

Management Discussion and Analysis

BUSINESS REVIEW

Manufacturing Business

Machinery

Although affected by the continued macro-economic control policy on the Mainland and oversupply of general purpose plastic injection moulding machines in 2006, the Group benefited from such favourable factors as the continually stable, booming economy on the Mainland and the increasing overseas demand for domestic equipment, with turnover rising by 19% as compared to that of last year to reach approximately HK\$685,684,000, which amounted to 34% of the Group's consolidated turnover. During the year, like other manufacturers who have established facilities in China, the Group's machinery business was consistently impacted by such unfavourable factors as the increase in minimum wage and surge in the cost of raw materials, which together resulted in a higher cost of production. In addition, the release and sale of a series of new machinery equipment in the year, whose operational cost was relatively high at the initial stage of development, offset part of the profit. In spite of that, the operating profit for the year was approximately HK\$33,134,000, up by 14% as compared to that of the previous financial year.

The overall turnover improved during the year under review. This was attributable to the upward trend of the economy on the Mainland, a stronger intention of customers to invest in plastic and rubber machineries, and the Group's strategic control of its core injection moulding machine product portfolio, which

together resulted in an increase in overall sales. Sales of general purpose plastic injection moulding machines were comparable to last year, with high performance and export-oriented plastic injection moulding machines being the main source of sales growth.



ST3150 Injection Moulding Machine



Double Conical Twin-Screw Extruder

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The consistent optimisation of the multi-product and multi-region production operation mode further consolidated the development trend of product individualization. In terms of new products, sales of CNC sheet-metal working machines, rubber injection machines and plastic pipe extrusion lines recorded a healthy growth of 80% as compared to that of last year. On 14th December, 2006, the Group signed a strategic alliance agreement with South China University of Technology, a research partner for years, to fully collaborate on research development and talent training; to strengthen the optimal design of machinery, mould design and analysis, alongside new product research and development; whilst in line with talent training on plastic processing, control engineering as well as machine manufacturing.

As for prospects in 2007, in view of the stable political and economic environments on the Mainland, and emphasis has been put on industrial transformation, particularly on technology improvement in the Eleventh Five-Year Plan of China, it is anticipated that the growth in investments and domestic demand will continue, together with a higher gross demand for high performance plastic processing machinery. As China has become the third largest automobile producer and distributor, a relatively higher growth in demand for large-scale, high performance plastic injection moulding machines is expected from certain industries, for example, the auto-parts industry. This year the Group will further collaborate with world renowned rubber and plastics machinery plants, including the set-up of a joint venture with UBE Machinery (Shanghai) Ltd. in the first half of 2007 for producing and distributing high-end plastic injection moulding machines, as well as co-operating with REP International S. A. in the production of high-end rubber injection machines on the Mainland. In terms of export business, with the Group's adamant efforts in establishing foundation for sustainable development, together with the increasing recognition of domestic machinery by overseas customers, it is anticipated that the rapid growth of sales from export-oriented plastic injection moulding machines will continue. To complement the change in product portfolio as mentioned above, last year the Group integrated the production bases in South China and East China, producing synergy in the use of resources for both regions. At the same time, the sales system on the Mainland was adjusted and strengthened to meet market needs. In conclusion, with the launched products entering the growth stage and overseas markets the maturity stage, the Group remains cautiously optimistic about the sales of and growth in the machine manufacturing business.



Electric Punch



Plastic Food Containers

Plastic Products and Processing

During the year under review, sales of the Group's plastic products and processing business steadily rose by approximately 22% as compared to that of the previous year to reach HK\$425,166,000, accounting for 21% of the Group's turnover. Operating profit for the year was approximately HK\$28,590,000, up by 29% when compared to that of last year and making positive contributions to the Group.

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The production cost of the plastic processing plant in Dongguan for the year under review continued to increase due to soaring prices of plastics, diesel and metalware, and the increase in labour wage. Fortunately, the desirable growth in sales for the year, which produced economies of scale, and the substantial efforts by the employees, together with optimised management, helped to reduce wastage and facilitate cost control for reasonable returns. The growth in turnover was mainly attributable to the increase in orders from core customers as well as the establishment of new customers.

The plant in Zhuhai, which specializes in plastic injection products such as professional sanitary plastic tableware and food packaging, was impaired by a lower negotiating power with customers and providers for the year under review. This was caused by the increase in oil and plastics prices, minimum wage in China and other operational costs, as well as the unregulated competition in the local plastic products market. As a result, operating profit of the business dropped and the results turned out not so satisfactory. In the coming year the Group will focus on producing manufacturing products with higher marginal profit, reducing costs and enhancing the efficiency in production and processing processes. Apart from the food industry, the Group will also expand its customer base whose sanitary demands are stringent, as an initiative to improve the performance of the plant.

The optic products business also encountered a severe problem of operational cost increase for the year under review. Despite that, the business adopted several measures to meet the challenges in the market: in terms of marketing and sales, increasing promotional channels for direct sales, e-commerce and exhibitions; in terms of products development, fully improving product design and diversifying product portfolio; and, in terms of management, improving production processes and reducing production costs. With such measures, the business yielded growth in both turnover and profit.



4" dia Illuminated Magnifier 2x 4x

Audio and Electronic Products

The audio and electronic products business has incurred losses for years. In view of the current economic environment, the Group decided to sell out the business so as to cease further losses and to transform resources to other core businesses. On 31st December, 2006, the Group sold out the business for HK\$3. As at 31st December, 2006, the total loss of the business, including the related expenses involved in the write down of asset value to net realizable value and redundancy, was HK\$7,943,000.

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Printed Circuit Boards

Sales of printed circuit boards for the year rose by 22% as compared to that of last year to reach HK\$456,175,000, accounting for 23% of the consolidated turnover of the Group. Operating profit stood at approximately HK\$31,109,000, an increase of 66% when compared to that of last year.



Multi Layer Printed Circuit Board

During the year under review, the overall printed circuit board market, Japan and Europe in particular, was considerably active. An electroplating production line and advanced processing equipment were introduced to balance the production capacity of the overall production line, so as to satisfy the customers' demands in terms of quantity and quality. The prices of main materials and auxiliary materials rose several times during the year, with the greatest price increase in copper granules and Potassium-Dicyano Aurate (1). To reduce operational costs, several measures, such as improving technical processes and reducing substandard products, were adopted and remarkable results were achieved. With the addition of advanced processing equipment,

processes originally outsourced were reverted to the Group for internal processing, which lowered expenses on outsourced processing. Thanks to our customers' understanding and support, part of the increased costs was compensated by adjusting selling prices.

Trading Business

Industrial Consumables

During the year under review, industrial consumables accounted for 17% of the Group's consolidated turnover. Sales in 2006, still mostly from steel wire, industrial machinery, machine accessories and fasteners, reached approximately HK\$345,942,000, or an increase of 29% as compared to that of the previous financial year. Operating profit for the year was HK\$27,708,000.



Hard Drawn Spring Steel Wire

The Mainland market was generally active during the year under review, with desirable operational conditions in the three major economic zones, namely Pearl River Delta, Yangtze River Delta and Bohai Bay. The performance of the manufacturing business in Pearl River Delta was in particular satisfactory, with such industries as auto, electronics, spring forming machines, electric cables and embroidery machines going steadily upward and facilitating a remarkable growth in the sales of the business as compared to that of last year. During the year, the business, in complementary to the successful strategies of market expansion, was able to reinforce the development of the industry and effectively expand into target industries with high gross profit, yielding growth in both profit and turnover of the business.

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To meet new challenges in the future, an enterprises resources planning system suitable designed for the business is being deployed by the Group. Expected to be completed in the third quarter of 2007, the system will effectively improve operational efficiency to further upgrade service standards, strengthen management, and optimise resource distribution and sales capability. It is hoped that the system will strengthen the operation platform for greater competency in the stringent market as well as for gaining desirable results for the business.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

During the year under review, new hi-tech products such as remote self-reading meters and systems for better management of electricity capacity/loading based on 2.5G-3G GPRS frequency bands were successively introduced into the market. The overall business retained its stability and yielded reasonable returns.

PROSPECTS

Looking into the coming year, the machinery market will continue to witness growth and a certain demand for advanced domestic machines is expected. Nevertheless, under such unfavourable circumstances as the persistently high prices of materials, gradual increase in wage and appreciation of RMB, the biggest challenge to the Group in the coming year will be the control of production cost through optimised management. With the devotion of our staff, growing acceptance of new machine products from customers and expansion of the export market, the Group is cautiously optimistic about the machinery business in the year ahead.



2200J Two Platen Injection Moulding Machine

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Other manufacturing businesses are expected to maintain a steady growth. To control cost more effectively and provide customers with better products and processing services, the Group will improve the management including the deployment of an advanced management software system named "Enterprises Resources Planning", employ more advanced technologies as well as streamline the organisational structure. Besides, it is believed that the transfer of the loss-making consumer electronic products business will have a positive impact on the overall profit of the manufacturing business in the coming year.



Electric Stapler

The trading business is expected to gradually gain market share as the management team of each sales company matures. Together with the addition of new products, the Group reveals confidence in the development of the industrial materials and consumables business.



Zoom Illuminated
Microscope w/stand
60x – 80x – 100x

In the coming year, the Group will again dedicate its efforts in nurturing staff and looks forward to an increased competitiveness through continuous learning, so that higher returns can be achieved for our stakeholders.



RT180 Rubber Injection Machine

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Financial Statistical Highlights

	2006 HK\$'000	2005 HK\$'000
Operating results		
Turnover	2,022,632	1,650,729
Profit from operations	94,498	51,629
Profit before taxation	100,161	80,300
Profit attributable to equity holders of the Company	65,143	54,222
Earning per share – Basic (cents)	9.21	7.67
Earning per share – Diluted (cents)	N/A	N/A
Dividend per share (cent)	2.0	1.5
Dividend payout	22%	20%
Financial position at year end		
Total assets	2,107,425	1,876,786
Fixed assets	420,123	418,449
Quick assets	842,640	742,511
Net current assets	329,014	286,608
Shareholders' Funds	791,644	725,295
Net asset value per share (cents)	112	103
Financial statistics		
Current ratio	1.30	1.30
Quick asset ratio	0.76	0.76
Gearing ratio	0.05	0.06
Total debt ratio	0.55	0.54