MANAGEMENT DISCUSSION AND ANALYSIS
FINANCIAL REVIEW

It is disappointing that the optical disc manufacturing system market sector had not recovered from its recession which was thought by the Group as only a short term seasonal phenomenon. The turnover of the Group for the six months ended 30th September, 2005 recorded a decrease of approximately 72.3% as compared with the six months ended 30th September, 2004. Approximately 92.9% (for the six months ended 30th September, 2004: 99.4%) of the turnover in respect of the provision of engineering system contracting services was attributed to optical disc manufacturing systems. The remaining portions were attributed to theme park show and intelligent traffic management systems. The sharp decrease in turnover was mainly resulted from a sudden and unexpected downturn in optical disc manufacturing industry which was suffered from high raw materials prices during the period under review.

The gross profit margin for the six months ended 30th September, 2005 dropped from 12.0% in last period to 10.6% in current period. It was mainly resulted from a general decrease in selling prices of the products sold, so as to preserve the Group's market position.

During the reporting period, the Group continued to allocate resources for business development and technology advancement in other emerging business sectors including intelligent traffic management systems, broadcasting and audio visual systems, and theme park show systems. For the ultimate purpose of generating fresh revenue for future periods and a more optimal use of the Group's engineering capabilities, the Directors had not down-sized the Group's operation structure.

For the six months ended 30th September, 2005, the Group incurred a net loss of approximately HK$20.6 million (for the six months ended 30th September, 2004: a net gain of HK$29.5 million). It was mainly resulted from the significant shrinkage in turnover, increase in exchange loss, large exceptional expenses arising from application of new HKFRSs, and provision made for the bad and doubtful debts in the current period.

In the current period, the Group applied HKAS 32 which rendered expenses of approximately HK$6.4 million incurred directly for the Group's listing exercise on the Stock Exchange being charged to the current period's operating expenses account. The adoption of HKAS 21 had rendered the Group to credit an unrealised exchange gain of approximately HK$2.1 million on translation to presentation currency to the exchange reserve accounts. As a result, the Group incurred an exchange loss of approximately HK$4.3 million (for the six months ended 30th September, 2004: an exchange gain of HK$2.1 million) which was resulted from normal business operations. The provision for the bad and doubtful debts was increased approximately 117.4% from approximately HK$2.3 million in last period to approximately HK$5.0 million in current period to reflect the retarded repayment patterns from optical disc system customers distressed by the market depression.

USE OF PROCEEDS

The proceeds from the issuance of new shares by the Company in June 2005, net of listing expenses, were approximately HK$49.6 million. For the six months ended 30th September, 2005, net proceeds were utilized in the following manner:

	Per Prospectus	Amount Utilised	Balance as at 30th September, 2005
	HK$'000	*HK$'000*	*HK$'000*
Formation of business alliances	17,628	–	17,628
Expansion of existing subsidiaries and formation of new subsidiaries	2,000	–	2,000
Acquisition of premises for setting up showrooms	4,000	–	4,000
Expansion of communication network	1,000	57	943
Repayment of revolving term loan	15,000	15,000	–
Expansion of research capabilities	6,000	2,851	3,149
Working capital	4,000	4,000	–
	49,628	21,908	27,720

The unutilized balance was placed in short term bank deposits.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through a combination of shareholders equity, internally generated cash flows and bank borrowings. As at 30th September, 2005, the Group had cash and cash equivalent of approximately HK$35.0 million (31st March, 2005: HK$23.0 million) and total interest-bearing bank borrowings of approximately HK$22.6 million (31st March, 2005: HK$53.4 million), of which approximately HK$22.5 million (31st March, 2005: HK$53.2 million) are repayable within one year and the remaining approximately HK$30,000 (31st March, 2005: HK$0.2 million) are repayable beyond one year. The Group's current ratio was 1.5 (31st March, 2005: 1.2) and the gearing ratio (a ratio of total loans to total assets) was 8.8% (31st March, 2005: 18.4%).

CAPITAL COMMITMENTS

As at 30th September, 2005, the Group had no material capital commitments.

CONTINGENT LIABILITIES

As at 30th September, 2005, the Group had contingent liabilities in respect of performance bonds and letter of guarantee issued by banks in lieu of projects undertaken by a subsidiary amount to approximately HK$Nil (31st March, 2005: HK$1,339,000) and HK$2,249,000 (31st March, 2005: HK$195,000) respectively.

MORTGAGES AND CHARGES

As at 30th September, 2005, the Group had outstanding mortgage loan of approximately HK$378,000, for which the office premises of the Group is charged.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September, 2005, the Group employed a work force of 78 staff. Remuneration for employee including medical benefits and staff quarters which are determined based on industry practice, the performance and working experience of the employees and the current market conditions. During the period, the total staff costs amounted to approximately HK$9.5 million (for the six months ended 30th September, 2004: HK$8.6 million).

The Company adopted a pre-IPO share option scheme on 30th March, 2005 for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations. As at the date of this report, 15,000,000 pre-IPO share options were granted under the scheme. Details of the grantee are set out in the prospectus dated 27th May, 2005 issued by for the Company.

FOREIGN EXCHANGE EXPOSURE

The majority of the transactions of the Group are denominated in US$, EURO, and JPY. The Group has not entered into any financial instruments for the purpose of hedging against foreign exchange exposure involved in the Group's operations. However, the Group monitors its foreign exchange exposure by matching the timing of its trading receipts with payments. The Group also matches its selling currencies with its purchasing currencies.

PROSPECTS

Although the Directors are confident in a prosperous future of the Group, which will be discussed in details further below, owing to the sudden and unexpectedly long downturn in our optical disc manufacturing system business and the unfortunate fact that newly developed or developing businesses cannot fill in the gap within this financial period, the Directors hereby remind our shareholders and potential investors that there exists possibility of a significant decline in our earnings for the full financial year ending 31st March, 2006.

Up to the date of this report, an immediate strong rebound in the optical disc manufacturing systems industry had not yet come into prominence. Instead, driven by a mix of market behavioural and costs structural changes, only those manufacturers of economy scale of operations and high efficiency management had higher opportunities to continue their growth and long term survival in this industry. The Directors believed that such category of clientele had always constituted a major portion of the Group's customer base. It also appeared that manufacturers had adapted to the adverse economic environment. Moreover, inhibiting factors such as high raw material prices arising from high oil prices in the first three quarters of 2005 have recently eased to a certain extent. The Directors are confident that the Group will achieve better results in this sector from the recovery of this market sector in the near future.

Having spent years of effort and research resources in up-keeping our engineering crew in advanced Digital Audio Broadcasting (DAB) and Digital Video Broadcasting (DVB) technology, the Group had commenced selling experimental systems to a state-owned broadcasting customer in China after this reporting period. Should high commercial value be derived from adoption of such innovative broadcasting technology, the Group would be in a leading position to capture vast benefits from a luxuriant implementation in the huge China market.

Throughout this financial period, the Group had tendered and planned to tender for numerous audio visual related systems works for top tier world class sports event venues including the new stadiums for 2008 Beijing Olympic Games. The Group's actual involvement in Olympic Games engineering system works would actually commence from the 2006 Winter Olympics to be held in Torino, Italy, by providing technical support to a major official sponsor of Olympic Games. On the other hand, the Directors considered that having completed the opening of gaming sections of the large casinos under construction in Macau, casino owners must proceed to the next business phase of attracting more visitors from competitors by introducing higher end entertainment shows and facilities. The Group anticipated that these project opportunities would also emerge from calendar year 2006 onwards.

The Group's recent agreement with civil aviation authorities of Sweden and the Netherlands on the joint development of an aircraft departure management control system had marked the past effort of the Group being recognized by the industry. This system would hopefully contribute to our revenue from calendar year 2007 onwards. In the shorter run, the first Air Traffic Control system project with the Northern China Civil Aviation Bureau in Beijing Capital Airport, also being the first air traffic control systems integration project in China, is due to be completed within this financial year. Having established an excellent rapport with end users, the management is optimistic that more good news in the Group's achievement in this sector would be brought forward to our shareholders in the near future.

The disappointing market situation of the optical disc business sector had revealed that the Group's long term strategic objective of diversifying into other specialized engineering systems sectors is correct. The current situation, however, occurred before the Group would manage to optimize the corporate resources into a dynamic equilibrium among all business sectors the Group had entered into. The Directors accordingly call forth shareholders' confidence and patience with the Group, which, would be turned into the most powerful drive to sprout the seeds having been sowed.

INTERIM DIVIDEND

A special interim dividend of HK 2 cents per ordinary share amounting to HK$6 million was declared for the six months ended 30th September, 2005 and paid. The Directors does not recommend the payment of further interim dividend.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the period.