Business Review and Prospects

BUSINESS REVIEW

The Group's consolidated turnover for the period amounted to approximately HK$1,011,015,000, representing an increase of approximately 0.1% from the same period of last year, while operating profit and net profit attributable to the shareholders amounted to approximately HK$35,870,000 and HK$20,184,000, decreased by 36% and 50% respectively over the same period of last year. During the first half of the year, the Group was stricken by various external factors, such as the appreciation of Renminbi, increasing costs of raw materials, inflation, and China's implementation of the new labor law etc., and saw a continuous increase of its operating cost. In addition, as a series of regulation measures were adopted in PRC during the period which imposed heavy financing pressure on the Group's customers, drove up their borrowing costs and adversely altered their investment and purchase plans, the turnover and gross profit of every business segments of the Group were impacted to various extent, resulting in an overall performance which is behind our expectation.

Manufacturing Business

Machinery

Under the influence of several unfavorable market factors, the machinery business still recorded an overall sales of approximately HK$385,375,000 during the period, representing a slight increase of approximately 3% over the same period of last year, and accounted for approximately 38% of the Group's consolidated turnover, while operating profit of the period was approximately HK$13,938,000, representing a decrease of approximately 14% over the same period of last year.

During the first half of the year, prices for steel and plastics climbed to an unexpected high level. Besides, the state government strengthened its macro-control, and export-oriented enterprises suffered from various negative factors such as a stagnant U.S. economy and rising labour costs. As a result, most of the Group's customers became more conservative in making investment in industrial equipments and adopted a wait-and-see attitude. As compared with the same period of last year, both the domestic and export markets have shown an apparent decline in terms of demand. Under such circumstances, the machinery manufacturing business failed to transfer all its additional production costs to customers and its earnings was adversely impacted accordingly. To ease the decline of consolidated gross profit of machinery manufacturing business, during the period, the Group has made some adjustments to its product mix by devoting more resources for the research and development and the marketing of those machines types with higher added-value, such as Sv series energy-saving and high precision injection moulding machine, PP series special purpose machine for medical plastic containers, and RV/RA series rubber injection machines which are respectively applied in the automotive sealing parts and electrical insulator industries.

As disclosed in the Company's announcement dated 30th May and the circular issued to the shareholders on 20th June this year, Wuxi Grand Tech Machinery Group Ltd. ("Wuxi Grand"), a wholly owned subsidiary of the Company entered into the Compensation Agreement and the Disposal Agreement with Wuxi Industry Development Group Co., Ltd. ("Wuxi Industry") on 30th May this year. According to the Compensation Agreement, Wuxi Grand will receive a compensation of RMB55,518,200 from Wuxi Industry for early termination of a lease agreement in respect of Wuxi Grand's remaining tenure of approximately 12 years on a parcel of land located at No. 89, Hubin Road, Wuxi City, Jiangsu Province, the PRC with a site area of approximately 47,000 sq.m and 19 buildings build on the land comprising production workshops, offices and staff quarters. The Company will relocate its production workshops, offices, staff quarters and other facilities of Wuxi Grand to the parcel of land with a site area of approximately 75,000 sq.m located at Wuxi National High-tech Industrial Development Zone, which was purchased in 2006 by the Group. In addition, pursuant to the Disposal Agreement, Wuxi Grand agreed to sell another parcel of land with an area of 7,200 sq.m located in the same area in Wuxi to Wuxi Industry for a cash consideration of RMB25,317,600. It is estimated that the compensation will result in a book profit of approximately HK$62,417,000 (equivalently to RMB55,518,000), and the disposal will realize a net gain of approximately HK$23,410,000 (equivalently to RMB20,822,000). The profits from the compensation and the disposal in aggregate amount of approximately HK$85,827,000 (equivalently to RMB76,340,000) (before expenses) will be recorded in the financial statement for the year ended 31st December, 2008.

Business Review and Prospects

Plastic Products and Processing

The consolidated sales of plastic products and processing business for the period was approximately HK$192,933,000, representing a decrease of about 15% as compared with the same period of last year and accounted for approximately 19% of the Group's consolidated turnover, while operating profit of the year was approximately HK$5,135,000, increased by approximately 5.4% over the same period of last year.

Confronted with the fierce competition in the plastic processing industry, the sales of our plastic processing plant in Dongguan decreased by 33% as compared with the same period of last year. Fortunately, a series of cost-control measures such as material-purchase control and headcount reduction implemented during the first half of the year began to bear fruits. Production efficiency was hence improved and a better-than-expected profit was achieved.

For the optic products business, as sales of magnifiers posted a significant growth over last year, the turnover for the period increased by approximately 32%. Though overall gross profit of this segment dropped due to the effects of various negative factors including rising costs and weakened international demands as well as reduced orders for microscopes, which commanded higher gross margins, total sales revenues still increased and the operating profit has achieved expected growth. It is expected that, after the new plant is completed and commences production in September this year, the production capacity of this segment can be further enhanced so that its cost-efficiency will be improved.

In respect of the Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging, as its major customers, which mainly comprise food (noodles, ice cream and candies) manufacturers, were seriously stressed under the unfavorable domestic economic environment, the plant's food packaging business was also affected to a certain degree. As the competitiveness of export products was impaired by the appreciation of Renminbi, export sales for the first half of the year declined by 13% from the same period last year. However, it is expected that this business segment will break even in 2008 after the emphasis was made to the exploring of domestic markets, and strengthened its internal cost control.

Printed Circuit Board

As to printed circuit board business, sales of approximately HK$244,342,000 was recorded for the first half of the year, accounting for approximately 24% of the Group's consolidated turnover, which represented an increase of approximately 10% as compared with the same period of last year. Operating profit was approximately HK$10,327,000, decreasing by approximately 52% from last year. During the period, the operating profit failed to maintain the strong upward momentum of last year in face of rising labour cost and appreciation of Renminbi. Through negotiating with our customers, we managed to offset part of the rise in costs by adjusting selling prices. On the other hand, this business segment will further refine and improve the current product mix, enhance processing and production efficiency so as to maintain its profits.

Trading Business

Industrial Materials and Consumables

During the period, trading business faced weakened economic conditions. The industry operated under an environment full of negative factors, such as economic slow-down in Europe, the U.S. and new emerging markets, surge of prices of raw materials, new macro-economic control measures and the newly introduced labour contract laws as well as the appreciation of Renminbi. All of those contributed to the substantially worsened business environment. Our trading business was inevitably affected and recorded a consolidated turnover of HK$188,365,000 for the period, representing a slight increase of approximately 1% as compared with the corresponding period last year, accounting for approximately 19% of the Group's consolidated turnover. Profit from operations was approximately HK$17,126,000, a decrease of 7% as compared with last year.

Business Review and Prospects

To cope with the unfavourable factors in the macro-economic environment, we optimized the structure of our customer base during the period by taking such measures as letting go low worth customers with long credit periods. We focused on exploring new industries with greater profit potentials and seeking small and medium enterprise customers. Financial results of some businesses like fasteners were comparatively satisfactory. However, as southern China was affected by the natural disaster occurred in the first half of this year, financial results from that district was slightly fell back. The overall performance of the trading business was behind our expectation in the first half of this year.

Other Businesses

Electronic Watt-Hour Meters and Related Business

Shenzhen Haoningda Meters Co., Ltd., the associate of the Group in Shenzhen, maintained stable business performance for the period. The company's plan to list its shares on Shenzhen Stock Exchange progresses smoothly. The Group will make relevant disclosures in due course.

PROSPECTS

With the unfolding and spreading of sub-prime mortgage crises in the U.S., the global economy will be adversely affected. During the period from the second half of this year to next year, the appreciation of Renminbi and the inflation in the PRC are expected to slow down slightly, but the market conditions are far from optimistic. The Group will adopt various proactive measures to maintain its overall profit. Such measures include optimizing products and operational costs, putting focus on the exploration of products and markets with higher added value. On the other hand, we intend to further reduce management expenses by improving internal management. Leveraging on its well-established reputation, extensive customer base, quality products and production volume, and most importantly, the continuous implementation of the strategy of manufacturing newly-developed and high-value-added products to cater to the shifting demands of customers for high-precision products, the Group firmly believes that its intrinsic advantages are still available and such challenge will bring out new opportunities for the Group.

For machinery business, it is expected that market conditions in the second half of the year will remain unfavorable. The Group is going to cope with challenges mainly by the policy of "streamlining and improving efficiency" coupled with strict cost control. In product strategy, we will speed up the production of Sv series injection moulding machine, expand our sales regions from Mainland China to high-ended overseas markets, and further integrate machine models of lower profit margins to improve operating efficiency. For rubber injection machine products, we are accelerating the R&D of new model of super-sized lamping force machine (2000T or above), in order to meet the growth in demand for extreme high voltage insulators following the power grid upgrade. Since the market conditions of the machine manufacturing business are uncertain, we expect that sales revenues will only have mild increase while profits will be squeezed to a certain extent.

For trading business, the negative factors in the first half of the year are expected to sustain for the rest of the year and the market competition is increasingly intense. This segment will further expand its market, enlarge and optimize its customer base; at the same time we will fight through adversity by "broadening income sources and reducing expenditure". We will tighten our grip on inventory and account receivable control, reduce operating expenses and increase cash flows. We are confident that, with our outstanding marketing team, effective implementation of market expansion strategies, appropriate adjustments made according to the market changes, our trading business will overcome the adverse circumstances and advance with steady steps.

Business Review and Prospects

In respect of plastic products and processing business, the Group will focus on promoting automation of injection moulding and spraying to save on production manpower, so that we can achieve better cost control. The Group succeeded in raising the prices of some products during the year. On the other hand, we are working on methods of improving production techniques, with an aim to meet the increasingly high requirements by customers and consequently solicit and secure orders from major customers. In addition, a series of measures such as sales structure changes and cost control measures will be completed during the second half of the year; we expect that stable profit will be achieved by then.

The year 2008 marks the 50th anniversary of the Group. For these years, the Group's ability to lay solid foundation for its business and overcome various difficulties is attributed to the efforts of all of our staff and their courage to take on and response to challenges. Though the Group will still face lots of unknowns and challenges, with the strong basis of the Group, extensive experience within the industry among its members, as well as our diligent and dedicated employees, we look forward to achieving new heights and open a new chapter in the future.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended 30th June, 2008 (2007: HK0.6 cents per share).