

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

The consolidated turnover of the Group for the first half of the year was approximately HK\$796,029,000, representing an increase of approximately 27% or HK\$169,955,000 over that of last year. During the period under review, the profit from operation was approximately HK\$31,866,000, the net profit attributable to shareholders was approximately HK\$21,550,000, representing a growth of nearly threefold compared with the corresponding period last year.

Despite a more vibrant market in the first half of the year as compared with the corresponding period last year, the operating environment was subject to constant changes caused by the surge of raw material prices, the shortage of electricity supply in the Mainland, and the macro-economic control and adjustment policy implemented by the PRC Government. The challenges brought about by the adverse market conditions during the SARS outbreak, however, has enabled the management to boost the Group's consolidated results during the period under review by capitalizing on its awareness of crisis management and unrelenting efforts in market expansion.

The turnover of machinery business increased by 24% or approximately HK\$63,665,000. Meanwhile, the Group invested over 10 million dollars to strengthen its integrated design capability in mechanical, electric, hydraulics and their application in our machinery products, as well as in the marketing and promotion of new products, including blow moulding machine, extrusion machine and CNC turret punching machine. As a result, the profitability of the period was affected and the profit decreased by approximately 28%. The Group will hold fast to its new development plan for the machinery business, which is expected to gradually produce results in the near future.

As a result of the efforts to seek new customers during the difficult time last year, the turnover of plastic business in the first half of the year grew significantly by 33% or approximately HK\$32,923,000 as compared with the corresponding period last year. Despite the fluctuations in plastic resin prices, the business has returned to profitability.

During the period under review, the printed circuit board business maintained its growth and recorded an increase of over 40% in turnover. The business continued to register profit despite the heavy pressure from the rise of raw material prices. We will closely monitor the effect of the increase in raw material prices of printed circuit boards. The Group is generally optimistic and prudent about the prospects of printed circuit board business.

Thanks to the cost retrenchment measures, the loss of the audio products business has been reduced. Under the redefined business plan, the turnover rose sharply by 36%, and there is a stable amount of orders in hand for the second half of the year. We are confident that the cost retrenchment measures of last year will help the business achieve a break-even level.

The industrial consumables segment of the trading business continued to record an increase in sales by 13%. Although the weakening of U.S. dollars has driven up the costs during the period, no corresponding price adjustment was made in view of the intense market competition. The profit increased slightly by 9%. Our trading business will develop at a steady pace together with gradual profit growth.

PROSPECTS

The Group anticipates that the abovementioned unfavourable factors will persist in the second half of the year. However, the management, who has overcome the challenges brought about by the adverse circumstances, will adhere to a people-oriented policy with emphasis on the training and recruitment of high-calibre talents. It will pursue realistic growth and development through appropriate use of resources. Some of the unfavourable factors at present can actually be transformed into our business opportunities. It can be seen from the changes in the Group's operations in the first half of the year that we are back on track towards profitability. The management holds an optimistic view as to the results of this year.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended 30th June, 2004 (2003: Nil).

PROPOSED BONUS ISSUE OF SHARES

The Board recommends a bonus issue of shares to the shareholders of the Company whose names appear on the register of members of the Company on 19th October, 2004 on the basis of 1 bonus share for every 10 existing shares held by such shareholders on 19th October, 2004. Fractional bonus shares will not be allotted to shareholders but will be aggregated and sold, and the net proceeds therefrom will be retained for the benefit of the Company. The bonus issue is conditional upon (a) the approval of the shareholders of the Company at an extraordinary general meeting of the Company to be convened; and (b) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting or agreeing to grant the listing of and permission to deal in the bonus shares. After fulfilment of the conditions mentioned above, the bonus shares will be issued at par, credited as fully paid-up, and will rank pari passu in all respects with the shares then in issue except that they will not rank for the bonus issue mentioned herein. Details of the proposed bonus issue will be contained in a circular of the Company to be despatched to shareholders on or before 30th September, 2004 separately.

CLOSE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15th October, 2004 to 19th October, 2004 (both dates inclusive), during which no transfer of share will be registered. In order to qualify for the proposed bonus issue of shares, all completed and signed transfer forms for transfer of shares accompanied by the relevant share certificate(s) must be lodged with the Company's share registrar, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 14th October, 2004.