enterprise under the PRC law in June 2003. China Water Supply holds 60% equity interest in the joint venture which located at Renhua Xian, Guangdong Province with daily capacity of 30,000 tons. Moreover, the Group has entered into a sale and purchase agreement with Zhengzhou Committee to acquire a land of 80 mu which located in the district at cash consideration of approximately RMB2.3 million in October 2003. The directors are intended to use the land acquired for development of a city water supply plant with daily capacity of 50,000 tons which served the surrounding industrialists and citizens in the district.

Sewage treatment

The rapid urbanization and dumping of waste-water from factories have led to water pollution grown to alarming level. At present, waste-water release from cities and factories far excess the capacity of waste-water treatment sector in PRC. If left unsolved, the slow progress in tackling waste-water treatment means PRC will face a challenge to maintain its current pace of economic development.

In an effort to attract foreign investment in waste-water treatment sector, the PRC government has established favourable conditions in the waste-water treatment sector. At present, the sewage treatment rate is only around 6%. According to the Ministry of Construction's water blueprint, all cities will be required to establish waste-water treatment facilities. This guideline will call for facilities to process 45% of a city's sewage by 2005 and up to 60% by 2010.

Currently, the China Water Affairs Group Limited, a wholly owned subsidiary of the Company, has entered sale and purchase agreements with an independent third party for acquisition of 55% shareholding in two sewage treatment plants with aggregate consideration of HK$17,680,000. Two sewage treatment plants which located in Xinle Shi, Hebei Province and Wuqing Development Zone, Tianjin with registered capital of RMB6 million and RMB2 million, respectively. The two sewage treatment plants have aggregate daily capacity of 50,000 tons.

Given the factors noted above, the return of the move of the Group into water supply and sewage treatment industry in PRC will be promising. Furthermore, the Group's senior management has knowledge and expertise in this industry and has extensive business networks in this field. Therefore, the directors believe that the returns will meet our expectation.

Long term investment

As at 30 September 2003, the Group holds 10% equity interest in Shanghai Jianhua Satellite Communication Co., Ltd ("SJSC"). The investment was made by the previous management with the intention to hold it long term to fruition. There is no change in the Company's intention to regarding this investment despite the change of management of the Company in early 2003. The Company is now carefully monitoring its investment in SJSC.

Employees and remuneration polices

As at 30 September 2003, the Group had approximately 1,600 full-time employees. Most of them station in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rule issued by the Hong Kong Stock Exchange.