

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's turnover for the six months ended 30th June, 2007 was approximately HK\$1,248 million (2006: approximately HK\$993 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2007 was approximately HK\$124 million (2006: approximately HK\$62 million). Basic earnings per share for the six months ended 30th June, 2007 was HK20.03 cents (2006: HK10.04 cents).

The Group's profit for the six months ended 30th June, 2007 registered substantial growth as compared with that of the same period in the year of 2006.

In response to the strong domestic consumption in China, the market continued to prosper with satisfactory growth in manufacturing industry. Together with the rapid development of automobile industry, the Group enjoyed promising growth in orders from automobile parts and accessories manufacturers, accounting for an increased share of the Group's turnover. As fueled by the stable growth of global demand for consumer products, the Group overseas business developed smoothly, contributing to a steady return for the Group. As a whole, the Group achieved a favorable growth in sales turnover during the period under review.

Expansion of the Heyuan plant in Guangdong province had been completed. Coupled with the successful merge of production facilities of the Dongguan plant in Guangdong Province into the Heyuan plant, the production capacity of the Group are further fortified. During the review period, the Group received abundant orders demanding the production lines of Heyuan plant to operate fully in order to meet the production schedule; as a result, some improvement projects on the production process could not be put forward as scheduled. Although the production lines had not been fully enhanced, the Group can still enjoy the benefit of improved economy of production scale, which helps in lowering the production cost. As a result, the Group's operation cost was effectively under controlled.

During the period under review, price of steel required for production remained at a high level; nevertheless, the fluctuation of price was relatively mild, allowing the Group to control its production cost more easily. On the other hand, in response to the surging steel price, the Group had moderately adjusted its selling price which accommodates partly the rising cost of material, alleviated the pressure of uplifted cost laid upon the Group.

As for the steel trading business, the Group reinforces its sales activities in Eastern China and actively develops new customer base, the mould steel turnover recorded moderate growth as compared with that of last year.

To conclude, the Group's profitability and cost control performance during the period under review was satisfactory as compared with that of last year.

PROSPECTS

In view of the gradual amelioration of global economic condition, the market atmosphere is favorable. Furthermore, taking the benefit of improved economy of scale after its recent plant expansion, with effective cost control and its passion in the pursuit of excellence, the Group anticipates a further improvement on overall performance and turnover. Yet the Group maintains a prudent view toward the ever-changing global market situations.

China economy still experiences rapid growth and the domestic market keeps on booming. Persistent growth in demand in consumer products in China together with the speedy evolution of design and style of consumer products offers great opportunities for development. In particular, there is great potential for market growth as more and more parts and components of the automobile industry made in China. As a result of keen competition in the automobile industry, its production volume and quality have been uplifted, further nourishes its ability to export. Since the quality requirements for automobile products are more stringent, the demand for quality moulds is boosted up. The quality mould products promoted by the Group nicely suit the market needs. It is anticipated that the flourishing of automobile industry will bring fruitful business opportunities to the Group.

Through active exploration of overseas markets with participation in major international exhibitions, the Group's brand name is increasingly recognised and its direct sales business to Europe and the United States will progress steadily. Furthermore, American and European manufacturers also prefer to specify their vendors in China to use the Group's products. The quality of the Group's products has reached international standard and the Group's international status further consolidated.

Facing such a vast market potential in China, the Group will fortify its competitive edge and leading position through persistently developing its distribution and logistic network in order to serve its customers' needs more closely and to secure larger market coverage. Through years of effort, the business in Southern China has progressed steadily. The Group has set up a sales and distribution office in Fujian Province of China to provide quality comprehensive services to local customers, with a view to deriving benefits from the upcoming opportunity of "three direct linkages of trade, mail, and air and shipping services" across the Straits. Turning to the Eastern markets of China, the rapid growth of private-owned enterprises in Zhejiang Province elevates demand for quality moulds that will be favorable to the business development of the Group. For the market in Northern China, business is gradually developed and the set up of distribution center in Tianjin seeks to further explore new business opportunities in this area. The Central Western part of China, though located in remote area with economic development at burgeoning stage, its market potential cannot be neglected. The Group will co-operate with local agents to lay the foundation for future business development.

The production capacity of the Heyuan plant is further enlarged after the expansion. The Group will devote to streamline its production process and management system to fully support the production needs of the Group and leverage the benefit of economy of scale. Capitalizing on its advantageous location, part of the Dongguan plant will serve as sales order processing and logistic base to co-ordinate the operations of all plants in China. The Guangzhou plant still dedicates in the production of high precision mould base and its overseas customers base will be expanded following the continual improvement in its product quality. The Group will keep improving the production technique and management system in its Shanghai and Taizhou plants in Eastern China, aiming at enhancing overall performance of the Group. Plants located in Southern and Eastern China will complement each other to build up a sound and efficient production base for the Group. The overseas plants located in Japan, Taiwan and Malaysia will continue to provide quality products and services to their local customers, bringing satisfactory contribution to the Group. Moreover, the Group will constantly monitor the market change and customers needs in different regions and will act appropriately by investing in manufacturing plants and facilities if deemed necessary.

The steel price remains unstable and it is expected that the prices of both imported and China mould steels will continue to rise. The Group will formulate appropriate material procurement strategies in view of the fluctuation of steel prices. Labor cost is also expected to go up, the Group will strive to tighten its cost control by devising manpower and time saving production workflows. Coupled with manpower restructuring and training, the Group endeavors to adopt an effective production and management mode that can achieve "high quality at optimal cost with speedy delivery".

Looking ahead, the business environment is challenging. The Group will adhere to its positive and pragmatic principles in achieving a steady development and healthy growth in its future business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2007, the Group had a net cash deficit of approximately HK\$603 million. The Group had cash balance of approximately HK\$221 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$824 million, equal to approximately 60% of equity attributable to equity holders of the Company of approximately HK\$1,383 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2007, the Group employed a total of approximately 10,060 employees, including approximately 9,730 employees in its PRC production sites and approximately 330 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.