Management Discussion and Analysis

BUSINESS REVIEW

Notwithstanding the impact of the State's macro regulation and control measures, the Group record a total turnover of RMB359,172,000, representing an increase of 122% as compared with that of the previous year, and has realized a net profit of RMB10,921,000 with steady improvement in sales results.

This financial year was an important year for the Group in respect of business transformation. The Group has successfully switched from contracting works business to product sales and original equipment manufacturing (OEM) business model; among them, the Group's Tailored Control System (TCS) products have brought about good results for the Group in terms of plant and equipment OEM integration, with outstanding performance in the export of train control system and injection moulding machines in particular.

As to product R&D, the Group has made considerable progress. The medium Programmable Logic Controllers (PLC) system has been marketed extensively and has realized revenue gradually. The medium – small and micro PLC systems have also been put into production in small batches, and will realize revenue by the end of 2004. In addition, the R&D of some specialized controllers is in full swing and has achieved good initial results.

There were breakthroughs in international cooperation as well. While developing and engaging in self-developed products, the Group has taken the initiative to carry out co-operations with renowned enterprises at home and abroad, and has been examining unceasingly the sales and marketing co-operation model with large-scale international automation companies. In the past few years, we have established in succession co-operation relationship with Rockewell of US, Siemens of Germany, SAIA-Burgess of Switzerland and have accomplished a mutually rewarding benefits. In this year, the Group has also established collaboration relationship with Toshiba of Japan, exploring a vast market that facilitates the launch of the OEM business of PLC products.

OUTLOOK

Based on its existing technological research and development platform, the Group will expand step by step its product offerings, especially in the development of specialized system for industrial and building sectors. Besides, the Group will also continue to reinforce technological co-operations with foreign companies and to improve the core technological competitiveness of its products. As for full utilization of its localization advantage, the Group will in depth and in width strengthen its co-operations with the large OEM production equipment producers in the PRC.

The Company will continue to intensify its effort in product sales and channel establishment with its co-operation partners, and will initiate joint development and production and so forth with foreign companies to foster and increase the market share of its products. The sales of the Group's self-developed products will see gradual perfection with the appointment of agents at all levels and completion of channel establishment such as distribution and system integration and so on. In regard to corporate image and brand promotion, the Group will keep on implementing strategic marketing and propagation by means of professional press media and professional network media. Meanwhile, promotions with a clear aim will also be organized, like professional technology forums and professional seminars, to expedite the building-up of the Group's brand awareness and customer loyalty.

FINANCIAL REVIEW

Exposure to fluctuations in exchange rates

All of the Group's borrowings are denominated either in Hong Kong dollars or Renminbi while the turnover of the Group are 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.

Liquidity and financial resources

The borrowing maturity profiles of the Group as at 30th June 2004 is analysed as follows:

	As at 30th June 2004 (audited) *RMB'000*
Repayable within one year	**36,328**
Repayable after 1 year but within 2 years	**2,385**
Repayable after 2 years but within 5 years	**7,155**
Over 5 years	–
	45,868

As at 30th June 2004, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 12.9% (2003: 14.6%). The management believes that the gearing ratio is at an acceptable level for the Group and the Group would be able to generate sufficient financial resources to discharge its debt.

As at 30th June 2004, certain subsidiaries have been granted banking facilities against a corporate guarantee given by the Company, the Company has contingent liabilities amounting to RMB18,262,000, (2003: RMB81,416,000), in respect of banking facilities granted to and utilised by these subsidiaries.

As at 30th June 2004, time deposits of RMB6,872,000 (2003: 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 30th June 2004.

Management Discussion and Analysis

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 RMB117.06 million (as at 31st December 2002: RMB103.76 million). As no dividend was declared by Tongling for the financial year ended 31st December 2003, no dividend income was received by the Company during the year under review in respect of the investment in Tongling.

Property under development

Due to the delay in issuance of a "site permit" and a change in floor plan, the completion date of the Group's R&D Centre originally scheduled in October 2004 will now be postponed to September 2005. Nevertheless, all respective construction works have already commenced in December 2003. Upon completion, the property will comprise the 7 floors with total area of approximately 14,000 square meters. Of the 7 floors, 2 floors will be retained for use by the Company and 5 floors will be available for leasing purpose. Based on the existing expanding property leasing market, the current average monthly rental is RMB70.00 per sq.m. in Nanshan District Shenzhen, the PRC. Therefore, management of the Group is optimistic about the future prospect of the property.

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 year to "automation products" and "project and technical services" since the interim report for financial year 2003/2004. The change in basis was necessary because of the 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 year have been restated to conform with the current year 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 121% when compared to the corresponding year of 2003. 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 RMB4,599,000. This is due to the long duration to develop such business and the delay of existing projects in the year.

Employees

For the year ended 30th June 2004, the Group has recorded staff costs of RMB9,532,000 representing an 18.5% increase from approximately RMB8,047,000 for the corresponding year in 2003. The number of staff increased from 82 (as at 30th June 2003) to 102 (as at 30th June 2004). 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 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.