

### REVIEW OF OPERATIONS

In 2002 the Group focused its efforts on developing the growing China market. We deployed necessary resources in time to increase operating efficiency and reduce cost, thereby achieving satisfactory results. The Group managed to register profit as a whole for the year ended 31st December, 2002, with particularly outstanding results in the growth in the machinery and printed circuit board businesses. Yet the audio business was hampered by the slowdown of overseas markets and undergoing a period of consolidation, hence resulting in an operating loss.

#### Manufacturing Business

##### *Machinery*

Turnover of the machinery business during the year was approximately HK\$513,702,000, representing an increase of HK\$67,986,000 or 15% over that of last year. The business in China accounted for substantial portion of the rise, while export sales showed a slight decline. Operating profit increased to approximately HK\$50,333,000.

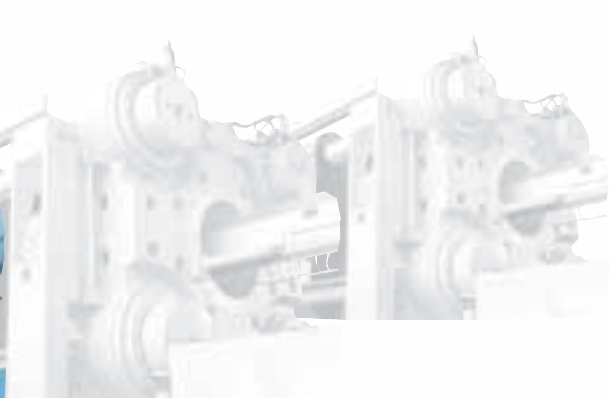
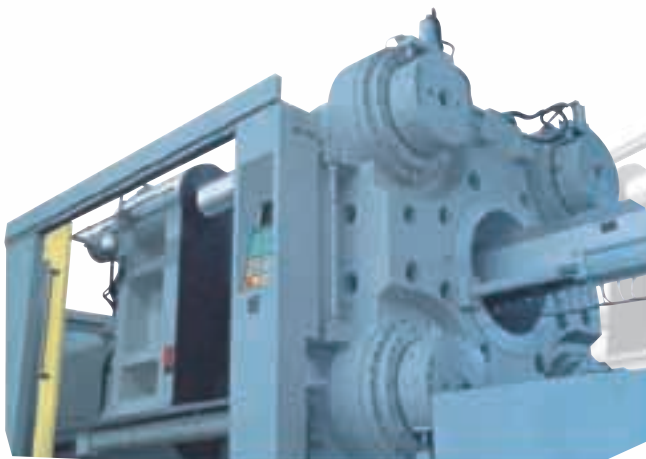
For the year under review, the machinery business has shown significant improvement, thanks to the optimization of our management teams and approach, enhancement of our sales network, and stronger customer relations management. Our new series of large-sized two-platen plastic injection moulding machines were well received in quality after their extensive use by our customers in the past year. While

sales are on a steady rise, these series now enjoy a good reputation in such sectors as automobile component processing and household appliances. It is envisaged that these series will become a core product of the Group.

In the coming year, we will inject an appropriate amount of capital to expand the scale of production and purchase additional processing facilities. Our objective for this is to manufacture quality products to meet the customers' requirements while at the same time making use of our competitive price and products to enlarge our market share gradually.

The first batch of the large injection moulding machine series manufactured in China under a technology transfer agreement with UBE Japan began delivery to our customers in late 2002. These series of technologically advanced large injection moulding machines will be the key product for the Group's development in the mainland China market.

Besides, to sustain the continuous development of our products, the Group has established a research and development centre in Dongguan, PRC with a specific responsibility of researching new products. This centre will capitalize on the Group's strength in designing machinery, electric and hydraulic machines for the purpose of developing new products to satisfy market demands.



▲ Two-Platen Injection Moulding Machine



▲ Battery-operated staplers



▲ “LUMAGNY” Plastic Illuminated Magnifier  
10X & Money Detector

#### Plastic Products and Processing

The drastic upsurge in raw material prices had led to an increase in production cost and hence a cut in profit margin. In addition, external economic factors had also driven down product prices. These factors had adversely affected the export sales, both in terms of turnover and profit, making them fall short of target. For the year under review, sales of plastic processing business was approximately HK\$191,491,000, representing an increase of HK\$748,000 or 0.4% over that of last year. However, the profit was approximately HK\$17,128,000, a decline of 34% over that of last year.

The plastic hygienic food container and cutlery business focused mainly on the food packaging market in China and thus was not affected. It is anticipated that the business will post further growth when the new plant in Zhuhai becomes operational in mid-2003. As the main customers are within mainland China, the Group's plastic processing plants in Dongguan, Shuofang and Shenyang attained different degrees of development. The plastic processing plant in Dalian Development Zone also commenced operation late last year and started providing plastic processing services for household appliance and office stationery sectors in the area.

In the year ahead, it is expected that the price of plastic resin will remain unstable and have an impact on the overall profit. The Group will actively explore new overseas markets while at the same time endeavoring to improve quality and production management, including the utilization of enterprises resources planning system, so as to achieve higher efficiency and effectiveness.



▲ Plastic Hygienic Food Containers

#### Printed Circuit Board

Both the production facilities and technical levels were greatly enhanced after relocating to the new plant in mid-2001. Product quality and quantity were raised while internal communication was strengthened. These had led to better co-ordination between production and sales, resulting in successful penetration into the European and Southeast Asian markets. For the year under review, sales of the export-oriented printed circuit board had increased. Total sales amounted to HK\$200,869,000, representing an increase of HK\$30,313,000 or 18% over last year. Profit increased to approximately HK\$11,104,000. Looking forward, we will keep our two-layer printed circuit boards as our core products, targeting principally the U.S. and European markets.

In line with the expanding needs in production, we recruited additional engineers and introduced such specialized ancillary facilities as metal precipitation production line and circuit board cutting machine. The objective is to produce printed circuit board of high quality and competitiveness to meet market demand.

## MANAGEMENT DISCUSSION AND ANALYSIS

While maintaining two-layer printed circuit boards as our core product, we will gradually expand into the multi-layer printed circuit board market. It is anticipated that sales of multi-layer printed circuit boards will experience a steady growth in the coming year.



▲ Printed Circuit Board

### Audio Products

As this business was still in consolidation stage, along with drastic changes in the overseas audio market, sales of audio products suffered a direct blow. Performance at such major markets as Europe and Japan was not satisfactory. Market conditions were harsher than last year. During the year under review, sale of audio products was approximately HK\$173,984,000, representing a decrease of HK\$80,681,000 or 32% as compared with that of last year. Operation loss was approximately HK\$12,104,000.

In the future, we will uphold the strategy of stringent supervision and control of material cost with the goal of reducing operating loss and reaching breakeven ultimately. In the area of production, measures will be implemented to localize production and streamline manpower needs to control cost and reduce expenses.



▲ Micro Music Centre with Vertical CD Player & PLL Tuner

### Trading Business

#### Industrial Consumables

Turnover declined slightly over that of last year, mainly because the Group had reduced the scale of machine business that operated with low gross profit margin. Sales volume of industrial consumables such as steel wire and fasteners was marginally better than anticipated. After completion of the asset rationalization, the business made a turnaround. During the year under review, turnover was HK\$204,484,000, representing a decrease of HK\$5,908,000 or 3% over last year. Operating profit increased to approximately HK\$15,473,000.



▲ Industrial Fasteners

Adhering to our trading principles of fully understanding the current and future needs of our customers and meeting and even surpassing their expectations, we worked hard to enhance our employees' understanding of the application technology of our products and their service standards during the year under review; and set up additional sales points in Beijing, Chengdu and Qingdao to expand our sales network and supply centres. It is envisaged that the industrial consumables business will achieve a fairly satisfactory growth in the year ahead.

### PROSPECTS

In the years ahead, China will remain its economic momentum despite the sluggish recovery of the global economy as a whole. This is attributable to China's persistent policy in stimulating domestic demand, its proactive yet healthy macroeconomic policy and the

prime opportunities brought forward by the accession to the WTO. The Group's target markets will be the Yangtze Delta, Pearl River Delta and Baohai Bay regions where the Group will try its best to enhance the quality standards and competitiveness of its key products to meet market demands.

To realize the above objectives, the Group will spare no efforts in strengthening its management by retaining the right professionals from the mainland and overseas as well as providing ongoing training for existing employees, so as to lay a solid foundation for the sustainable development of the Group's core businesses.

The Group's principal business remains to be machinery. The Group will inject capital as and when necessary to purchase advanced processing facilities and to enlarge production capacity to an appropriate level so that it can keep in line with market development. Through the introduction of advanced technology from overseas and based on the Group's R&D strength, we will strive to offer machinery products that are really efficient and high quality at reasonable prices which, in turn, will strengthen the Group's competitive edge and profit-making capability.

Meanwhile our plastic business will be focusing on the mainland China market, with foreign enterprises, and large and medium-sized private enterprises as target customers. By virtue of the brand name built on plastic injection moulding machinery and the well-established sales network, the Group envisages that there will be more satisfactory development for the plastic business in the mainland China market.



▲ AC Servo System



▲ F Series Injection Moulding Machine



## MANAGEMENT DISCUSSION AND ANALYSIS

<b>Financial Statistical Highlights</b>	<b>2002 HK\$'000</b>	<b>2001 HK\$'000</b>
<b>Operating results</b>		
Turnover	1,313,484	1,294,747
Profit (loss) from operations	55,929	(74,911)
Profit (loss) before taxation	56,350	(79,438)
Profit (loss) attributable to shareholders	23,305	(89,128)
Earning (loss) per share – Basic (cents)	3.64	(13.91)
Earning (loss) per share – Diluted (cents)	N/A	N/A
Dividends per share (cents)	–	–
Dividend payout	–	–
<b>Financial position at year end</b>		
Total assets	1,570,527	1,395,069
Fixed assets	453,903	466,486
Quick assets	579,108	470,573
Net current assets	221,440	201,893
Shareholders' Funds	597,543	579,854
Net asset value per share (cents)	93	90
<b>Financial statistics</b>		
Current ratio	1.28	1.31
Quick asset ratio	0.73	0.72
Gearing ratio	0.03	0.04
Total debt ratio	1.36	1.16