

Management Discussion and Analysis

Business Review

For the six months ended 31 December 2005, the Group has recorded an unaudited total turnover of approximately RMB132,469,000 with a gross profit of RMB4,742,000, an increase of 33.14% and a decline of 72.2% respectively when compared with the same period last year. Profits from Operation for the period under review has dropped to RMB449,000, a decrease of 90.08% when compared with the same period last year. It is a result of the fact that the Group has shifted its focus to trading of foreign automation products during the period.

During the period under review, the Group has underestimated the effect of keen competition and change in market demand, coupled with management restructuring in the Company's subsidiaries in the PRC, performance of the business in the territory fell short of the forecasts. After a review of the situation, the Group has streamlined the structure after some of the employment contracts expired on 31 December 2005. Focus of the business will be readjusted to increase the trading of proprietary products such as PLCs and other product lines under the branding of TCS and ATCS. The Group believes that trading of these products will benefit the Group in terms of its profit margin and long term development. However, distribution of foreign products, especially for Rockwell, will continue. The profit margin in this sector shall be raised by developing accounts of direct clients to cut down the commission paid to local agents.

The Company believes that automation still provides potential for further development. The Group has an edge on R&D forces and technical know-hows over the local competitors in automation. Other than the development of proprietary products and systems, the Group shall also pay attention to the OEM business for machineries in printing, packaging, wood crafting and paper making. Feasibility study for engaging in the engineering projects in electricity generation, oil exploration and metal refining will also be carried out.

The Group has a long term investment of 18.52% interest in Goldwiz Huarui (Tongling) Electronic Material Co., Ltd. (formerly known as Tongling Huarui Electronic Material Co., Ltd) ("Goldwiz Tongling"). The Company is not involved in its day-to-day management. From April 2005, Goldwiz Tongling has become a non wholly-owned subsidiary of Goldwiz Holdings Limited ("Goldwiz") which was also the former major shareholder of the Company. According to Goldwiz's announcement dated 4 January 2006, the operations of the factory of Goldwiz Tongling have been suspended since December 2005 due to a critical liquidity problem. Negotiation is being made by the Goldwiz Group for debt restructuring. Further, Goldwiz Tongling received writs of summons from various parties including suppliers, bankers, former shareholder and a PRC trust company. The Company is also looking into the matter and has employed a PRC lawyer to follow the development, especially on the possibility of resumption of operation in Goldwiz Tongling.

The Group has undergone a period of confusion and chaos in view of the unfortunate incidents as disclosed in the Post Balance Sheet Events. However, the management is confident in resolving the various issues and will look for opportunities to diversify its business that will improve the Company earnings and assets.

In terms of management control and corporate governance, the company will place greater emphasis to tighten its internal control and to ensure better regulatory compliances. The Group is in the process of reviewing and amending its existing internal control procedures. The new internal control procedures will tighten management supervision.

Post Balance Sheet Events

In early February and March 2006, the Company had been informed by its wholly-owned subsidiaries in the PRC, Techwayson Industrial Limited (“TWS”) and Hiwayson Technology Limited (“HWS”), that they have been served with writs of summons issued by the Tongling Intermediate People’s Court and Shenzhen Intermediate People’s Court. As the then and current Board was not aware of the underlying transactions concerning the two subsidiaries that were alleged in the writs of summons, the Company has been investigating the relevant facts.

The Board was informed by TWS and HWS that it had been served with the following writs of summons:

1. Two China Construction Bank (“CCB”) Writs were issued through the Tongling Intermediate People’s Court (PRC) and the parties to the litigation are as follows:
 - (a) CCB Tongling Branch, as plaintiff;
 - (b) Goldwiz Tongling, as first defendant; and
 - (c) TWS, as second defendant.

As a bank creditor, the plaintiff claims from Goldwiz Tongling the repayment of loans in the amount of, in one action, RMB18,000,000 with interests and, in another action, RMB23,500,000 with interests. TWS is alleged to be liable for such sum as a guarantor, aggregating to an amount of RMB41,500,000 with interests. It is alleged that TWS had given the guarantees in October 2004 and then again in October 2005.

2. The Industrial and Commercial Bank of China (“ICBC”) Writ was issued through the Tongling Intermediate People’s Court (PRC) and the parties to the litigation are as follows:
 - (a) ICBC Tongling Branch, as plaintiff;
 - (b) Goldwiz Tongling, as first defendant; and
 - (c) TWS, as second defendant.

As a bank creditor, the plaintiff claims from Goldwiz Tongling the repayment of loans and the payment of issued acceptance bills. TWS is alleged to be liable for the amount of RMB6,000,000 and the amount of RMB8,576,250 respectively with interest as guarantor, aggregating to an amount of RMB14,576,250 with interest. It is alleged that TWS had given the ICBC Guarantee in October 2004.

3. The Tongling Economic Technical Development Zone (Group) Company (銅陵經濟技術開發區(集團)總公司) (“Tongling Group”) Writ was issued through the Tongling Intermediate People’s Court (PRC) and the parties to the litigation are as follows:

- (a) Tongling Group, as plaintiff;
- (b) Goldwiz Tongling, as first defendant; and
- (c) TWS, as second defendant.

As a creditor, the plaintiff claims from Goldwiz Tongling the payment in the amount of RMB16,340,000 as payment in advance made by the plaintiff for the first defendant. TWS is alleged to be liable for such sum as guarantor. The Repayment Agreement was purportedly entered into between the parties in September 2005.

4. The Bank Of China (“BOC”) Tongling Branch Writ was issued through the Tongling Intermediate People’s Court (PRC) and the parties to the litigation are as follows:

- (a) BOC Tongling Branch, as plaintiff;
- (b) Goldwiz Tongling, as first defendant;
- (c) TWS, as second defendant; and
- (d) HWS, as third defendant.

As a bank creditor, the plaintiff claims from Goldwiz Tongling the repayment of loans in the amount of RMB9,879,446.26 with interests and the payment of RMB11,719,990 in respect of issued acceptance bills. TWS and HWS are alleged to be liable for such sums as guarantors, aggregating to an amount of RMB21,599,436.26 with interests. It is alleged that each of HWS and TWS had given the guarantee in July 2005.

5. The BOC Shenzhen Writ was issued through the Shenzhen Intermediate People’s Court (PRC) and the parties to the litigation are as follows:

- (a) BOC Shenzhen Branch, as plaintiff;
- (b) Shenzhen Qi Hai Industrial Company (深圳市濟海實業有限公司) (“Qi Hai Company”), as first defendant;
- (c) TWS, as second defendant;
- (d) Goldwiz Real Estate (Shanghai) Co. Ltd. (科維置業(上海)有限公司), as third defendant; and
- (e) Goldwiz Tongling, as fourth defendant.

As a bank creditor, the plaintiff claims from Qi Hai Company the repayment of loans and interest in the aggregate amount of approximately RMB60,692,650. TWS is alleged to be liable for such sum as guarantor. It is alleged that TWS had given the BOC Shenzhen guarantee in October 2003. Goldwiz Real Estate, as the third defendant, to the best of knowledge and belief of the Directors, is owned as to 10% by Goldwiz and as to 90% by a PRC National who is an independent third party of the Company and its connected persons. To the best of the Directors' knowledge and information and belief and having made all reasonable enquiries, each of Qi Hai Company and its shareholders are not a member of the Group, and is a third party independent of the Company and its connected persons (as defined in the Listing Rules), save for the fact that Qi Hai Company has, at the relevant times, and remains to be, a customer of Goldwiz Tongling.

The Board became aware of the guarantees and agreements through the writs and the guarantees were given without the knowledge of the Board at the relevant time.

The Company has appointed a PRC legal counsel to look into the matters and represent the Group in the cases. The Company's investigation is continuing and will take necessary legal actions if so advised by the counsel. The Company will make further detailed announcement shortly.

Financial Review

Loss attributable to shareholders

For the six months ended 31 December 2005, the Group has recorded an unaudited turnover of RMB132,469,000, representing 72.2% increase when compared with the corresponding period of 2004. Loss attributable to shareholders and loss per share of RMB13,430,000 and RMB3.84 cents respectively, represented a decrease to RMB1,286,000 and RMB0.37 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 in Renminbi, Hong Kong dollars or United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were overall relatively stable during the period under review and the Group's exposure to fluctuations in exchange rates was adjusted in the financial statements and no financial instruments have been used for hedging purpose as it is a one-off incident of the PRC managed floating exchange rate regime on 21 July 2005.

Liquidity and financial resources

The borrowing maturity profile of the Group as at 31 December 2005 is analysed as follows:

	At 31 December 2005 (Unaudited) RMB'000
Repayable within one year	101,984
Repayable after 1 year but within 2 years	2,385
Repayable after 2 years but within 5 years	3,578
	<hr/> <hr/> 107,947

As at 31 December 2005, the Group's gearing ratio, expressed as a percentage of total borrowings over total assets was 35.3% (30 June 2005: 32.9%). The management believes that the gearing ratio is at an acceptable level in the Group and the Group would be able to generate sufficient financial resources to discharge its debt.

As at 31 December 2005, certain subsidiaries have been granted banking facilities against a corporate guarantee given by the Company, the Company has contingent liabilities amounting to RMB98,981,000 (30 June 2005: RMB144,840,000), in respect of banking facilities granted to and utilised by these subsidiaries.

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 31 December 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.) ("Goldwiz 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. Goldwiz 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 2005, Goldwiz Tongling reported an unaudited net asset value of approximately RMB109.92 million (as at 31 December 2004: approximately RMB122.72 million). As no dividend was declared by Goldwiz Tongling for its financial year ended 31 December 2005, no dividend income was received by the Company during the year under review in respect of the investment in Goldwiz Tongling.

Property under development

The construction works for the Group's R & D Centre have already commenced in December 2003. Due to the recent departure of key managerial staff of the Group, the Directors expected to complete in 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 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, the management of the Group is optimistic about the contribution from rental of the property.

Segmental Information

The segment of automation products has recorded an increase in turnover of 36.29% when compared to the corresponding period of 2004. Such increase was mainly due to the reduction of profit margin of keen competition.

Due to resources reallocation, there was no turnover from project and technical services segment during the six months under review. However, the management plans to re-develop this segment which has been ignored by previous management in the second half of year 2005.

Employee information

For the six months ended 31 December 2005, the Group has recorded staff costs of RMB2,932,000 represented 31.77% decrease from RMB4,297,000 for the corresponding period in 2004. The number of staff has decreased from 82 employees (as at 31 December 2004) to 53 employees (as at 31 December 2005). 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.

Litigation

As at the date of this report, the Group has received certain litigations with allegedly claims made by third parties of approximately RMB154,708,000 in aggregate in respect of certain guarantees given by the two wholly-owned subsidiaries of the Group in PRC. Due to ongoing investigation and facts finding, no provision has been made during the period under review. The directors are of the opinion that this matter currently will not have any significant financial impact to the Company except for legal and professional fees.

INTERESTS OF DIRECTORS

As at 31 December 2005, the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies discloses no Directors and their associates as having a notifiable interest or short position in the issued share capital of the Company.