BUSINESS REVIEW

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

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

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

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

Over 95% of the automation market in the PRC is still dominated by international players. The Group has conducted an extensive market research in the second quarter of the financial year under review. Results showed that existing distribution channels support mainly products of international brand names. Following the distribution contract of Rockwell signed in the first quarter of 2002/2003, the Group thus has entered during the financial year into agreements with various principals including Omron, Invensys, Greystone, Siemens and Ortronics. The contracts cover different products and different area. Distribution business contributes significantly to the turnover of the Group this year and was the least affected during the SARS outbreak.

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

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

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

PROSPECT

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

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

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

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

FINANCIAL REVIEW

Liquidity and financial resources

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

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

	At 30 June 2003 (audited) RMB'000
Repayable within one year	**35,578**
Repayable after 1 year but within 2 years	**2,385**
Repayable after 2 years but within 5 years	**7,155**
Over 5 years	**3,578**
	48,696

As at 30 June 2003, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 14.6% (2002: 9.9%). The management believes that the gearing ratio is at an acceptable level for the Group and the Group would be able to create sufficient financial resources to discharge its debt.

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

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

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

Significant Investment

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

Segmental Information

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

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

Employee information

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