

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's unaudited consolidated turnover for the six months ended 30 June 2006 ("the Period Under Review") was approximately HK\$346,652,000 representing an increase of approximately 81% compared to the six months ended 30 June 2005 ("the Previous Period"). The operating net profit was approximately HK\$24,381,000 for the Period Under Review compared to approximately HK\$4,382,000 for the Previous Period. The increase in turnover and operating net profit is further explained in following sections.

The basic earnings per share for the Period Under Review was HK5.8 cents (the Previous Period: basic earnings per share HK1 cent).

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (the Previous Period: Nil).

Business Review

(A) PAL Group

Electroplating equipment — PCB sector

Since late 2005, we received tremendous order enquiries which have subsequently turned into shipments for the Period Under Review. Majority of the orders were from Taiwan. There are two types of PCB manufacturers that are in growth mode in Taiwan: manufacturers of IC substrates and manufacturers of mobile phone PCB. The underlying driving force for the growth is the sales of mobile phones. The number of units sold in 2005, before the year end closing, was estimated at 775,000,000 approximately while the actual number of units sold in 2005 surging to 817,000,000 as per the report of Gartner Dataquest (an increase of 21% from 2004). According to IDC, the number of units sold in the first half of 2006 already exceeds last year and has reached 470,700,000!

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The strong growth in the sales of mobile phone has encouraged our customers to expand their production capacity. Despite the tighten investment policies launched by the Chinese government, half of our shipments still went to China.

Another reason for the increase in sales is the change of technology. As reported in last year's annual report, a double-sided or multilayer PCB was electroplated once only in its manufacturing cycle in the past. The high-tech board of today and tomorrow will require two or three or even four electroplating steps in the production process. This additional electroplating process will require our customers to expand their electroplating capability and hence investment in electroplating machinery.

Electroplating equipment — Surface Finishing sector

We are pleased to announce that on 12 July 2006, we have signed a distributor agreement with a German company called WMV to market their process equipment in Asia. Although both we and WMV are serving on the same industry, there is no conflict or competition amongst us because the equipment design and application between the two companies is so different that the customer will place its order based on the required coating or plating application. As commented by the director of WMV Mr. Martin Müller, "It is like with a car and a trailer. A trailer on its own is useless. It only works together".

Our core customer base is still the first tier plater who plate automobile parts. We position ourselves as a world-class equipment provider providing quality electroplating machine and turnkey services.

Product development

Since the launch of the in-line processing machine MCP in 2003, we never stop improving the design to perfect the functionality and user friendliness. Other than the third generation MCP and economic version of MCP launched last year, we are going to launch a new application MCP in the exhibition to be organized by the Taiwan Printed Circuit Association in the coming October.

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As a long term commitment to technology development, we have increased our headcount in New Technology Department and New Product Development Department from 16 persons in 2004 to 27 persons in 2006. We shall continue to develop products which our customers need.

(B) Businesses operated by major associated companies

The contribution of the associated companies towards the operating net profit for the Period Under Review was HK\$3,397,000. The contribution mainly came from Intech Machines Co., Ltd ("IML") which the Group holds 28.57%. The wet processing machinery they built is targeted for two markets, PCB and Flat Panel Display ("FPD"). The increase in contribution and turnover were due to the blooming PCB markets and the continued increase in the market share of FPD.

(C) Outlook

The management is very optimist over the overall performance of this year. While we are enjoying the benefits from the blooming PCB market, we shall continue to steer our flagship to extend our state-of-the-art electroplating technology to different market segment or industry. This diversification aims to smooth out, if not even out, the cyclical effect of each industry. We would also continue to invest resource in our internal R&D teams and actively search for co-operation with any technical partner from overseas. Market diversification and technology building are our long term focus. We drive to provide steady but growing revenue and profit to our shareholders.

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Capital structure, liquidity and financial resources

As at 30 June 2006, the Group had net current assets of approximately HK\$137,505,000 (31 December 2005: HK\$115,247,000). The gearing ratio was 50% (31 December 2005: 46%). The gearing ratio is calculated by dividing total liabilities of HK\$270,104,000 (31 December 2005: HK\$212,099,000) over total assets of HK\$545,398,000 (31 December 2005: HK\$462,716,000).

As at 30 June 2006, the Group had approximately HK\$103,540,000 of cash on hand, net current assets value being approximately HK\$137,505,000, short-term bank loan amounted to HK\$11,743,000 and obligations under finance leases approximately HK\$119,000. The total borrowing was therefore HK\$11,862,000, a decrease of HK\$17,245,000 from last year of HK\$29,107,000.

As at 30 June 2006, the Group pledged a bank deposits of HK\$6,000,000 to a bank to secure banking facilities of approximately HK\$25,000,000 to the Group. Together with a banking facilities of HK\$23,400,000 offered by another bank, the total facilities available is HK\$48,400,000 and the Group has utilized approximately HK\$11,743,000 as at 30 June 2006. As at 30 June 2005, the Group pledged its land and buildings in PRC with an aggregate net book value of approximately HK\$45,600,000 and bank deposits of approximately HK\$6,000,000 to secure banking facilities of approximately HK\$91,900,000 to the Group. Out of the facilities available then, the Group has utilized approximately HK\$29,300,000 as at 30 June 2005.

Most of the bank borrowing is charged at prevailing prime rate in the countries where the Company's subsidiaries are operating in.

Most of the assets and liabilities in the Group were mainly dominated in US dollars and HK dollars. However, in view of the volatility of Euros and the anticipated currency appreciation in Reminbi, there will be certain risk associated with European sales and the overhead cost for the factories in China.

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Contingent Liabilities

As at 30 June 2006, the Company had guarantees of approximately HK\$74,000,000 (2005: HK\$70,800,000) to banks in respect of banking facilities granted to a subsidiary of the Company. The amount utilised by the subsidiary was approximately HK\$11,743,000.

Employee and Remuneration Policies

As at 30 June 2006, the Group has approximately 840 employees. Employees are remunerated based on performance, experience and industry practice. Performance related bonus granted on discretionary basis. Other employee benefits included pension fund, insurance and medical cover.

Appreciation

On behalf of the Board, I would like to thank our customers, bankers, suppliers and friends for their continued confidence in and support for the Company. In particular, I would like to extend our warmest thank to our staff at all levels for working with our Management teams to achieve the present results.

By Order of the Board

Lam Kwok Hing

Chairman

Hong Kong, 25 September 2006