

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Manufacturing Business

Machinery

Affected by unfavorable conditions like the surge in steel prices, power shortages and macro-economic control and adjustment on the mainland, coupled with the unregulated competition in the injection moulding machine industry, sales as well as profit were under considerable pressure. Thanks to the hard work of our staff, the machinery manufacturing business performed strongly and maintained its growth. Turnover totaled approximately HK\$615,291,000, or a rise of 2% over last year of HK\$14,000,000, while profit was approximately HK\$36,172,000, increasing slightly by 49% over last year.

To prepare for the launching of our new machinery products, the Group began expanding its plant in Dongguan by stages and acquired additional key processing facilities to boost its productivity and to ensure product quality. Productivity is expected to increase by about 10% upon completion of the first phase of works. The new machinery processing and assembly workshop is expected to be operational in the second quarter of 2005. The main products will include the new precision injection moulding machine for export market, blow moulding machine, rubber injection moulding machine and CNC turret punching machine.

We are pleased to report that, in the year 2004, our member company Dong Hua Machinery Ltd., being one of the only three in Dongguan honored with the award, was included among the fifty finest enterprises of new and advanced technology in Guangdong. In collaboration with mainland universities, the Group also came out successful in bidding for two separate contracts for Guangdong-Hong Kong projects of major breakthroughs in key areas, namely network-based intelligent high-speed CNC flexible machining system for sheet metal fabrication and testing platform for high molecular weight polymer and its composite material. These serve to testify to the recognition gained by the Group in technological research and development as well as our commitment and contribution to society.



The 12th Int'l Packaging Exhibition
(Chang Ping, Dongguan)



COSMOS-UBE Series Injection Moulding Machine



The 13th Int'l Plastics Exhibition
(Chang Ping, Dongguan)

Management Discussion and Analysis

Plastic Products and Processing

During the year under review, sales for the Group's plastic business amounted to approximately HK\$285,239,000, representing an increase of approximately HK\$63,009,000 or 28% higher than that of last year. Profit stood at approximately HK\$23,721,000 or 133% over last year.

The outbreak of SARS in 2003 took its toll on export orders so much so that the profit for the plastic processing business dwindled to approximately HK\$10,180,000. Thanks to the efforts made by our staff throughout 2004, our customer network has expanded and the pressure of soaring plastic prices on production costs has eased. As a result, profit rebounded and even rose beyond the 2002 level which was approximately HK\$17,128,000.

During the year under review, the Group's plastic processing capabilities have been enhanced considerably through management optimization. Whether in terms of quality or delivery times, we have been able to satisfy the requirements of our customers. It is our hope to bring about greater growth in our sales of moulds, especially in exports, in the coming year.

The newly constructed Zhuhai plant officially commenced operation in June 2004. The new plant not only doubles the productivity of the Shunde plant but is also better equipped. The air filtering facility, for example, enables the plant to comply with the stringent hygienic requirements for the production of food and drug containers and will push operation further up the quality ladder.

Following the surge in oil prices which successively reached new heights, plastic resin prices have been on the rise for a prolonged period of time. This has been a source of pressure to the Group's plastic products and processing business which will be impacted to a certain extent if power and labor on the mainland continue to be in short supply.



On-Site Technical Coaching by Japanese Specialist



Five Face Plano-type Machining Center

Management Discussion and Analysis

Audio Products

During the year under review, sales of audio products totaled approximately HK\$140,204,000, increasing by HK\$67,435,000 or 93% as compared to last year, while loss fell substantially to approximately HK\$7,352,000.

Maximizing our existing resources, we have calculated our entry into the niche market with the identification and production of suitable specialty products like shock-proof and water-proof audio products for construction sites. Initial results have been promising and growth can hopefully be maintained in the coming year to achieve break-even.

Printed Circuit Board

In 2004, printed circuit board products continued to record double-digit growth. Sales totaled approximately HK\$348,862,000 while the year-on-year increase was approximately HK\$95,790,000 or 38%. Nevertheless, as selling prices could not be adjusted in time to reflect the drastic climb in circuit board prices in the latter half of the year, there was a loss of approximately HK\$2,888,000 at the end of the year.

In the light of the experiences gained, the Group has stepped up management and adjusted contingency measures with a view to promptly reflect the changes in material costs in our selling prices. The production portfolio remains to be primarily one-layer and two-layer boards with multi-layer ones next on the list. Through optimizing production management, reducing waste of scraps and introducing enterprise resources planning system, cost management has become more effective and resources can be spared for research and development of value-added products. The focus for the year ahead will be on markets like Europe and Japan where the marginal profits are higher so as to keep the gross profit rate at a stable level. With the gradual increase in the selling prices of our products, better profits can be envisaged for the coming year.



DVD Player Face Panel



Cordless Phone Casing



Plastic Food Container

Management Discussion and Analysis

Trading Business

Industrial Consumables

During the year under review, turnover for this business rose to HK\$266,707,000, representing an increase of approximately HK\$22,441,000 or 9%. The profit stood at approximately HK\$13,965,000.

The opening up of the mainland market has led to an increase in the supply of imported products. Mainland products improving in quality, productivity and supply as well as fluctuating and appreciating foreign currencies also pose possible competition. Faced with these challenges, the Group has responded by placing emphasis on training our sales team and streamlining logistics. With professional training, we aim to provide our customers with quality and professional technological applications and to sustain our development and profitability with high value-added products and service. To expand and consolidate our exporting business, we will continue to source quality mainland industrial products and distribute them through our highly efficient sales network.

PROSPECTS

Looking into the year ahead, the Group's business will benefit from the growing mainland market and the relatively promising overseas markets like South America and Eastern Europe. Nevertheless, the Group's engagement in machinery manufacturing and plastic processing means that we will inevitably be faced with the pressure of rising costs in view of the expected high prices of raw materials like steel and plastic in the coming year and scarce power supply. We may further be affected by the dampened interests of certain customers in reinvestment following the macro-economic control and adjustment measures taken by the mainland authorities in the third quarter of last year. The Group is confident, however, to be able to deal with and overcome any short-term difficulties that may arise in view of the enhancement we have achieved in overall management in recent years through training our management team and optimizing our management structure and system.



Water Proof CD Player



*Illuminated Magnifier
with Ruler and Compass*



Printed Circuit Board

Management Discussion and Analysis

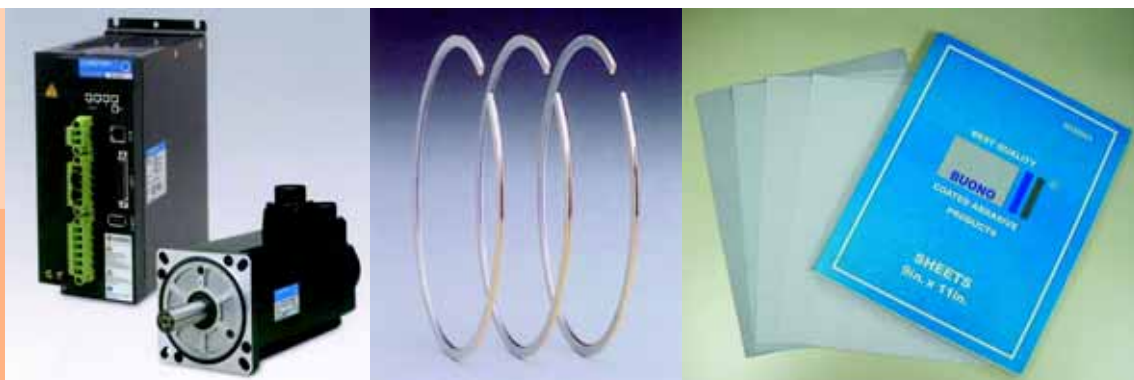
The machinery business will remain to be the thrust of our development in the future. With competition envisaged to become more intense for the injection moulding machine on the mainland market, the Group will focus on developing for our customers injection moulding machines with greater emphasis on technology and value-adding. Meanwhile, the Group strikes to develop the overseas markets. Our new products of blow moulding machine, extrusion machine and CNC turret punching machine are now ready for launch in 2005. With our well-established sales network, market branding, inherent productivity and sales and service systems, these new machinery products are expected to form the mainstay of our products after the injection moulding machine and will fuel new growths for our machinery business.

Changes and fluctuations in the economy and the market are unavoidable for any enterprise in the course of its development. The Group firmly believes that retaining and capitalizing on our talents will enable our team to face squarely any challenges that may arise, to devise contingency measures to overcome any short-term difficulties, and, more importantly, to formulate strategies for development in the long run in order to bring about greater returns for both our investors and staff.

FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended 31st December, 2004 of 1 HK cent per share (2003: Nil) to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company as at the date of the 2005 Annual General Meeting (the "AGM"). Such final dividend will be satisfied by way of a scrip dividend with an alternative to the Shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such scrip dividend (the "Scrip Dividend Scheme").

Subject to the approval by the Shareholders in the AGM, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to the Shareholders as soon as practicable. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto.



*Sanyo Denki Q400V
Servo Motor*

*Special Shaped Wire
for Piston Ring*

BUONO-Sand Paper

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2004, the Group's shareholders' funds were approximately HK\$680,593,000, compared with approximately HK\$631,803,000 as at 31st December, 2003.

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, 2004 was approximately 7.1% (2003: 3.8%), and the liquidity ratio was approximately 1.26 (2003: 1.29), both were maintained at a healthy level. As at 31st December, 2004, cash, bank balances and time deposits amounted to approximately HK\$107,536,000. All these reflect that the Group is in sound financial position.

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.

AUDIT COMMITTEE

The audit committee of the Company comprises the three independent non-executive directors. The audit committee members possess management and financial experience to advise on the Company's matters. During the last 12 months, the audit committee met twice to review with senior management the accounting practices adopted by the Group, and to discuss internal control and financial reporting matters, including the interim and annual financial statements before recommending the same to the Board for approval. The audit committee is of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2004, the Group has approximately 6,000 employees (2003: 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

| | 2004 | 2003 |
|---|-----------|-----------|
| | HK\$'000 | HK\$'000 |
| Financial Statistical Highlights | | |
| Operating results | | |
| Turnover | 1,656,303 | 1,393,628 |
| Profit from operations | 47,925 | 29,025 |
| Profit before taxation | 70,282 | 52,167 |
| Profit attributable to shareholders | 41,849 | 20,528 |
| Earning per share – Basic (<i>cents</i>) | 5.93 | 2.91 |
| Earning per share – Diluted (<i>cent</i>) | N/A | N/A |
| Dividend per share (<i>cent</i>) | 1 | – |
| Dividend payout | 16.9% | – |
| Financial position at year end | | |
| Total assets | 1,836,996 | 1,691,715 |
| Fixed assets | 475,013 | 437,058 |
| Quick assets | 694,064 | 684,343 |
| Net current assets | 239,448 | 244,611 |
| Shareholders' Funds | 680,593 | 631,803 |
| Net assets value per share (<i>cents</i>) | 96 | 89 |
| Financial statistics | | |
| Current ratio | 1.26 | 1.29 |
| Quick asset ratio | 0.74 | 0.80 |
| Gearing ratio | 0.07 | 0.04 |
| Total debt ratio | 1.46 | 1.41 |