MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the past half year under review, the economy of China developed in a relatively stable manner. The corresponding measures taken to control and constant in infrastructure and fixed assets investments had significant impact on the Group's operating results, leading to a corresponding slowdown in business development of the Group, which was attributable to the deceleration of Techwayson Industrial exporting its products. However, the strategic business direction of the Group has not changed. For the long-term sustainable growth of the Group, we will continue to devote our efforts in such areas as developing new products, building up mainland sales channels and training of personnel in China.

In R & D front, we will deploy more resources as in the past in shortening product-launch cycle, expanding product lines and becoming market-oriented, with an aim to formulate an R & D strategy focusing on the market, and to gradually develop core technology as our market competitiveness.

The current period is a difficult period for the Group. Although the Group has successfully transformed itself into an automatic product provider, our products suffered setback in overseas markets, which led to an overall decline in the Group's results. The reasons for such decline are analysed as follows:

a) investment in our existing products as well as the R & D of new technology are not enough, while the speed and quantity of launching new products are not fast enough;

b) necessary to enhance the capacity in product development to cater for the demand of the emerging markets;

c) need to raise the ability in developing and protecting overseas market channels as well as the ability in responding to the prompt changes of overseas market.

The volume of sales in the Mainland market showed signs of deceleration. The main reason is that the lackluster product lines restricts market development effort.

There is a relatively satisfactory development regarding the co-operation with foreign automation companies. Co-operations with Rockwell, Siemens, Saia-Burgess and other companies were progressing smoothly and had significant contribution to the results of the Company.

Future Development

The Group will seriously review the problems occurred in the past period, analyse the reasons therefor, adjust the business structure and put the best foot forward in the R & D of our existing products. We will continue to place emphasis on the specialised controllers market with promising prospect and boost the product development and marketing of value-added OEM market application and automation application software. Apart from consolidating and enhancing current sales channel properly, we are committed to developing the sales channels in the Mainland market, enhancing pre-sales, sales and after-sales services as well as fully taking the advantages of localised services, in order to turn around the current situation.

Finance

(Loss)/profit attributable to shareholders

For the six months ended 31st December 2004, the Group has recorded an unaudited turnover of RMB99,493,000, representing 49.6% decrease when compared with the corresponding period of 2003. Loss attributable to shareholders and loss per share of RMB1,286,000 and RMB0.37 cents respectively, represented a decrease of RMB12,728,000 and RMB3.64 cents respectively when compared with the corresponding period.

Exposure to fluctuations in exchange rates

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

Liquidity and financial resources

The borrowing maturity profile of the Group as at 31st December, 2004 is analysed as follows:

	At 31st December, 2004 (Unaudited) RMB'000
Repayable within one year	105,068
Repayable after 1 year but within 2 years	2,398
Repayable after 2 years but within 5 years	5,995
	113,461

As at 31st December, 2004, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 32.7% (30th June, 2004: 12.9%). Owing to the capital deployed in the development of the new R & D building and the expenses incurred in the expansion of distribution channel, the gearing ratio during the year has been increased. Management believes that the Group would be able to generate sufficient financial resources to discharge its financial commitments.

As at 31st December, 2004, certain subsidiaries have been granted banking facilities against a corporate guarantee given by the Company, the Company has contingent liabilities amounting to RMB113,484,000 (30th June, 2004: RMB18,262,000), in respect of banking facilities granted to and utilised by these subsidiaries.

As at 31st December, 2004, no fixed deposit (30th June, 2004: RMB6,872,000) had 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, 2004.

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, 2004, Tongling reported an unaudited net tangible asset value of approximately RMB122.72 million (as at 31st December, 2003: approximately RMB117.06 million). As no dividend was declared by Tongling for its financial year ended 31st December, 2004, no dividend income was received by the Company during the six months under review in respect of the investment in Tongling.

Property under development

The construction works for the Group's R & D Centre have already commenced in December, 2003 and expected to complete in September, 2005. Upon completion, the property will comprise 7 floors with total area of approximately 14,000 square meters. Part of the property will be held for leasing purpose while part of it will be retained for the use by the Company. 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

The segment of automation products has recorded a decrease in turnover of 50.2% when compared to the corresponding period of 2003. Such amount has decreased as the development time of its own TCS products has experienced some delay. With the sales channel and the cooperative channel become more and more mature, management believes the result of this segment would be improved in the latter half of the year.

Turnover from project and technical services nature was only RMB2,299,000. 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 2004, the Group has recorded staff costs of RMB4,297,000 represented 2.2% increase from RMB4,205,000 for the corresponding period in 2003. The number of staff, nevertheless, decreased from 100 employees (as at 31st December, 2003) to 82 employees (as at 31st December, 2004). Decrease in headcounts as the Group aimed to improve the efficiency by simplifying the Group structure. 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.