Business Review and Prospects

BUSINESS REVIEW

The Group's consolidated turnover for the first half of the year was approximately HK$919,205,000, representing an increase of about 18% over the corresponding period last year. During the period, the operating profit and the net profit attributable to shareholders were approximately HK$34,731,000 and HK$22,332,000 respectively.

During the half year under review, although the Group was still affected by undesirable factors such as the continuous macro-economic adjustment policies on the Mainland, soaring raw material prices and the increase of human resource cost, thanks to the determined efforts made by our employees, the appropriate adjustment of operation strategy and the implementation of corresponding respondent measures, most of our businesses recorded satisfactory results. During the period, trading of industrial materials and consumables was the most satisfactory operation, reaping over 40% growth in turnover, while the plastic products manufacturing and processing business and the printed circuit board business also recorded an increase of over 20% in turnover, and their profits were better than expectation. In addition, the watt-hour meter business operated by the associate still enjoyed high profitability, while its machinery manufacturing business performed slightly below expectation, making only 10% increase in turnover. During the period under review, the net profit attributable to shareholders increased by approximately 20% over the corresponding period last year.

Manufacturing Business

Machinery

The demand for equipment in Mainland market rebounded and was better than the corresponding period last year, but it was still adversely affected by the macro-economic adjustment policies on Mainland and the high price in plastic raw materials, the overall turnover only slightly increased by approximately 10% over the corresponding period. Under the continuous oversupply situation in Mainland market, price pressure of general purpose plastic injection moulding machines was further intensified due to the unregulated competition, and the increase of human resource cost also affected the profit. In line with the Company's product strategy that favours the high-end plastic injection moulding machines and those applicable for overseas market in terms of resource allocation, sales of general purpose plastic injection moulding machines in Mainland market dropped slightly, while the increase in overseas business and sales of various high-end plastic injection moulding machines, compensated part of the loss. During the period, resources of various production bases and marketing platforms located in different places were further integrated and the operation models of multi-products and multi-places were continuously optimized, which speeded up the market expansion and segmentation, and shortened the time for introducing new products (for example: special purpose high speed plastic injection moulding machines for thin-wall products and CNC turret punch presses) into market. Moreover, in order to accelerate the response speed of after-sales services in overseas market and to enhance the relative competitiveness, overseas service centres were set up in three different time zones respectively, which are expected to commence operation in the fourth quarter of this year. Judging from the amount of on hand orders and potential orders, it is in prospect that the machinery manufacturing business can sustain a stable growth in the second half year.

Plastic Products and Processing

The soaring petroleum price harnessed a great burden of cost on our plastic product and processing business that used plastics as its principal raw materials, which, together with the consistent increase of energy price and labour cost, further shrunk the Group's profitability in this business. Nevertheless, thanks to the effective measures we took and the great efforts of our staff, sales grew by 23% and our profit was roughly at the same level as the corresponding period last year.

For the plastic processing business, as the orders from new customers was on the rise and those from old customers remained constant, profit level was kept for economies of scale and the relevant cost-reduction measures came into effect, despite the slight increase of cost of materials during the half year under review. For the plastic products, the sanitary plastic cutlery and food container business achieved better results as the overseas segment recorded a cheerful growth.

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Electronic and Audio Products

Being confronted with the continuous loss in the electronic and audio business, the Group decided to take even harsher actions, in addition to plant relocation, production scale shrinking as well as some rationalization moves early in the year which had further reduced the loss, to resolve its adverse impact on the Group.

Printed Circuit Board

During the half year under review, with the increase in order, the PCB business recorded satisfactory results with a turnover of more than HK$200 million, representing an increase of 22% over the corresponding period last year. Although the prices of certain raw materials rose continuously, the increment of the cost was partially set off through price adjustment with the understanding and cooperation of our customers. Meanwhile, through adjustment of production portfolio so as to concentrate on multi-layer PCBs of more sophisticated design, longer processing flow, higher technical requirement and bigger profit margin, the PCB operation recorded a cheerful growth in its profit. Considering that the labour cost would increase as a result of salary adjustment, the Group decided to, besides implementing a tighter management, purchase new advanced processing equipment to accommodate the order which had been outsourced previously, so as to save the relevant outsourcing cost, and such moves resulted in a balance of overall efficiency.

Trading Business

Industrial Materials and Consumables

During the first half of the year, the trading business of the Group recorded better than expected results with an increase of 40% in turnover. The satisfactory performance in the first half of the year had resulted from more purchases from customers. At the end of last year, due to the rising price of raw materials, the customers from industries serviced by the Group (e.g. automobile parts, electronic products, cables, etc.) kept down their demand and maintained their inventory level conservatively so as to mitigate inventory risk. However, customers had to increase their purchases to offset the deficiency of material inventory in view of the prosperous market condition in the first two quarters of the year. Furthermore, our professional sales team who provided efficient and quality service to customers was also one of the major factors by which the Group achieved good results. The market for the second half of the year is expected to slow down. However, with the well established sales offices located in prosperous economic regions such as the Pearl River Delta, Yangtze River Delta and Bohai Rim, and as well as the commencement of operation of the storage and distribution center in Shanghai, our nationwide sales and support network will certainly provide customers with better services.

Other Businesses

Electronic Watt-Hour Meters and Related Business

During the first half of the year under review, this business sector maintained satisfactory growth and achieved better results. New hi-tech products, including remote self-reading meters and systems for better management of electricity capacity/loading and distribution monitoring based on 2.5G-3G GPRS frequency bands, were gradually launched in the market and the business is expected to achieve good performance in the second half of the year.

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PROSPECTS

Looking into the second half of the year, the Group will generally maintain a prudent optimistic attitude in view of the Chinese Government's implementation of a new round macro-economic control measures, strong Renminbi and escalating interest rates, and new investments of enterprises will be restricted.

The machinery market of China is still in fierce competition, especially the market for general-purpose machinery and equipment. The exploration of overseas market has made continuous progress as the number of orders is growing, and enquires and orders for new products such like high productivity multi-layer blow-moulding machines also increase substantially. It is expected that the machinery manufacturing sector will achieve satisfactory results in the second half of the year. Discussion on further cooperation with Japan UBE Industries Ltd. is still in progress and is expected to have fruitful result within this year.

Nurturing of talents, especially at the middle and senior levels, is also a priority for the Group. We strongly believe that with the devotion of our staff, our business will continue to progress steadily.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare an interim dividend of HK0.5 cents per share (2005: Nil) in respect of the six months ended 30th June, 2006 payable on or about 13th November, 2006 to the Shareholders of the Company whose names are on the register of members on 31st October, 2006.

The register of members of the Company will be closed from 25th October, 2006 to 31st October, 2006 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Registrars, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 24th October, 2006.