

BUSINESS REVIEW

During the reporting period, the financial crisis lingered and there was no sign of recovery in the global economy, such that customers from all walks were rather conservative when making investments or orders, posing an extremely difficult operation environment for the manufacturing industries. Businesses of the Group were inevitably dampened to different extent and recorded a regression for the overall results. The Group's consolidated turnover for the period amounted to approximately HK\$691,407,000, representing a decrease of approximately 32% from the same period of last year, while operating loss and net loss attributable to the shareholders amounted to approximately HK\$3,977,000 and HK\$18,147,000, decreased by about 111% and 190% respectively from the same period of last year.

Manufacturing Business

Machinery

The plunge of orders in the market since the outbreak of the global financial crisis last year continued its effects for the first half of the year as demand in the market remained sluggish. During the period, the overall sales was approximately HK\$215,646,000, representing a decrease of about 44% from the same period of last year, and accounted for approximately 31% of the Group's consolidated turnover, while operating loss of the period was approximately HK\$24,865,000, representing a decrease of approximately 278% from the same period of last year.

Against a backdrop of general downturn and recession in the global economy and uncertainties in the domestic market, the customers were reluctant to make investment in equipment, some even scaled down their investment or suspended orders already made, which accounted mainly for the significant drop in sales for the period. The export business was hit seriously as it fell by more than half from the same period of last year; the gross profit margin of general purpose injection moulding machines decreased by about 7% as competition intensified when the supply exceeded the demand; the profit margin of other machinery products were down a number of percentages. This business had undergone restructuring of organization since the fourth quarter of last year with certain capital input cut down and cost-control measures implemented. However, the results of which will not be evident until the second quarter of the year, such that this business recorded a loss for the first half of the year.

To accommodate the market trend of environmental and energy-saving machinery, we had further upgraded the function of Sv series servo-driven pump energy-saving and high precision injection moulding machine which was launched in the middle of last year during the period, and had extended the solution of which to rubber injection machine products. Besides, with our self-developed R&D technology, we had successfully developed the localized and enhanced version of the servo-driven pump solution with the addition of the Se series energy-saving injection moulding machines. Since its launch at the exhibition in May of the year, the Se series had ingratiated the customers with its outstanding function/price ratio, and was expected to be the major injection moulding machine product of this business following a product mix adjustment. Moreover, it will improve the overall market share and the gross profit contribution of the small and medium machinery segment. For CNC sheet-metal processing machine products, the Group had successfully developed the CNC Turrent Punch Press LX230BKD that can process large-sized sheet of 1500mm x 2500mm in a time, which is particularly useful in market exploration and in meeting sheet-metal processing requirements of mass transit system under infrastructure projects.

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Plastic Products and Processing

The consolidated sales of this business for the period was approximately HK\$149,232,000, representing a decrease of about 23% as compared with the same period of last year and accounted for approximately 22% of the Group's consolidated turnover, while operating profit of the period was approximately HK\$781,000, decreased by approximately 85% from the same period of last year.

The first half of 2009 was a severe winter for the export industry in Southern China. The Group's plastic processing plant in Dongguan was confronted with order cancellations and postponements by some customers and almost total suspension of new product development, in addition to fierce competition within the plastic processing industry that resulted in deteriorating forced reduction of prices. Consequently, its turnover for the period decreased by more than 30%. Fortunately, thanks to the cost-control measures implemented in the first half that controlled production cost by perfection of work process and improved automation of the plant, a slight profit was recorded for this segment during the period.

The optic products business, mainly export in nature, was influenced also during the period as its turnover and gross profit margin dropped drastically. This was because the customers were reluctant to purchase in order to mitigate inventory risk. In spite of a slowdown in price rise of production costs such as price of plastics and electricity fee in the first half of the year, the operating situation of this business showed very less improvement.

Owing to the difficult economic situation at home and abroad during the first half, the Zhuhai plant which specializes in injection moulding products of plastic cutlery and food packaging recorded a decrease in turnover by 10% as compared to the same period of last year, even though it had reinforced the development of new customers as well as new products. However, benefited by the relatively low plastics price and aided by strengthened and effective internal control of management, administration and production costs, this business had recorded a profit for the period.

For other plastic processing plants which are located at Shenyang, Hefei and Wuxi, as the operation mainly focused on the processing of casings and components of household electrical appliances which was affected by the poor condition in the household electrical appliance industry during the period that resulted in a fallback in the sales and results, we are adopting measures and adjustment strategy in response to it and may have to discontinue enterprises which were unprofitable for a long period.

Printed Circuit Board

As to printed circuit board business, sales of approximately HK\$206,332,000 was recorded for the first half of the year, accounting for approximately 30% of the Group's consolidated turnover, which represented a decrease of approximately 16% as compared with the same period of last year. Operating profit was approximately HK\$26,346,000, increased by approximately 155% as compared with the same period of last year. During the period, the production cost was lower than expected as price of raw materials (such as metal material) fell drastically as compared with the same period of last year and the rise in salary was stabilized. Therefore, a desirable increase in operating profit was recorded although in an adverse economic condition. On the other hand, this business segment will continue to increase the output ratio of multi-layer printed circuit board so as to maintain its profit momentum in the second half year.

Trading Business

Industrial Materials and Consumables

Dampened by the financial crisis, the trading business was also on the decline, and some business developed mainly to meet domestic demand, such as 3G communication equipment and MTR screened automatic door, could only made up for part of the loss. During the period, the consolidated turnover was approximately HK\$118,796,000, representing a decrease of about 37% from the same period of last year, accounting for approximately 17% of the Group's consolidated turnover. Operating profit was approximately HK\$3,710,000, a decrease of about 78% from the same period of last year. It is expected that the market is stabilizing as business of the customers will be recovering by the end of the second quarter of the year, and that the situation will take a favorable turn in the second half of the year.

Other Businesses

Electronic Watt-Hour Meters and Related Business

Shenzhen Haoningda Meters Co., Ltd. ("Haoningda"), the associate of the Group in Shenzhen, recorded a desirable profit for the period. The application for listing of its shares on Shenzhen Stock Exchange by this company was approved by CSRC on 2 September of the year, pursuant to which Haoningda will, in the form of IPO, issue not more than 20 million of A shares of par value RMB1.00 each. The date of listing and other detailed particulars are yet to be finalized. The Group will make relevant disclosures on the progress in due course.

PROSPECTS

Under the impacts of the financial crisis, the global economy including Mainland China had experienced significant fluctuation during the first half of 2009, and the Group had posed an unprecedented regression of results. Clouded by the economic uncertainties, the Group had adopted series of cost-control measures at beginning of the year to optimize its operating costs, streamline and improve internal management to weather such economic crisis.

In respect of machinery business, although there are signs of recovery in the market in the second half of the year, a number of uncertainties still exist in the external environment. This business segment will continue its efforts to tap new resources and economize on expense; carry out stringent cost-control to cope with the challenges ahead. On the product strategy front, it will expedite the mass production pace of the Se series small and medium size injection moulding machines and the extension of its application to super-sized injection moulding machines. Meanwhile, the models of machine with lower gross profit margin will be further integrated in order to enhance their operation effectiveness. On the rubber injection machine product front, in light of the continued upward momentum of the electricity transmission and distribution industry under the further investment in infrastructure projects by the Central Government, total solution for producing super-high-voltage insulator is added to strive for a larger proportion of market share. It is expected that the results of machinery manufacturing business will see improvement in the second half of the year as market demand is taking a favorable turn, coupled with a product mix strategic adjustment.

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In respect of plastic products and processing business, the Group's plastic processing plant in Dongguan will keep on soliciting new customers and to adopt the High Gloss Injection Moulding Technology (高光注塑) that has already been widely applied in the production of high end household electrical appliances. For the second half of the year, the plant specialized in injection moulding products of plastic cutlery and food packaging will focus on the application of bio-degradable plastic material. An advanced printing production line from Holland will be introduced to increase its printing capacity as well as to enhance quality of the products. Meanwhile, the quality control including maintaining a neat and clean production environment, will be strengthened. Currently, we are negotiating with some sizable domestic customers for new orders, which are hopefully realized in the second half of the year to further improve the profit of this business segment. On the optic product front, Collimator lens (聚光透鏡), a new product will be developed in the second half of the year in order to secure more orders for improving the sales of the second half of the year.

In respect of trading business, measures such as stringent cost-control, optimization of staff, cut-down on inventory and account receivables have been implemented to address intensified market competition and are yielding favourable results. In the meantime, it will augment development of business targeted for the domestic demand market; explore products and services with factory automation concept. Therefore, it is confident to seize the business opportunities under adversity for satisfactory results in the second half of the year.

Looking forward to the second half of 2009, it is not possible to have rapid recovery of the global economy in the aftermath of the radical change of the financial crisis. Notwithstanding series of measures launched by the Government of the PRC to stimulate the economy and to proactively expand the domestic demand market, the corporate business environment is rife with uncertainties, and so the second half will remain a difficult period for the Group. Fortunately, we have a superior and competent team that is apt at dealing with contingency. On the occasion of a rapidly changing period, of a prospect beset with difficulties, we strongly believe in the rule of "crisis co-exists with chances", that we have to be more adamant than ever to overcome the adversity, to continue improving our operation effectiveness, perfect our industry structure and give play to our team spirit. Thus the Group's business is sure to regain its upward momentum, and with the painstaking contribution of all the staff, the unceasing support of the customers and the business partners, the Group is bound to generate more value for the shareholders in the future.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30th June, 2009 (2008: Nil).