INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK5 cents (2003: HK4 cents) per ordinary share for the six months ended 30 September 2004 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 31 December 2004. The interim dividend declared will be paid on or about Wednesday, 12 January 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 29 December 2004 to Friday, 31 December 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrars in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 28 December 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS

The Group recorded satisfactory turnover and profitability growth for the six months ended 30 September 2004. During the reported period and compared with the corresponding period of last year, turnover increased by 25% to HK$1,004 million (2003: HK$803 million), and profit attributable to shareholders increased by 48% to HK$160 million (2003: HK$108 million). Basic earnings per share had increased by 47% to HK25.9 cents (2003: HK17.6 cents). The Board of Directors had resolved to declare an interim dividend of HK5 cents per share.

OPERATING RESULTS AND MARKETS ANALYSIS

The Group experienced high turnover growth during the first quarter of the financial year as a result of robust market conditions. However, external pressures started to mount during the second quarter, including the austerity measures announced by the Chinese Government, power shortages in China, interest rate increases in Europe and the U.S., and high level of oil, steel and iron prices, etc..

Nevertheless, the Group stood by its general strategic direction and successfully mitigated those unfavourable impacts through capturing larger market share and lifting operational efficiencies, which eventually led to a healthy 25% turnover growth over the same period last year. Net profits were enhanced by increases in operational efficiency, which softened the impacts of high raw material prices and weak market conditions. The new foundry line in Phase B of the Group's Shenzhen Industrial Park, which is the largest in Asia, came on-line earlier this year had helped reducing casting costs and controlling quality. All in all, these reflected the expected results brought about by the Group's strategic directions, which protected profitability of the Group. Apart from registering strong growth in net profits from higher sales turnover, the Group also benefited from a strategic acquisition last year.

TURNOVER BY CUSTOMER TYPE

Breakdown of turnover for the six months ended 30 September 2004, based on customer type, is analysed as follows:

	For the six months ended 30 September		
Customer type	**2004**	2003	**Change**
	(HK$m)	*(HK$m)*	
China	**715**	595	+20%
Taiwan	**120**	101	+19%
Other overseas countries	**169**	107	+58%
Total	**1,004**	803	+25%

The China's market continued a robust trend that started in February/March this year, with sales turnover growing rapidly that broke the Group's records for all the months during the first quarter of the financial year. During this period, strong growth was experienced in most consumer product sectors, especially household appliances and automobile accessories, which in turn fueled a significant growth in demand for injection moulding machines. The second phase expansion of the Group's flagship plant in Shenzhen, which came fully on-line in February, enabled the Group to successfully ride the wave of market activities. The Chinese Government announced austerity measures in May that aimed to cool down the overheating economy, resulting in an immediate squeeze of money supply and bank credit, which in turn seriously affected the cash flow of many small-to-medium sized enterprises. During the months of June and July, the credit tightening caused a number of customers to delay their expansion plans and indirectly dampened the demand for injection moulding machines. Although impacts of the austerity measures started to fade by mid-August with banks resuming some lending, liquidity remained tight.

At the same time, international oil prices rose to historical high, which led to broad increases in plastic resin prices. As many of the Group's customers were still actively negotiating new contract prices with their customers in Europe and the U.S., meanwhile, the demand for injection moulding machines continued to be affected. Hong Kong customers who are mainly involved in export-oriented production for the European and American markets sustained the most significant impacts.

The market in Taiwan clearly rebounded during the reported period. Although it was affected by high plastic resin prices, domestic demand continued to recover, leading to a 19% growth in turnover compared with the same period last year.

After years of efforts in developing international markets, the Group achieved breakthrough success during the reported period, with international sales turnover growing 58% compared with the same period last year. The Group began building up a series of new sales offices and service centres throughout the world in the past few years, and this strategic investment is entering a harvesting stage. The Group has successfully penetrated a number of markets in Europe, South America and the Middle East, the markets of which are strongholds of traditional high-end European and Japanese machinery, and obtained good feedback from customers.

NEW TECHNOLOGY AND PRODUCT DEVELOPMENT

The series of new technologies and new products launched last year enabled the Group to achieve significant gains in market share during the reported period. At a time when power shortages in China are becoming acute, particularly in Eastern China, with looming energy price hikes due to high oil prices, “energy saving” has become a much more important purchase criteria for customers in China. The Group’s strong lead in energy-saving technology is now turning into a very significant competitive advantage.

In addition, the “iChen” networked shop-floor management system, which was launched in last year, is enjoying wide popularity among customers. Many customers, especially those from Hong Kong, Taiwan and other foreign countries, are now planning an “iChen” network infrastructure in their new plants constructions or expansions. The “iChen” system was awarded the “2004 Hong Kong Award for Industry: Machinery and Equipment Design Certificate of Merit” by the Chinese Manufacturers’ Association of Hong Kong.

The Group prides itself in automated manufacturing and vertical integration. It is the first among the industry to introduce a series of automated manufacturing technologies and robotic facilities, which helped reduce labour costs, increase production efficiency and ensure quality. As time goes on, these automated production systems will continue to help the Group control production costs and enhance competitiveness.

The Group will continue to co-operate actively with international technical partners to develop new, high-value-added products and technologies (such as closed-loop control systems and economical high-speed injection moulding machines) in order to sharpen the Group’s competitive edge.

PRODUCTION EFFICIENCY AND COST CONTROL

With the second phase expansion of the flagship Chen Hsong Industrial Park in Shenzhen that came fully on-line during the first quarter of the financial year, the Group successfully increased its production capacity by close to 40%. The Group expects to complete the construction of a new assembly plant in Ningbo, Zhejiang Province in early next year, leading to 15-20% increase in capacity.

During the period under review, prices for iron and steel remained stable at last year's high level without any signs of significant reduction, which had imposed heavy pressure on the Group's cost structure. Nevertheless, the Group had so far been successful in mitigating most of this impact through stronger logistics management, streamlining production and material planning, lowering procurement costs, enhancing production efficiency and reducing wastage.

FINANCIAL CONDITIONS

The Group's business experienced consistent and stable growth, and recorded satisfactory financial results. As at 30 September 2004, the Group registered an increase in net assets of HK$178 million from the corresponding date of last year to HK$1,582 million (2003: HK$1,404 million).

Although the Group consumed funds for strategic acquisition and investment in production facilities during last year and the reported period, it continuously adopts a prudent financial management strategy and reserves sufficient liquidity to meet its operations commitments and other funding requirements. As at 30 September 2004, the Group registered net bank and cash balances (bank and cash balances, less bank borrowings) of HK$121 million (2003: HK$473 million), which represented a decrease of HK$352 million compared with the same day of last year. Details of cash movements were analysed in the Condensed Consolidated Cash Flow Statement.

TREASURY AND FOREIGN EXCHANGE MANAGEMENT

The Group adopts a solid strategy to manage and reduce foreign exchange exposure, and seeks to hedge its foreign currency investments with appropriate levels of foreign currency borrowings. Forward exchange contracts were used for hedging payments in certain volatile foreign currencies. As at 30 September 2004, the Group had foreign currency borrowings equivalent to HK$95 million (2003: HK$92 million).

HUMAN RESOURCES DEVELOPMENT

As at 30 September 2004, the Group, including its subsidiaries but excluding associates, employed approximately 3,500 (2003: 2,900) full-time employees. The Group ensures that pay levels of employees are market-competitive and that they are rewarded on a performance basis under the general framework of the Group's bonus system. In addition to salary and benefits, share options of the Company are granted to selected employees of the Group for attracting and retaining talented employees. In order to improve quality and professional knowledge of staff, the Group regularly reviews and implements programs that include provision of comprehensive educational, professional training and social activities counseling.

PLANS FOR THE SECOND HALF

The impacts of rising and fluctuating oil prices are worldwide. As far as the customers of the Group are concerned, high oil prices are leading to rising prices of plastic resins, which in turn lead to increases in manufacturing costs. If the oil prices were stable, although rising, the increases in manufacturing costs might, to certain extent, be transferable. The fluctuating oil prices are one of the important reasons that affect the market for plastic injection machines. Subject to stable oil prices, the Group is confident that the general market demand for plastic injection machines will continue to grow.

Whether the Chinese Government will increase the magnitude of the austerity measures that affect the Greater China market remains to be observed. Assuming the negative, the Group expects good growth potential in the China market.

All in all, the Group is cautiously optimistic about the results for the full financial year.