

Management Discussion and Analysis

BUSINESS REVIEW

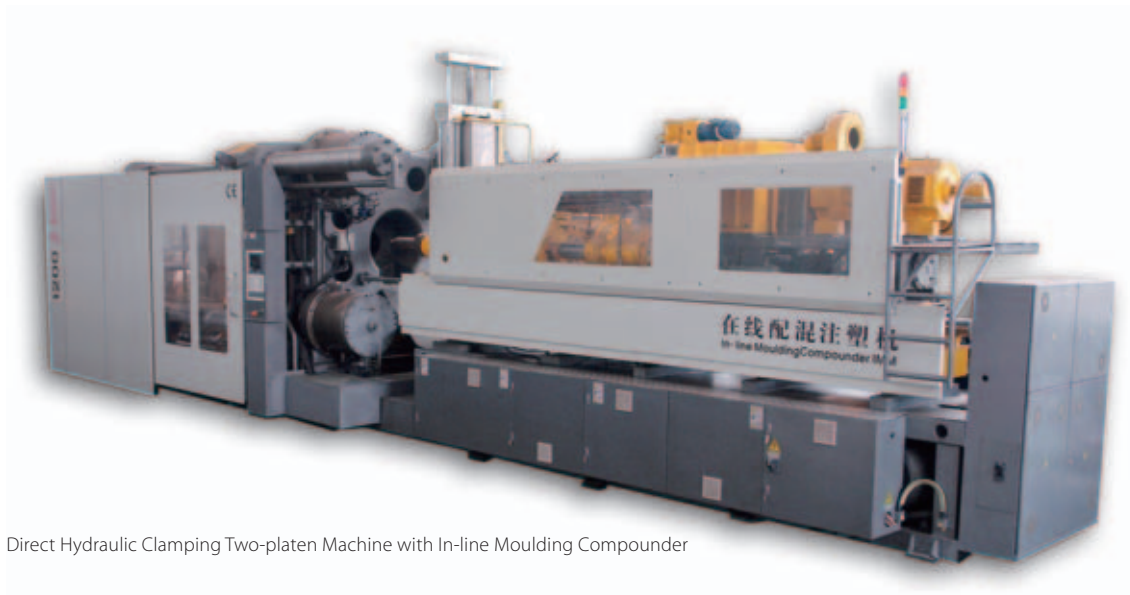
Manufacturing Business

Machinery

In 2007, the turnover of the Group's machinery business was HK\$806,800,000, accounted for approximately 39% of the Group's consolidated turnover and representing an increase of approximately 18% over approximately HK\$685,684,000 of the same period of last year, while operating profit of the year was approximately HK\$82,351,000 representing an increase of approximately 149% over the same period of last year.

During the year under review, owing to shrinking profit margin of most of our export oriented customers caused by Renminbi appreciation and reduction of tax rebate for export plastic products, a more conservative and prudent approach was adopted by our customers when investing in injection moulding machinery, which together with soaring plastic price as a result of inflated cruel oil price, had resulted in substantial decrease in the demand for general purpose injection moulding machine in the second half of 2007. However, thanks to the Group's strategic adjustment on its product portfolio started a few years ago, the Group's development towards customized plastic injection machinery and relevant sales and marketing work was thus strengthened: e.g. medium and large J series direct hydraulic clamping two platen plastic injection moulding machine and Fx series high precision injection moulding machine. During the period, sales to domestic auto industry, household electrical appliances and communication industry achieved satisfactory growth, thus setting off the impact of curtailed sales to the toy industry and the daily products industry. In terms of export business, due to appreciation of Renminbi, order from some price sensitive markets started to slow down in the second half of 2007, however a double-digit growth was still recorded on a whole year basis.

In terms of new products, sales of CNC sheet-metal processing machine and rubber injection machine recorded strong growth, with sales up approximately 65% and 80% respectively over the same period of last year. The Group's self-developed project on CNC sheet-metal processing machine (Network Intelligent CNC Sheet-metal Processing Equipment) had not only received wide recognition from its customers, but also awarded the Top-Grade Honor for



Direct Hydraulic Clamping Two-platen Machine with In-line Moulding Compounder

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Science and Technology Development by the People's Government of Dongguan Municipality in August 2007. In terms of rubber processing machine, the Group had successfully developed and launched to the market the DKM-RL series (1200T clamping force) large-sized rubber injection machine for the manufacturing of hollow rubber insulator for use in transmission and distribution of extreme high voltage up to 500,000 volt, which is the first self-developed and manufactured horizontal rubber injection machine in the PRC, thereby putting a stop to the traditional reliance on Europe imported equipment in the power transmission and distribution hardware industry. Moreover, DKM-RL 1200 rubber injection machine and 260-80Hf hyper foam high-performance foam plastic injection moulding machine were also awarded the Machinery and Equipment Design Certificate of Merit of the Hong Kong Awards for Industries of 2007. The launch of these new products had not only stimulated our sales but also contributed to the rubber and plastic processing industry in China in terms of enhancing their technology level.

In the coming year, the Group will continue to speed up its pace to optimize and promote its new injection moulding machines, such as the Hf series foam injection moulding machine characterized by its patented material saving and energy saving features and the "DCM – direct compound moulding" plastic injection moulding machine, to cater for the increasing environmental concern of the community as well as to provide added value for its customers for improving their gross profit. In terms of export market, the Group will implement product and market exploration strategy. The large J series two platen machine was awarded the CE certification during the year and full marketing campaign can be launched in Eastern Europe market and major auto markets. It is expected overall export business will sustain double-digit growth in terms of sales.

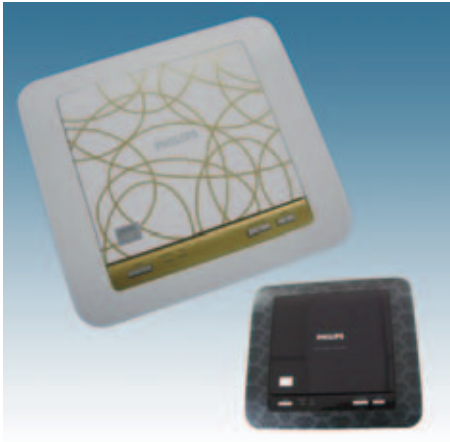
The Group has made CNC sheet-metal processing machine and rubber injection machine as its strategic growth business and these two product lines are expected to generate substantial growth in 2008. Through product design improvement and further cost optimization and expansion of production capacity, it is expected the surging manufacturing cost pressure can be set off and thus further improve the gross profit. To cater for the continuous growth of the Group's machine manufacturing business and relocation of Dongguan Nanchen factory, Dongguan Dongchen factory expansion project and the construction of Wuxi new factory at Wuxi National High-tech Industrial Development Zone had commenced during the year. Moreover, the Group will continue to optimize the production of the Group's factories located in southern and eastern China in order to maximize their resources synergy. In



260-80Hf Hyper Foam High-performance Foam Plastic Injection Moulding Machine

conclusion, with new products entering their growth period and driven by strong export growth, the Group is cautiously optimistic on the sustainable growth of sales and profit of the machine manufacturing business.

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DVD Plastics Parts

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was HK\$479,495,000, representing an increase of about 13% as compared with the same period of last year and accounted for approximately 23% of the Group's consolidated turnover, while operating profit of the year was HK\$23,572,000, decreased by approximately 18% over the same period of last year.

Our plastic processing operation in Dongguan continued to be affected by surging raw material prices including paint and chemical materials during the year, which combined with increasingly complicated product design and production technology, had resulted in higher production cost. Besides, continuous asking for lower prices by the customers had also

shrunk the gross profit of the business and leading to a less than satisfactory result in the first half of the year. In the second half of the year, the Group strived to improve its production processing and workflow, a new fully automatic production line was added, thereby enhancing its paint production capacity, improving its quality and reducing the scrap rate and ultimately save more material and improve the gross profit. The result is notable.

The Zhuhai plant which specializes in plastic injection products of plastic tableware and food packaging achieved higher sales to existing customers and also satisfactory sales to new customers given the robust economic development in China. In 2007, it recorded an increase in turnover of approximately 22%, with profitability substantially improved during the period. However, in the past year, with dramatic change in macro economic environment, continuously soaring operation costs including labour cost and raw material cost, had created a very difficult environment for the plastic processing industry. Fortunately, by implementing a series of management reform and resource reallocation, for example, integrating the printing workshop and the extrusion workshop, re-arranging the production machines of the plastic processing workshop, strengthening control over machine efficiency and product scrap rate, thereby keeping production cost and management fee at a reasonable level and laying the foundation for a sustainable and stable business growth.



Plastic Food Containers

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For the optic products business, with sales contribution from self-developed products, overall turnover of this segment increased approximately 25% in 2007. The sales of large magnifier, being the major sales growth contributor, almost double the sales of last year. In response to market demand, new series of design are now being developed. During the year under review, production cost including electricity, plastic material and wages had all substantially increased which together with the appreciation of Renminbi had further eroded our gross profit. Fortunately, such fixed expenses were set off by increased sales and improved operating profit, thus gross profit margin was maintained at the same level as last year. Also, a number of new injection moulding machines were introduced during the year to replace the obsolete machines.



3.5" Diameter Aspheric Magnifier
3X 5X with LED

Printed Circuit Board

In terms of printed circuit board business, sales of HK\$440,615,000 was recorded in 2007, decreased by 3% as compared with the same period of last year and accounted for 21% of the Group's consolidated turnover, while operating profit was approximately HK\$29,714,000, slightly decreased by approximately 4% over last year.



Aluminium or Metal Clad

During the year, in face of rising labour cost and Renminbi appreciation, the Group had actively conducted negotiation with its customers to seek their support for proper adjustment on selling prices, the Group had also secured lower prices from some of its suppliers for raw materials, thereby setting off part of its inflated cost. In terms of products, the Group shifted its focus to multi-layer printed circuit board production in order to widen its profit margin. In terms of cost control, automated processing equipment was introduced during the year for lowering of the proportion of labour cost, which together with the proper application of an upgraded enterprise resource management software, thus enabling better production process, effective cost control and better product quality.

Trading Business

Industrial Consumables

During the period under review, industrial consumables accounted for 17% of the Group's consolidated turnover, with turnover increased to approximately HK\$366,467,000, representing an increase of 6% as compared with the same period of last year. Operating profit was HK\$31,452,000, up approximately 14% as compared with last year.

During the year, with China's economy remained robust and a stable development of the manufacturing sector as a whole, our major target industries such as auto, electronics, spring, machine manufacturing, machine tool, household electrical appliances and mould, all achieved steady growth. Besides, our sound market development strategy had



AC Servo Motor

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enabled our products to successfully enter the mining machine and telecommunication equipment sectors, an important move for our future business growth. Given the strong business momentum in the year, the Group had further optimized its customer structure so as to minimize its operating risks and enhance its profitability.

Other Businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd., the associate of the Group in Shenzhen, was able to maintain a stable development and achieve satisfactory returns during the year. In the period under review, the company's plan to list its A shares on Shenzhen Stock Exchange was progressing smoothly. The Company will make timely disclosure on such progress in accordance with relevant rules and regulations.

Suzhou Sanguang Science & Technology Co., Ltd.

Suzhou Sanguang Science & Technology Co., Ltd., a 21.13% associate company of the Group, notified the Group on 31st January, 2008 that it intended to list its shares on Shenzhen Stock Exchange and had been under close supervision for application in the A share issue by Guolian Securities Co., Ltd.. The Group will make appropriate disclosure when the company submits its listing application to the China Securities Regulatory Commission.

Prospects

Looking forward in 2008, it is believed that China's economy will continue to maintain a stable growth. However, given stronger measures on macro economic control will be imposed, it is expected that investment and domestic demand will slow down and thus demand for plastic processing machinery will only record moderate growth. Nevertheless, some industries, such as auto accessories and household electrical appliances will benefit from the rapid growth in both manufacturing and sales of automobile as well as the 2008 Olympic Games, which will fuel the demand for high quality household electrical appliances and in turn sustain the demand for large and high performance injection moulding machine. On the other hand, despite those unfavourable factors such as surging raw material price, shortage of electricity supply, additional labour cost due to introduction of new labour law in China, reduction of export tax rebate and appreciation of Renminbi, the Group is not able to transfer all those additional cost to its customers because of fierce market competition. In turn, the Group will try to mitigate those impacts on its profit margin through continuous adherence to effectiveness enhancement measures to control both internal and external cost.



F5V Injection Moulding Machine

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In addition, the Company has issued an announcement and a circular to its shareholders on 5th December, 2007 and 24th December, 2007 respectively in relation to compensation for relocation of Dong Hua Machinery Limited ("Dong Hua"), the Group's subsidiary located in Jianshe Road, Dongguan. Due to the urban planning of Dongguan, the State-owned Assets Supervision and Administration Commission of Dongguan ("SASAC") planned to call back the land and requested Dong Hua to move out from the land. After due consideration, the



DKM-RL 1200 Rubber Injection Machine

Company decided to co-operate with the state's planning and plans to relocate the plants. The Company thus entered into a compensation agreement with SASAC whereas Dong Hua will receive compensation for relocation of the plants of approximately RMB76,092,000. Dong Hua will relocate to a parcel of land at Zhou Wu District, Fu Cheng, Dongguan with a site area of approximately 66,365 sq.m. The land was purchased by the Group in 1993 on which 19,203 sq.m. of the site area have been utilized by the Group since 1994 to construct factory buildings. The remaining 47,162 sq.m. of site area will be used for the relocation of Dong Hua. Since Dong Hua will relocate to Zhou Wu District, Dongguan, the Group will therefore commence expansion of the factory building in different stages in the year. Whereas in Wuxi, the Group had purchased a piece of land of approximately 75,000 sq.m. in Wuxi National High-tech Industrial Development Zone in 2006. The Group intends to commence construction of factory building and facilities thereon in the coming year in different stages. It is expected that upon completion of expansion in Dongguan and Wuxi, the production capacity will greatly enhanced and be able to meet market demand.

In terms of trading business, with anticipated stable economic growth in China and full government backup on original industry to enhance product quality and value, it is expected that market demand for high quality components and tools will increase accordingly, which is crucial and favourable for the trading of import products. Meanwhile, as a result of soaring raw material prices, such as metal and plastic, and gradual abolishment of export tax rebate, higher cost is incurred for the processing and manufacturing industries. The situation is further worsen by the gradual implementation of the policy for optimizing industries structure in Guangdong Province, and create additional adverse impact for the trading business in the coming year.



Various Kinds of Spring Wires and Steel Strips

In face of such opportunities and challenges, the Group will continue to explore new markets and products and will also finalize its enterprise resources planning system (with customer relationship management application), with an aim to further improve its logistics supply and enhance operating efficiency, and to secure reasonable return through high quality services and products that meet the requirements of the customers.

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For plastic processing business, the Group will strengthen its business development capability so as to provide higher quality products to more customers who have their brands. In addition, the Group will focus on cost and expenditure control, optimize production efficiency and enhance automatization in order to secure sustainable profitability growth.

For printed circuit board, despite its already diversified customer base, the Group is still actively exploring new customers to further broaden its customer base for future business development. For environmental protection, the Group has adopted the European Union's guidance on restriction of use of certain hazardous substance (RoHS) and recycling of reclaimed water.



Desk Lamp

The year 2008 marks the 50th anniversary of the Group. In accordance with its best corporate practice over the past 50 years, the Group will continue to adhere to its progressive but prudence attitude to seek sustainable and stable growth. The Group will strive to reinforce its business while at the same time strengthen personnel training. The aim is to enhance its operating efficiency and profitability and secure better return for its shareholders.

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Financial Statistical Highlights

	2007 HK\$'000	2006 HK\$'000
Operating results		
Turnover	2,093,377	2,022,632
Profit from operations	144,019	94,498
Profit before taxation	147,626	100,161
Profit attributable to equity holders of the Company	100,040	65,143
Earning per share – Basic (cents)	14.12	9.21
Earning per share – Diluted (cents)	N/A	N/A
Dividend per share (cent)	2.1	2.0
Dividend payout	15%	22%
Financial position at year end		
Total assets	2,261,340	2,107,425
Fixed assets	408,004	420,123
Quick assets	958,620	842,640
Net current assets	499,729	329,014
Shareholders' funds	926,841	791,644
Net asset value per share (cents)	131	112
Financial statistics		
Current ratio	1.47	1.30
Quick asset ratio	0.91	0.76
Gearing ratio	0.08	0.05
Total debt ratio	0.50	0.55