

### REVIEW OF OPERATIONS

During the first six months of 2003, both market confidence and the regional economy were hard hit by the outbreak of SARS. However, the second half of the year saw the market atmosphere gradually return to normal as SARS was brought under control. The recovery of the China market was especially rapid. As a whole, the Group's business remained stable during 2003, with the machinery, printed circuit board and electronic meter sections showing the most satisfactory results.

#### Manufacturing Business

##### *Machinery*

Last year, to reduce the dual challenges of increased market competition and rising material prices, the Group expanded its production scale and sales power. During the year under review, growth was once again recorded in sales figures for our machinery business, with a turnover of

approximately HK\$601,291,000, representing an increase of HK\$87,589,000 or approximately 17% over 2002. When increases in material costs, the expansion of our sales network and various promotion expenses are factored in, the Group's profit decreases to approximately HK\$24,272,000.

The Group is continually striving to minimize the adverse effects of increased material costs by reducing production expenses, implementing stringent cost control measures and optimizing product design, increasing production and tightening our control of logistics and storage. In 2003, the Group has also purchased a number of advanced machines which will enable it to produce its own mechanical parts, work of which was previously outsourced. This move will not only enable us to reduce part manufacturing costs but also improve the precision of parts and ensure faster delivery times.

## MANAGEMENT DISCUSSION AND ANALYSIS



Blow Moulding Machine

As China is fast becoming the “world’s factory”, its industries are creating an enormous market for all kinds of advanced machinery products. In order to satisfy the growing demand, the Group intends to further expand its injection moulding machine business and introduce several new products in due course during 2004. The new additions will include plastic processing machinery such as plastic blow-moulding, large extrusion and rubber injection machines. These moves will enable us to satisfy the demands of China’s booming car industry, construction material and packaging industries. To ensure it can achieve this objective, the Group has sought design technology support

from a German company. The Group has acquired additional facilities and is expanding the size of its plants in order to add to its production capabilities. By enabling us to sharpen our machinery business’s competitive edge in the shortest possible time, this strategy will ensure we can establish and develop our customer base.



Hydraulic Drawing Press

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Plastic Products and Processing*

During the year under review, sales of the Group's plastic business were approximately HK\$222,230,000. This figure represents an increase of approximately HK\$30,739,000 or 16% over 2002. The profit decreased to approximately HK\$10,180,000.

Development of the plastic business in 2003 was unsatisfactory. The SARS epidemic at the beginning of the year hampered the flow of both humans and goods and this affected the plastic processing business to a certain extent. That said, results began to pick up in the second half of the year as the SARS epidemic was brought under control. As a whole, the performance of the plastic business improved during 2003. There was a large increase in orders from the domestic market during the last six months of the year, and consequently, the business was able to meet its annual sales goal. However, the recovery of export sales remained sluggish. This was mainly due to a decrease in orders from existing customers and a delay in the receipt of orders from new customers.



Plastic Hygienic Food Containers



Plastic Hygienic Food Containers

High Power Magnifier

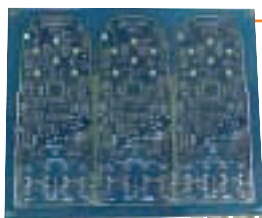
2003 saw raw material prices continue to rise, leading to an increase in production costs and a resultant decline in marginal profits. Due to construction delays, the new plant in Zhuhai was unable to commence operation during the year, a fact which affected our plastic packaging container business. It is expected that 2004 will see growth in the Group's plastic processing businesses in Wuxi, Hefei, Dalian, Dongguan of Guangdong Province, and Shenyang as our customer base is established and grows in those markets. The situation should improve still further when our new Zhuhai plant commences operations and export sales orders increase. Given the rapid development of the plastic processing business in eastern China, the Group plans to expand its processing capabilities at Shuofang Development Zone in Wuxi, Jiangsu Province. The Group will achieve this by acquiring land to build new plants and equipping them with new plastic machinery and painting equipments. Such steps will ensure the Group can provide processing services to manufacturers of large household electrical appliances and vehicle component parts in eastern China.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Printed Circuit Board*

2003 saw the sales of printed circuit board products continue to experience double-digit growth. Total sales were approximately HK\$253,072,000, an increase of approximately HK\$52,203,000 or 26% over 2002. The profit for this business was approximately HK\$11,763,000.

The Group's printed circuit board business was almost not affected by the SARS outbreak at the beginning of the year. Otherwise, the results for this business would have been far more promising. During this period, sales were primarily focused on printed circuit boards of one layer or two layers, while the market's development of multi-layer printed circuit boards continued. Ultimately, the printed circuit board business produced better results in 2003 because of the Group's expansion of its overseas sales network and the high level products quality. The successful commencement of operations at the Group's new plant last year also contributed to the development of the business by helping to increase production and improve both delivery times and product quality. It is expected that 2004 will see the Group deploy additional resources and purchase further advanced facilities which will enable it to increase productivity and reduce product costs. In the area of new products, the Group will focus on the development of high value-added printed circuit boards which will help to sharpen its competitive edge and increase its profit margin.



Printed Circuit Board



### *Audio Products*

Sales of audio products during 2003 were approximately HK\$72,769,000. This figure represents a decrease of approximately HK\$101,215,000 or approximately 58% over 2002. The resultant loss was approximately HK\$15,943,000.

The Group's audio business was in the consolidation stage. In the year ahead, the Group will continue to implement cost retrenchment measures aimed at helping this business to break-even.



Work Site Audio



Precision Steel Balls and Bearings





### Trading Business

#### *Industrial Consumables*

During the year under review, turnover for this business soared to HK\$244,266,000, representing an HK\$39,782,000 or approximately 19% increase over 2002. The profit stood at approximately HK\$16,249,000.

While sales of industrial consumables increased during 2003, the business' overall performance was not up to expectation. A key reason for this was suppliers' tendency to set up their own sales networks within the more open and transparent China market. Such moves had an adverse impact on businesses which play an intermediary role. Consequently, while this business' export and re-export results improved, its sales in Hong Kong declined. The fluctuation of foreign exchange rates also contributed to an increase in cost and decline in profits.

In the year ahead, the Group will continue to improve the expertise of its technical support team, and encourage closer co-operation with sales staff in order to further enhance customer service levels. 2004 will also see the Group focus on consolidating its customer base by paying close attention to new trends in the market; further enhancing communications between sales outlets; actively contacting its customers; and focusing on key brands.

### PROSPECTS

The Group envisages that drastic rises in raw material costs, power shortages in China and a reduction in exports tax rebate will all impact on its product costs and affect the Group's profitability during 2004. Faced with such challenges, the Group will strive to develop high quality value-added products that will enable it to avoid disorderly, purely price-based competition. Training will be provided to management personnel at all levels in the Group's member companies, which will help to further enhance the Group's professional management capabilities, make better use of resources and control costs.

In general, the market looks set to remain strong during 2004. It is indisputable that China has become the world's premier factory. As an organization that engages in the manufacturing and trading of industrial machinery and accessories, the Group will remain focused primarily on the China market.

## MANAGEMENT DISCUSSION AND ANALYSIS

To further sharpen its competitive edge, the Group is now planning to properly enlarge its production capabilities. Specific projects to be undertaken to achieve this goal include the construction of new plants at various cities in both Guangdong and Jiangsu provinces. The Group also plans to acquire new facilities for the introduction of new products, increase in production and further enhancement of product quality. At the same time, we will place increased emphasis on the nurturing of talent in the coming years. The Group strongly believes that the building of a professional management team will play a vital role in its sustainable development and continual success.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2003, the Group's shareholders' funds were approximately HK\$631,803,000, compared with approximately HK\$601,177,000 as at 31st December, 2002.

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. The Group's gearing ratio as at 31st December, 2003 was approximately 3.8% (2002: 2.7%), and the liquidity ratio was approximately 1.29 (2002: 1.28), both were maintained at a healthy level. As at 31st December, 2003, cash, bank balances and time deposits amounted to approximately HK\$103,508,000. All these reflect that the Group is in sound financial position.

### CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 35 to the financial statements.

### PLEDGE OF ASSETS

Details of the pledge of assets of the Group are set out in note 37 to the financial statements.

### FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group had certain fixed interest rate borrowings but had not engaged in any financial instruments for hedging or speculative activities.

### EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2003, the Group has approximately 6,000 employees (2002: approximately 6,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.



## MANAGEMENT DISCUSSION AND ANALYSIS

<b>Financial Statistical Highlights</b>	<b>2003 HK\$'000</b>	<b>As restated 2002 HK\$'000</b>
<b>Operating results</b>		
Turnover	<b>1,393,628</b>	1,313,484
Profit from operations	<b>29,025</b>	55,929
Profit before taxation	<b>52,167</b>	56,350
Profit attributable to shareholders	<b>20,528</b>	22,461
Earning per share – Basic (cents)	<b>3.20</b>	3.50
Earning per share – Diluted (cents)	<b>N/A</b>	N/A
Dividends per share (cents)	<b>–</b>	–
Dividend payout	<b>–</b>	–
<b>Financial position at year end</b>		
Total assets	<b>1,691,715</b>	1,586,135
Fixed assets	<b>437,058</b>	453,903
Quick assets	<b>684,343</b>	579,108
Net current assets	<b>244,611</b>	221,440
Shareholders' Funds	<b>631,803</b>	601,177
Net asset value per share (cents)	<b>98</b>	94
<b>Financial statistics</b>		
Current ratio	<b>1.29</b>	1.28
Quick asset ratio	<b>0.80</b>	0.73
Gearing ratio	<b>0.04</b>	0.03
Total debt ratio	<b>1.41</b>	1.36