Business Review and Prospects

BUSINESS REVIEW

The consolidated turnover of the Group for the first half of the year was approximately HK$1,009,589,000, representing an increase of about 10% over the corresponding period last year. During the period under review, the operating profit and the net profit attributable to shareholders were approximately HK$55,891,000 and HK$40,610,000 respectively. The net profit attributable to shareholders increased by approximately 82% over the corresponding period last year.

In the second year of the implementation of the Eleventh Five-Year Plan of China, the country carried out a series of encouraging and incentive policies to transform and improve the industry, and promulgated stringent regulatory measures in respect of low value-added, high energy-consuming, high-polluting and high resources-consuming enterprises. This represents challenge as well as opportunities for the Group, of which the PRC has long been the main market and major manufacturing base.

The Group has been winning accolades from the government and customers for its perseverant and continuous development of new products. During the half year under review, the new technology of our Dong Hua Machinery Ltd. was awarded the Top-Grade Honor for Science and Technology Development by the People's Government of Dongguan Municipality, and Dong Hua injection moulding machine was also honorably selected as China Top Brand by the PRC government, both of which demonstrate the outstanding performance and achievements of the company in the development and research of new products. Meanwhile, a significant increase of orders was also recorded as advanced new products were gradually accepted by customers.

The fluctuation in the exchange rate of Renminbi, the inflation issue in the PRC as well as the implementation of the new labor law bring pressure of different degrees on the operation of the Group. During the period under review, the Group has taken various responsive measures, including the adjustment of financing strategies and the strengthening of the management of human resources and training of personnel. Moreover, in response to changes in the market and products, the Group has also initiated the planning of two manufacturing bases in eastern and southern China, so as to be well prepared for the transformation and elevation of the Group.

Manufacturing Business

Machinery

Under the favourable condition brought about by the continuous economic growth of the Mainland and increased demand on domestic equipment, overall sales of machinery increased 23% when compared with the corresponding period last year to approximately HK$372,699,000 for this period, accounting for approximately 37% of the Group's consolidated turnover. Operating profit for the period was approximately HK$16,208,000, an increase of approximately 66% when compared with the corresponding period last year.

Due to the persistent surplus supply of general purpose plastic injection moulding machines in the domestic market, competition remained intense during the period. Accordingly, the Group has strategically adjusted its product portfolio through appropriate allocation of its resources to large and medium machines, which include direct hydraulic clamping 2-platen plastic injection moulding machine and export-oriented plastic injection moulding machine. During the period, sales of small and medium machines slightly declined whereas medium and large machines and export-oriented plastic injection moulding machine recorded over 40% increase. In respect of new products development, the Group launched the patented "HyperFoam" foam injection moulding machine and "DCM-direct compound moulding" plastic injection moulding machine at the end of May this year. Both series has gained high recognition in the plastic injection industry in terms of their material and energy saving features and they were well-received by customers. It was expected that both series will be able to make concrete contribution to the Group's revenue in the coming year. Sales of other machinery products, such as CNC sheet-metal working machine and rubber injection machine, recorded a satisfactory growth of over 25% when compared with the corresponding period last year. However, since these series of new products are still in development stage and their comparatively high operating cost have impaired the margin of this segment.

Plastic Products and Processing

The plastic products and processing business has recorded a consolidated sales of approximately HK$228,035,000 for the period, an increase of approximately 12% when compared with the corresponding period last year and accounted for approximately 23% of the Group's consolidated turnover. Operating profit for the period was approximately HK$4,874,000, a decrease of approximately 68% when compared with the corresponding period last year.

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The plastic processing plant in Dongguan suffered a decline in gross profit as a result of the rising raw material prices such as paint and plastic raisin and the increase in labor wage. Moreover, due to intensified competition in the plastic processing industry, its margin was impaired and its performance was unsatisfactory during the period.

Sales of the optic products business for the period increased 29% when compared with the corresponding period last year, as the Group has secured orders from relatively large customers in the USA and Japan. Despite the challenges of increasing cost, the Group still managed to achieve satisfactory result by employing the meager profit but high turnover strategy. The Group will continue to strive for better performance by broadening its customer base through its diversified sales channels and flexible marketing strategy.

During the period, the plant in Zhuhai in plastic injection products of plastic tableware and food packaging has focused on the production of products with higher margin and has strengthened the co-operative relation with its customers, and this strategy resulted in expansion in market share and approximately 20% increase in sales. With better production and sales management as well as stringent control over administrative and management costs, performance of this business has shown improvement with breakeven in the period. It is expected that fair improvement in sales and profit can be achieved in the second half of this year.

Printed Circuit Board

Sales of printed circuit board amounted to approximately HK$222,465,000 for the period, accounting for 22% of the Group's consolidated turnover and representing an increase of approximately 7% when compared with the corresponding period last year. Operating profit for the period was approximately HK$21,498,000 an increase of approximately 36% when compared with the corresponding period last year. During the period, the printed circuit board market remained active; sales mainly came from two-side and multi layer printed circuit board with Japan and Europe remained their major markets. The Group has been dedicated in improving its production management, minimizing impairment and loss from scrap products and reducing outsourced processing, and together with the adoption of a new generation of enterprise resources management software, effective cost control was achieved and profit margin was improved, which contributed to the increase in profit. In the second half of this year, processing capacity and operation efficiency of the printed circuit board business will be enhanced with the addition of new processing equipment, this will help to ensure the Group's competitive edges in this industry and to cope with future expansion needs.

Trading Business

Industrial Materials and Consumables

Benefiting from the PRC's strong economic growth in the first half of 2007, turnover for the period was approximately HK$186,390,000, representing an increase of approximately 11% as compared with last year, accounting for approximately 18% of the Group's consolidated turnover. The promotion of new products introduced in last year has started to reap positive results, which together with the exploration of potential customers of higher profit margin, such as those engage in the mining industry and outdoor display screen, have resulted in the increase in the proportion of higher gross profit margin business. Meanwhile, portfolio of existing customers was further optimized to increase our profitability. Although the price of metal increased during the period, the increase in production cost was set off through adjustment on selling prices. Therefore, an operating profit of approximately HK$18,388,000 was recorded during the period, representing an increase of approximately 51% as compared with the same period of last financial year.

Other Businesses

Electronic Watt-Hour Meters and Related Business

With the improvement of power grid in the PRC, domestic market demand for high-precision electronic watt-hour meters also increased. As such, Shenzhen Haoningda Meters Co., Ltd., the associate of the Group in Shenzhen, was able to maintain a stable development and achieved reasonable returns during the period.

In addition, as stated in the announcements of the Company dated 7th June, 2007 and 9th July, 2007, the associate intends to list its A shares in Shenzhen Stock Exchange and that it has been under close supervision and guidance for application in the A Share Issue on Shenzhen Stock Exchange by the China Merchants Securities Co., Ltd.. Where the associate proceeds to make the formal application to the China Securities Regulatory Commission, the Company will comply with the relevant disclosure as and when appropriate.

PROSPECTS

The Group is prudent but optimistic on its machinery business. Since the PRC posted as high as 11.5% economic growth in the first half of 2007, it is expected that macro-economic measures will further strengthen and Renminbi will be subjected to greater pressure of appreciation, which in turn will result in a slow down in the demand for machinery products. On the other hand, in light of such unfavourable factors such as inflation of raw material prices and staff cost, the Group will continue to optimize its product portfolio, adjust production flow and reinforce management on sales and marketing, in order to mitigate such negative effects as well as maintaining a stable growth and earnings. In addition, the Group intends to expand the Dongguan and Wuxi factories in phases, add new facilities and increase production capacity so as to meet market demand. Total capital expenditure of which is estimated to be at approximately US$20,000,000.

The Group remains prudent on its trading business in the second half of the year. Owing to the continual implementation of the macro-economic control policy, together with the gradual implementation of exports restriction policies on high-energy consumption, high-pollution and certain resource products as well as the policy of "actual operation of bank guarantee money", processing trade has been seriously affected and uncertainties arise on the business development in the second half of the year. However, with our experienced sales team, we are confident in securing reasonable return by sticking to our market expansion strategies.

For plastic processing business, it is expected that the price of plastic raisin and production cost will continue to rise and thus affecting our operating profit. The Group will actively seek to broaden its customer base, select customers with high profit margin products, strive to improve production and sales management, enhance production efficiency so as to achieve reasonable return in the second half of the year.

For printed circuit board, the Group will continue to perfect its process flow and product mix, enhance the technology level of its products, provide high-end products and respond to emerging markets needs timely, thereby realizing a static and continuous growth of this business sector.

The Group has been adhering to its motto of "People-oriented and achieving practical and aggressive progress" by actively allocating resources for the training of its second tier middle and upper management staff. The Group believes through enhancement of staffs' management ability and team spirit, we can ultimately overcome any outside challenges, and achieve effective and static business growth and safeguard better returns for our shareholders.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare an interim dividend of HK0.6 cents per share (2006: HK0.5 cents) in respect of the six months ended 30th June, 2007 payable on or about 12th November, 2007 to the Shareholders of the Company whose names are on the register of members on 30th October, 2007.

The register of members of the Company will be closed from 24th October, 2007 to 30th October, 2007 (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, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 23rd October, 2007.