Management Discussion and Analysis

Business Review

As at 30 June 2005, the Group's audited loss attributable to shareholders amounted to approximately RMB19,105,000. The loss was mainly due to the slowdown in growth of the State's basic infrastructure projects as a result of the impact of the macroeconomic control measures initiated by the mainland government and the large-scale projects jointly developed by the Group with several multi-national corporations did not achieve the expected results. Meanwhile, in order to maintain a sustainable operation and the requirement for development, the Group increased its investment in TCS product series, such as extending the PLC (Programmable Logic Controllers) system.

In the year under review, the Group largely increased its investments in TCS-V80, one kinds of small type PLC series products. The product lines of such products were extended and the application were expanded to areas like buildings automation, packaging machinery, ceramics machinery, woodwork equipment, printing facilities, food processing, printed circuit board special equipment, elevators, animal farming, paper making and mining equipment. Most of these sectors were industries with great potentials in the Pearl River Delta Region. As the only domestic branded manufacturer in the Southern China, the Group has allowed enormous room for improvement in the future through recent development and partnerships.

Outlook

The Group will leverage on its strong R & D team and increasing investment in our existing R & D platform to widen the applications of our TCS series products, and through the use of the state-of-the-art technological services to improve the quality of our brands. Following the expansion in applications of the TCS series and recognition of our brand, the management believes that the TCS system will generate considerable returns for the Group. Moreover, the increase in the room for upgrading the technological level of the Group is expected to bring about interests in the long term.

On international partnership, the Group has carried out an in-depth review with each of our business partners, and has developed new measures especially devised for the policies environment in China, in view of the problems last year. It is expected turnover from this business segment will increase significantly in the next financial year as compared to that in this year.

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 borrowings maturity profiles of the Group as at 30 June 2005 is analysed as follows:

	As at 30 June 2005 (audited) *RMB'000*
Repayable within one year	**101,811**
Repayable after 1 year but within 2 years	**2,385**
Repayable after 2 years but within 5 years	**4,770**
	108,966

As at 30 June 2005, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 32.9% (2004: 12.9%). 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 30 June 2005, certain subsidiaries have been granted banking facilities against a corporate guarantee issued by the Company, the Company has contingent liabilities amounting to RMB145 million, (2004: RMB89 million), in respect of banking facilities granted to and utilised by these subsidiaries. Meanwhile, the Group has a contingent liability in respect of warranty responsible for its customers with sales amount approximately RMB196 million (2004: Nil).

As at 30 June 2005, no time deposits have been pledged to banks under lien to secure banking facilities granted to the Group (2004: RMB7 million).

As at 30 June 2005, the Group had trust fund investments of RMB150 million (2004: Nil) which have been placed with an independent trust investment company. The trust investment company guaranteed the annual rate of return on such investment at 4%.

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 2005.

Investment in securities

In September 2001, the Group acquired an effective 18.52% interest in Tongling Huarui Electronic Materials Co. Ltd. (renamed as Goldwiz Huarui (Tongling) Electronic Material Co. Ltd) ("Tongling"), a sino-foreign equity joint venture enterprise established in the PRC, as a long-term investment. In March 2005, Tongling was transformed into a wholly foreign-owned enterprise established in the PRC. Tongling is primarily engaged in the production and distribution of epoxide woven glass fabric copper clad laminate (FR-4) as well as thin and rigid laminate used in multi-layer printed circuit board. As at 31 December 2004, Tongling reported an unaudited net tangible asset value of approximately RMB122.72 million (as at 31 December 2003: approximately RMB117.06 million). As no dividend was declared by Tongling for its financial year ended 31 December 2004, no dividend income was received by the Company during the year 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. Due to heavy rain storms during the construction period of this financial year, the completion date of such property will be delayed to the first quarter of 2006. 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 the other 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 47.6% when compared to the corresponding period in 2003/2004. 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 mature, management believes the result of this segment would improve in the later half of 2005.

Turnover from project and technical services nature was only RMB2 million. This was due to the long duration to develop such business and the delay of existing projects in the year.

Employee information

For the year ended 30 June 2005, the Group has recorded staff costs of RMB8,489,000 represented 10.94% decrease from RMB9,532,000 for the corresponding period in 2003/2004. The number of staff, nevertheless, decreased from 102 employees (as at 30 June 2004) to 70 employees (as at 30 June 2005). Decrease in personnel as the Group aimed to improve 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.