

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review:

For the six months ended 31st December, 2003, the Group has recorded an unaudited turnover of approximately RMB197,283,000, representing 232.9% increase when compared with the corresponding period of 2002. Gross profit and net profit attributable to shareholders have also increased from RMB20,043,000 to RMB27,273,000 and RMB8,506,000 to RMB11,442,000 respectively. The increase is mainly due to the Group's success in selling its own TCS products aboard.

During the second half of 2003, the economy of The Peoples' Republic of China continued to grow strongly amid a lackluster performance of the world market. In spite of the war in Iraq and the outbreak of SARS, China's manufacturing sector was largely not affected.

China has two major industrial bases located in the Pearl River Delta and the Yangtze River Delta regions, which make it one of the world's largest manufacturing countries. The Company conducted a thorough study of plant and equipment production in the Southern China Region which indicates a strong demand for automation system from plant and equipment manufacturers for their products. This demand was translated into the Group's strategy of providing automation system for OEM plant and equipment manufacturers.

On the other hand, the use of the Group's TCS in OEM plant and equipment for export had significant progress during the period under review. Apart from injection moulding machines, other applications like advanced train control system and video monitoring system also have successful breakthrough and progress.

With respect to research and development of the Group's product, the Group continues to follow the market's demand and its own product development strategy to develop small to medium and micro PLC products (MICRO-TCS) in addition to its already developed medium to large PLC systems. The Group also continues to develop a general platform for specialised controllers to meet the demand from domestic OEM plant and equipment manufacturers. With regard to developed controller system for specialised machinery and equipment, its penetration into the Southern China Region, particularly the Pearl River Delta, has shown some success.

Apart from developing and marketing its own product, the Group also started distributing automation products for a number of renowned brands. Capitalising on these international corporations' brand names, sales management and market penetration experience, the Group continuously refined its own management and sales channel; thereby improving its sales and market share. During the period under review, the cooperation between the Group and Rockwell, the number one automation system producer in North America, has brought fruitful results. In consequence, an award for being the "Highest Growth Distribution in Fiscal 2003" was awarded by Rockwell. In addition, the Group's distribution business for Siemens has made great progress. We foresee the Company will continue expanding its distribution business for other automation products and for other well established international companies. Products under consideration include: meters, instruments, electric transmission products and others.

Outlook:

Building on its existing product research and development platform, the Group will further develop other applications for its own TCS products, especially in plant and equipment production and remote monitoring system for oil fields; as well as expanding the applicability of TCS in injection moulding, automotive control system and other specialised plant and equipment. In the research and development of embedded software, the Group will focus on design and testing of embedded software for RTU and PLC. These embedded software will either be sold as a total solution or as a stand alone software product.

On sales and marketing, the Group will continue working with large international companies, aiming at improving its sales network, developing its own dealers and systems integrators, and strengthening its market share and product image. Management believes this will reach a mutually rewarding benefit for its Group and its partners and ourselves. Also, the Company will focus on increasing its market share, widening its product lines, strengthening its sales network, and expanding applications of its products through product and service differentiation, with a view to increase sales and profit margin.

Finance***Profit attributable to shareholders***

For the six months ended 31st December, 2003, profit attributable to shareholders increased by approximately RMB2,936,000 to approximately RMB11,442,000, representing a 34.5% increase as compared with the corresponding period in 2002. The increase is mainly due to the Group's success in selling its own TCS products aboard.

Earnings per share for the six months ended 31st December, 2003 improved to RMB3.27 cents from RMB2.43 cents for the corresponding period in 2002.

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 period under review, the Group's exposure to fluctuations in exchange rates was considered minimal and no financial instruments have been used for hedging purpose.

The borrowing maturity profile of the Group as at 31st December, 2003 is analysed as follows:

	At 31st December, 2003 (Unaudited) RMB'000
Repayable within one year	34,795
Repayable after 1 year but within 2 years	2,398
Repayable after 2 years but within 5 years	7,192
Over 5 years	2,397
	<hr/> 46,782 <hr/>

As at 31st December, 2003, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 11.0% (30th June, 2003: 14.6%). Management believes that the gearing ratio was at an acceptable level for the Group and the Group would be able to generate sufficient financial resources to discharge its debt.

As at 31st December, 2003, certain subsidiaries have been granted banking facilities against a corporate guarantee given by The Company, the Company has contingent liabilities amounting to approximately RMB84,863,000 (30th June, 2003: approximately RMB81,416,000), in respect of banking facilities granted to and utilised by these subsidiaries.

As at 31st December, 2003, time deposits of approximately RMB7,027,000 (30th June, 2003: approximately RMB6,834,000) have been pledged to banks under lien to secure banking facilities granted to the Group.

Other than those disclosed in the Company's prospectus and listing documents dated 31st January, 2001 and 30th 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 31st December, 2003.

Significant Investment

Investment in securities

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 at 31st December, 2003, Tongling reported an unaudited net tangible asset value of approximately RMB117.06 million (as at 31st December, 2002: approximately RMB103.76 million). As no dividend was declared by Tongling for its financial year ended 31st December, 2003, no dividend income was received by the Company during the six months under review in respect of the investment in Tongling.

Property under development

Due to the delay in issuance of "site permit", the completion date of the Group's R&D Centre which was originally scheduled in October 2004, will now postpone to early 2005. Nevertheless, all respective construction work has already commenced in December 2003.

Segmental Information

To facilitate a meaningful presentation of the Company's business and revenues, the Company has changed its presentation for business segment reporting from "building automation" and "industrial automation" in the previous period to "automation products" and "project and technical services" for the six months ended 31st December, 2003. The change in basis was necessary because of Group's effort to develop its own product TCS and distribution of automation products for other international brands and at the same time to develop project and technical support services. Arising from the change, which does not represent a change in accounting policy, the comparative figures for the previous period have been restated to conform with the current period's presentation of accounts.

With the increased contribution from the sales of TCS and automation products from other brands, the segment of automation products has recorded a significant increase in turnover by 232.8% when compared to the corresponding period of 2002. The Company believes such business model will grow as the sales channel and cooperation with other brands further develop.

Turnover from project and technical services was only RMB2,420,000. This is due to the long duration to develop such business and the delay of existing projects in the period.

Employee information

For the six months ended 31st December, 2003, the Group has recorded staff costs of approximately RMB4,205,000 representing 30.4% increase from approximately RMB3,224,000 for the corresponding period in 2002. The number of staff increased from 79 employees (as at 31st December, 2002) to 100 employees (as at 31st December, 2003). The Group encourages high productivity and provides competitive remuneration packages to employees commensurable to their qualification and the market level in the business in which the Group operates. Incentive schemes comprised of discretionary bonus and other merit payments to reward employees based on performance are also offered. The Group also provides contribution to mandatory provident fund and medical benefits for its staff in Hong Kong and similar benefits for its staff in the PRC.

INTERESTS OF DIRECTORS

As at 31st December, 2003, the interests and short positions of the Directors in the Shares or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which was required (a) to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) to be entered into the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interests	Number of shares held
Dr. SZE Kwan	Corporate	161,700,000*

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

Save as disclosed above and in the section headed "Interests of Substantial Shareholders" below, as at 31st December, 2003, none of the Directors or the chief executive of the Company had any interests or short positions in any Shares or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) to be entered into the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.