

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group has undergone a period of difficulties. In early February 2006, the Company had been informed by its wholly-owned subsidiaries in the PRC, Techwayson Industrial Limited and Hiwayson Technology Limited (renamed as Techwayson Technology (Shenzhen) Ltd), that they have been served with writs of summons issued by the Tongling Intermediate People's Court and Shenzhen Intermediate People's Court. These two PRC subsidiaries are being sued for a total amount of approximately RMB155 million under certain guarantees allegedly issued in favour of the creditors of a company, namely Goldwiz Huarui (Tongling) Electronic Materials Company Limited ("Goldwiz Tongling"), in which the Group has an interest of 18.52%, and a third party. As the then and current Board were not aware of the underlying transactions concerning the two subsidiaries that were alleged in the writs of summon, the Company has investigated the relevant facts and is dealing with the issues related to these incidents.

As a result, during the period from December 2005 to August 2006, the Group suffered a setback in its image over certain implicated financial and litigation issues, which also have affected its sales performance of its automation business. Sales during this period came almost to a standstill. For the year ended 30 June 2006, the Group recorded a total revenue of approximately RMB116 million (2005: RMB189 million), representing a decrease of 38.6% over last year. The audited loss attributable to equity shareholders of the Company for the year ended 30 June 2006 increased to approximately RMB247.5 million as compared to a loss of approximately RMB19 million for last year.

Although the Group has undergone a year full of difficulties, it has managed to cross the bridge. With the support of its committed workforce and the raising of additional financial funding, the Group has now recovered most of the lost ground and re-established its morale. It has started to submit tender applications for automation projects again. The management expects its automation business will get back to normal gradually and offer better return for the coming financial year.

In order to strengthen its income base, the Company has expanded its trading business into natural resources and other products. These new sectors were developed late in the financial year and are not expected to contribute to the Company's performance until next financial year.

As disclosed by the major shareholder of Goldwiz Tongling, Goldwiz Tongling has suspended its operation since December 2005 due to critical liquidity problem. It has received writs of summons from banks, suppliers, trust company and former shareholder in respect of the alleged indebtedness of approximately RMB221.7 million. Since then, the management of Goldwiz Tongling has been negotiating with the creditors on any possible settlement agreements. However, in view of the substantial outstanding amount of alleged indebtedness and the litigations being involved by Goldwiz Tongling, the management of the Company is not optimistic regarding the prospect of Goldwiz Tongling. The Company, thus, has made a full provision of impairment on its investment in Goldwiz Tongling. Latest development of the litigations is reported in "Litigation" of this report.

### LIQUIDITY AND FINANCIAL RESOURCES

Apart from the loan payable and short-term bank loan totalling RMB107,390,000 (2005: RMB109,155,000) which were brought forward from the previous year, the Group generally finances its operations with internally generated cash flows. The Group is in negotiation with the bank for restructuring the short term loan to a long term loan. Terms of the restructuring are subject to change depending upon the result of these negotiations.

For the year ended 30 June 2006, 250,000,000 convertible redeemable preference shares at HK\$0.4 each were issued and it gave rise to net proceeds of approximately HK\$100,000,000. Moreover, the holder of these shares has granted the option to the Company to require the holder to subscribe for an additional 100,000,000 convertible redeemable preference shares at HK\$0.4 each during the stipulated period. Upon the subscription of these additional shares by the holder, the Company will receive further proceeds of approximately HK\$40,000,000.

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### LIQUIDITY AND FINANCIAL RESOURCES (Continued)

The Group had, as at 30 June 2006, a trust fund investment with interest of RMB150,704,000 (2005: RMB150,704,000) (the "Fund") which was placed by two PRC subsidiaries with Kinghing Trust & Investment Co. Ltd. in the PRC (the "Trust Company"). The Trust Company has subsequently been ordered by the relevant PRC authority to suspend its operation and its assets are now being managed by the China Construction Bank. At the maturity date being May 2006, the Fund has not yet been returned by the Trust Company. The two subsidiaries of the Company have registered with the China Construction Bank on its redemption right on the Fund and the fixed return. The Group has issued a demand letter through its PRC lawyer to chase for the return of Fund and no reply has yet been received from the Trust Company. In view of the uncertainty on its recoverability, the Group has, for prudent purpose, made a full provision of RMB150,704,000 on the recoverability of the Fund.

As at 30 June 2006, the Group had total borrowings of RMB107,390,000 (2005: RMB109,155,000). Total cash and bank balances amounted to approximately RMB96,765,000 (2005: approximately RMB14,487,000). The gearing ratio, expressed as a percentage of total borrowings over total assets, was 58.4% (2005: 32.9%).

As at 30 June 2006, the Group's net current liabilities was approximately RMB43,104,000 (2005: net current assets of RMB77,035,000) and the current ratio was 0.71 (2005: approximately 1.51). Taking into account the existing and anticipated banking facilities, the cash balance and new operations of the Group, and the option right granted to the Company regarding the subscription of additional 100,000,000 convertible redeemable preference shares at HK\$0.4 each by the holder, the Directors are satisfied that the Group has sufficient resources to meet in full its financial obligations as they fall due in the foreseeable future.

All borrowings of the Group carried interest at floating rates. The maturity profile of the borrowings as at 30 June 2006 is analysed as follows:

	RMB'000
Repayable within one year	102,710
Repayable after one year but within two years	2,340
Repayable after two years but within five years	2,340
	107,390

### SEGMENTAL INFORMATION

The segment of automation products has experienced a slump during the year ended 30 June 2006. It recorded a decrease in turnover of 38.5% compared with the corresponding period last year. This decrease is mainly due to the fact that the Group suffered a setback in its image over certain implicated financial and litigation issues during the period from December 2005 to August of 2006. As a result, sales during this period came almost to a standstill. However, this segment is now recovering with the support from the committed workforce and additional financial funding. The management believes that automation business will revive entirely and offer a better return for the coming financial year.

Due to the resources reallocation, the turnover from project and technical services segment during the year ended 30 June 2006 maintained immaterial as compared with the total turnover of the Group. However, the management plans to re-develop this segment which was ignored by previous management and expects that it will generate a profitable return in the coming year.

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### SIGNIFICANT INVESTMENT

#### – Investment in Equity Securities

The Group has a long term investment of 18.52% interest in Goldwiz Tongling classified as Available-for-sale Securities in the consolidated balance sheet as at 30 June 2006. The Company has no control of the operation of Goldwiz Tongling. As disclosed by the major shareholder of Goldwiz Tongling, the operation of the factory of Goldwiz Tongling has been suspended since December 2005 due to a critical liquidity problem. It has also received writs of summons from various parties including suppliers, bankers, former shareholders and the Trust Company with a total alleged indebtedness of approximately RMB221.7 million. Due to the suspension of Goldwiz Tongling's operation and the pre-litigation protection orders made by the Tongling court on behalf of the creditors, Goldwiz Tongling was not able to finalize its accounts or calculate its unaudited net asset value as at 30 June 2006.

In view of the above factors, the uncertainty of resumption of Goldwiz Tongling's operation and the various litigations it is involved and the fact that the Group has never received any dividend income from the investment in Goldwiz Tongling, the Group made a full provision of impairment loss of RMB31,314,000, taking into account the exchange difference of RMB602,000 (carrying value at 30 June 2005: RMB31,916,000 ) for the year under review.

#### – Property Under Development

The construction works for the Group's Research and Development Centre (The "Centre") located in Shenzhen Hi-tech Park, the PRC, has been resumed in the second half of 2006 and the management expects that completion of the building will be finalized in end of 2006. Upon completion, the property will be a 7-storey building with a gross floor area of 17,586 square meters, including a basement car-park for approximately 60 cars. The property will be partly held for leasing purpose and partly for the use of the Group. Based on the existing expanding property leasing market in the PRC, the management believes that the property will contribute rental income of approximately RMB8,000,000 per annum to the Group after its completion, subject to the compliance of the relevant regulations of the Shenzhen Hi-tech Park.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group mainly earns revenues and incurs costs in Renminbi, United States dollars and Hong Kong dollars. The Group's monetary assets and liabilities are denominated in Renminbi, United States dollars and Hong Kong 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 instrument has been used for hedging purposes.

### CAPITAL STRUCTURE

As at 30 June 2006, the Company issued 250,000,000 Convertible Redeemable Preference Shares at an issue price of HK\$0.40 per share. The Convertible Redeemable Preference Shares bear a fixed cumulative preferential dividend at the rate of 3.5% per annum on the amount paid up or credited as paid up. The Company has the right to require, in the stipulated period, the conversion of all or part of the Convertible Redeemable Preference Shares or to redeem, subject to compliance with any legislation applicable to the Company, such Shares at amount (subject to adjustments under relevant events) equal to all amounts paid up or credited as paid up on the Convertible Redeemable Preference Shares. Based on their terms and conditions, the issued Convertible Redeemable Preference Shares have been classified as equity in the consolidated balance sheet.

Moreover, the Company has been granted an option to require the holder of the Convertible Redeemable Preference Shares during the relevant option period to subscribe for an additional 100,000,000 Convertible Redeemable Preference Shares at a subscription price of HK\$0.4 per Convertible Redeemable Preference Share.

During the year ended 30 June 2006, there was no change in the Company's ordinary share capital.

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### CONTINGENT LIABILITIES

As at 30 June 2006, the Company has executed corporate guarantees to a bank to secure banking facilities granted to its subsidiaries and the banking facilities utilised by subsidiaries totaled approximately RMB98 million (2005: RMB145 million).

In addition, as mentioned in the Business Review, at 30 June 2006, two PRC subsidiaries of the Company have been served with writs of summons and are being claimed for a total amount of approximately RMB155 million under certain guarantees being allegedly issued by these two PRC subsidiaries. The guarantees were allegedly provided by the two PRC subsidiaries without the knowledge of the then and current Boards. Among the alleged guarantees, a total amount of approximately RMB94 million was said to be related to the loans borrowed by Goldwiz Tongling whilst approximately RMB60.7 million was related to the alleged loan borrowed by a third party, Shenzhen Ji Hai Industrial Company.

As informed by the management of Goldwiz Tongling, during the year ended 30 June 2006, Goldwiz Tongling has managed to repay a total amount of approximately RMB12.1 million to the plaintiffs by collecting its trade receivables. Regarding a litigation as to approximately RMB21.6 million, although Goldwiz Tongling has subsequently made certain repayment, it has not yet reached any settlement agreement with the plaintiff and the Company, being the alleged guarantor, has prudently made a provision of corporate guarantee in the amount of approximately RMB15 million. Accordingly, the contingent liability of the Group arising from the alleged guarantees at 30 June 2006 was approximately RMB128 million, after taking into account the aforesaid repayment made during the year and the provision of corporate guarantee made by the Group.

Subsequently and up to the date of this report, Goldwiz Tongling has repaid RMB8.2 million to the plaintiffs. Moreover, Goldwiz Tongling and one of the plaintiffs have reached settlement agreement on the litigation amounting to approximately RMB26.1 million, of which RMB14.6 million was said to be guaranteed by a PRC subsidiary of the Company. Regarding the litigations amounting to approximately RMB57.8 million, Goldwiz Tongling and the plaintiffs are in the final stage of conclusion of settlement agreements. Regarding the litigation amounting to RMB60.7 million, the Company would defend the case as the Company was advised by its legal adviser that the case would be defensible. Accordingly, the contingent liability of the Group arising from the alleged guarantees at the date of this report was further reduced to approximately RMB60.7 million, after taking into account the post-balance repayments, the reaching of settlement agreement and the final stage of conclusion of settlement agreements.

The Company was advised that should the indebtedness due to the plaintiffs be settled by Goldwiz Tongling, the contingent liability of the Group arising from the alleged guarantees will lapse.

### CHARGE ON ASSETS

Some of the plaintiffs under the writs of summons that the Group received have put a protection order on the Group's property under development in Shenzhen. As some of the litigations have been settled while others are under negotiations, the Company believes that such charges will be removed in the near future.

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### EMPLOYEE AND REMUNERATION POLICIES

For the year ended 30 June 2006, the Group has recorded staff costs of approximately RMB7 million (2005: RMB8.5 million). The Group employed, as at 30 June 2006, 66 (2005: 102) employees in the PRC and Hong Kong. Both the number of employee and staff costs has decreased as compared to the corresponding period last year as many staff have left the Group at the end of 2005. The Group has basically frozen its headcount since then due to the standstill of automation business in the second half of the financial year ended 30 June 2006 as mentioned above.

The Group encourages high productivity and remunerates its employees based on their qualifications, work experience, prevailing market prices and his/her contributions to the Group. Incentive schemes comprised of discretionary bonus and other merit payments to reward employees based on performance are also offered. Other employee benefits include mandatory provident fund and medical benefits for its employees in Hong Kong and similar benefits for its employees in the PRC.

### LITIGATION

During the year, the Group has received certain writs of summons in respect of the total alleged claims of RMB155 million raised by following third parties in relation to the alleged guarantees given by two PRC wholly-owned subsidiaries of the Group on the indebtedness owed by Goldwiz Tongling or Shenzhen Ji Hai Industrial Company:

<b>Plaintiff</b>	<b>Alleged claim</b>
China Construction Bank, Tongling branch	RMB41.5 million with interest*
The Industrial and Commercial Bank of China, Tongling branch	RMB14.6 million with interest*
The Tongling Economic Technical Development Zone (Group) Company	RMB16.3 million*
The Bank of China, Tongling branch	RMB21.6 million with interest*
The Bank of China, Shenzhen branch	RMB60.7 million with interest#

\* *indebtedness owed by Goldwiz Tongling*

# *indebtedness owed by Shenzhen Ji Hai Industrial Company*

Details of the above litigation cases were set out in the Company's interim report for the six months ended 31 December 2005, the Company's announcement dated 25 May 2006 and circular dated 14 August 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LITIGATION (*Continued*)

As advised by the Company's PRC lawyer, Goldwiz Tongling has been negotiating with its respective creditors. During the year under review, Goldwiz Tongling has managed to repay RMB12.1 million to the creditors. At the date of this report, Goldwiz Tongling and the plaintiff have reached settlement agreements on the litigations amounting to approximately RMB26.1 million, of which RMB14.6 million was said to be guaranteed by a PRC subsidiary of the Company. Moreover, Goldwiz Tongling and the plaintiffs are in the final stage of conclusion of settlement agreement on the litigations amounting to approximately RMB57.8 million, RMB49.6 million of which was outstanding at 30 June 2006. As to the litigation amounting to approximately RMB60.7 million, the Group was advised that the case would be defensible in view of certain irregularities of the alleged guarantee. Regarding a litigation as to approximately RMB21.6 million, Goldwiz Tongling has subsequently made certain repayment but since this company and the plaintiff have not yet reached any settlement agreement and therefore the Company, being the alleged guarantor, has made a provision of guarantee for approximately RMB15 million and the Company will seek legal advice to demand for the said amount in due course. The Company was further advised that should settlement on the loans be reached between Goldwiz Tongling and the plaintiffs, the contingent liability of the Group arising from the alleged guarantee will lapse.

During the year, the Group has also received a writs of summon from its main contractor in respect of the outstanding fee of approximately RMB16 million with interest in relation to construction of its property under development in Shenzhen, the PRC. Details of the case were also set out in the Company's announcement dated 25 May 2006 and circular dated 14 August 2006. Subsequent to the balance sheet date, the claim has been settled and the contractor has resumed work in August 2006 and the development is expected to be completed in end of 2006.

Moreover, subsequent to the balance sheet date, as disclosed in the Company's announcements dated 3 August 2006 and 6 October 2006, the Group has been served a notice of arbitration proceeding by Shenzhen Arbitration Committee in respect of the Group's indebtedness of RMB100 million together with interest due to The Bank of China, Shenzhen branch, the PRC (the "Bank Creditor"). Both parties have agreed preliminarily to make an out-of-court settlement. The Bank Creditor will proceed with internal approval procedures for restructuring the short term loan to a long term loan subject to the pledge of the property-under-development in favour of the Bank Creditor as security for the long term loan. The property was charged by the plaintiffs of the litigations against the Company in respect of the alleged guarantees for the indebtedness of Goldwiz Tongling. The Group is endeavoring to satisfy the pre-condition of the proposed debt restructuring and will continue its negotiation with the Bank Creditor.

### CORPORATE GOVERNANCE

The Company places great importance in its commitment to upholding a high standard of corporate governance. Good governance is an essential factor in corporate success. The new management commits to keep a good corporate governance practice and has spent considerable time in reviewing its internal control to ensure the efficient use of resources and to enhance both corporate accountability and the creation of value.

### PROSPECTS

Going forward, the outlook of the Group for the next financial year is positive. In its automation business, confidence of its customers has improved significantly and more opportunities are being offered to the Group. Adoption of free market policies has fuelled China's economy, which has created many opportunities for application of programmable logic controllers ("PLCs") and other automation systems and solutions. The demand for automation products and systems thrives distinctively in a developing economy that has a strong manufacturing and industrial base like China. Besides being able to offer imported automation products to its customers, the Group can also provide its own proprietary products and solutions of PLCs, which will give the Group a competitive edge.

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### PROSPECTS *(Continued)*

As part of its diversification and expansion plan, the Group has opened up its trading business in natural resources. The Group has received support from two major suppliers in Indonesia for the supply of regular shipments of iron ores and coal. Also, subsequent to the balance sheet date, the Group has entered into a joint venture agreement with an independent third party for the provision of technical services and export services for an Indonesia company in respect of certain mined products such as iron ore and iron sand. The Group holds 25% equity interest in the joint venture company and the total maximum commitment will be approximately US\$1.51 million which will be funded by internal resources of the Group. The management believes that the investment in the JV Company will further strengthen its source of supply of iron ore and iron sand for the Group's trading needs. Due to certain delay in the company registration procedures, production of the iron ore sand is estimated to be ready for trial shipment in early 2007.

Moreover, the Group has settled the dispute over the construction of its Centre in Shenzhen and construction work has been resumed. Completion of the Centre is expected to be finalized in end 2006. The Centre is a 7-storey building and is situated at the central of the Shenzhen Hi-tech Park. On completion, it will have a gross floor area of 17,586 sq meters, including a basement car-park for approximately 60 vehicles. The management believes that the Centre will contribute, upon its completion, a stable return to the Group in term of rental income. It also expects improved earnings from automation business and good returns from its natural resources trading in the coming year.