

# Management Discussion and Analysis

## BUSINESS REVIEW

### Manufacturing Business

#### *Machinery*

Battered by unfavourable factors like spiraling raw material prices, macro-economic adjustments on the Mainland and oversupply of general purpose plastic injection moulding machines, turnover for the 2005 amounted to approximately HK\$573,929,000, decreasing by 8% when compared with that of last year. Profit correspondingly dropped by 20% to about HK\$29,011,000.

The wildly fluctuating plastic resins prices during the year have put investors of plastic processing and sheet-metal working machines on the sidelines, immediately slackening demand for general purpose machinery on the Mainland. Having taken note of the increasing demand for precision and large plastic injection moulding machines and reinforced our relevant production lines accordingly, we achieved substantial growth in the sales of such series, compensating for the downturn in general purpose machines. As for the new products, development of CNC sheet-metal working machines and blow-moulding machines aiming at improving our products' value for money have accelerated. Initial response from the market has been encouraging so far.

Fc Precision, Supreme Energy Efficiency Injection Moulding Machine



F2R High Precision, High Efficiency Injection Moulding Machine



Double Strand Extrusion Line

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To oversee the Group's industrial machinery-related businesses for more effective deployment of resources, a machinery holding company was set up in 2005. One of the measures taken was revamping the makeup of production bases in a bid to align production with their respective target markets. Prompt response to increasingly individualized market needs is now possible following the general takeover of a joint venture in Wuxi to improve the scale and commitment of our business in East China. In terms of marketing, to facilitate the launch of new products, sales networks and marketing drives both on the Mainland and overseas have been improved to ensure for our key products a greater market share within a shorter period of time. Success has been more evident in our overseas markets to which exports have grown satisfactorily thanks to our preliminary efforts in laying down a sustainable foundation for future development.

As for prospects in 2006, the Mainland, as the world's factory and a vibrant economy, is expected to witness rise in both investment and domestic spending. Intentions to invest in plastics processing and sheet-metal working machinery will improve when prices of plastic resins and steel stabilize. In anticipation of the likely accelerated growth of the Mainland market for medium to up-market injection moulding machines, we will scale up the production of these series at our plants in Wuxi, China, in collaboration with Japan UBE Industries Ltd to meet market needs. Turning to our other products, fully closed-loop plastic injection moulding machines, high speed CNC turret punch and high productivity multi-layer blow-moulding machines are expected to sell significantly better than in 2005. All in all, although competition will remain fierce, the Group is cautiously optimistic about the outlook of its machinery business.



CMSX Series Computerize Four-Column Hydraulic Press



Moulding Press

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### Plastic Products and Processing

Turnover for the Group's plastic products and processing business rose by approximately HK\$64,468,000, or about 23%, to reach approximately HK\$349,707,000 for the year under review, bringing profit to the region of approximately HK\$22,157,000, or a decrease of about 6% when compared to that of last year.

Our plastic product and processing business was adversely affected in cost by soaring plastic resins prices, which were pushed up by those of oil. Thanks to the efforts made by our staff, efficiency was enhanced through optimizing management and reducing wastage. Also, the Group's ancillary processes such as high quality spray-painting and silk-screening have given us an edge so that profitability could be maintained. Nevertheless, since market competition is expected to remain fierce while high material prices cannot be immediately transferred to the customers, the Group's profitability in the plastic products and processing business will still come under

considerable pressure.

Led by our export markets, manufacture of moulds registered substantial growth during the year under review. When quality and delivery are further improved, manufacture of moulds will become our new area of growth.



Coffee Grinder



Injection Workshop

Equipped with a fully enclosed clean room built in accordance with international standards and complete with injection, printing, packaging and mould making facilities so that the entire process from product design to batch production can be carried out in-house, our factory in Zhuhai specializes in plastic injection products like sanitary plastic tableware and food packaging.

Disadvantaged by high plastics prices, the factory failed to record satisfactory return despite achieving significant growth in turnover. The Group, however, remains optimistic about the business. In early 2006, to enhance profitability, the Group began tapping the more lucrative overseas markets and planning the production of medicine packaging with more stringent sanitary requirements while better controlling and reducing wastage.



Credit Card Size illuminated fresnel magnifier  
2x 4x, with LED

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During the year under review, thanks largely to the Management's proper cost control, profit for optic plastic products was comparable to that of last year although the business was plagued by sagging selling prices and inflating raw material cost. Our focus for 2006 will be on expanding our distribution channels and reaching out to small and medium-sized overseas customers through electronic business solutions. On the product front, there will be more new products like aspheric lens and Fresnel lens in the hope of gaining a bigger market share for our magnifiers.

### *Audio and Electronic Products*

Overall turnover for audio products in 2005 totaled approximately HK\$84,535,000, down by about 40% when compared with that of 2004. This was mainly attributable to overstocking by our customers which had a lagged effect on our delivery cycles. With raw material prices inflating our cost and labour and power shortages on the Mainland causing us enormous difficulties, a balanced account was not possible and loss was again registered for the year. Unless there is substantial improvement, the Group will review the business further in order to minimize loss in 2006.

### *Printed Circuit Board*

Sales of circuit boards were quite satisfactory for the year 2005, with turnover rising by approximately HK\$25,409,000, or 7%, to stand at approximately HK\$374,271,000. With material costs for circuit boards beginning to stabilize in 2005 and selling prices adjusted slightly upward, a profit of about HK\$18,762,000 was recorded at the end of the year.

The key factor for satisfactory performance during the year under review lied in the substantial increase in the production of multi-layer circuit boards, the volume of which was twice that of 2004. Since multi-layer circuit boards have a bigger profit margin than single-layer ones, overall profit for the year was remarkably boosted as a result. Another factor was that lamination process is now carried out internally rather than entirely outsourced as was previously the case. This had the benefit of not only achieving certain savings but also assuring quality and delivery to the satisfaction of our customers. To reduce costs further, the Management has put in a lot of efforts to streamline work flow, economize the use of materials, identify cheaper substitutes, and minimize substandard products. The results have so far been more encouraging than expected.



Worksite Audio



Printed Circuit Board



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Profit for the coming year is likely to suffer since prices of raw materials for circuit boards have begun to soar in the third quarter of 2005 while basic salary and overtime pay for workers and staff are expected to rise in 2006. Under the circumstances, the Group has plans to acquire state-of-the-art CNC drilling machines to meet our customers' stringent demands as well as to save on outsourcing expenses.

### Trading Business

#### *Industrial Consumables*

Turnover for the trading business rose by about 1% over that of last year to reach the region of approximately HK\$268,287,000, yielding a profit of approximately HK\$18,475,000.

During the year, the processing and manufacturing industries were hard hit by soaring costs as a result of consistently high prices of raw materials like metal and plastic. As our customers readjusted their production and procurement plans, the performance of our trading business experienced a sharp fall in the first quarter. Furthermore, climbing production costs also ate into our profit. Faced with intense competition in the market, the Group remained adamant with our strategic plan to secure for our selective products a bigger share in our target markets. Performance began to improve in the second quarter, to be followed by a more significant growth in the latter half of the year as the high material prices were gradually absorbed by the market and breakthroughs were made for some of our new products.



CP Nut Runner

## *Management Discussion and Analysis*

With the further opening up of the Mainland market, there will be a golden opportunity for us to expand our business although competition would be more fierce as the market draws in more and more players. In response to these challenges, the Group will continue to look out for new market needs for possible expansion, enhance our logistics and supply mechanism, provide our staff with continuous learning for better overall profitability, and satisfy our customers with quality products and service for mutual benefit.

### **Other Businesses**

Other businesses refer primarily to the Group's investment in a Shenzhen enterprise that produces and sells electronic watt-hour meters. Taking advantage of China's need for electricity re-networking, the enterprise has been providing mainland electricity departments with multi-purpose electronic watt-hour meters for industrial and domestic use in recent years. Technologically advanced and all-encompassing in features, the meters have been well-received by customers, bringing in significant return for both the enterprise and the Group. During the year under review, new hi-tech products that can meet Mainland's needs for electricity management were launched. These include remote self-reading meters and systems for better management of electricity capacity /loading and distribution monitoring based on 2.5G-3G GPRS frequency bands, and electricity bill payment through pre-paid RF-smart card. It is believed that these new products will gradually take over as the major growth area for the enterprise in the coming year.

### **PROSPECTS**

Looking into the year 2006, as the world's factory and a vibrant economy, China is expected to witness rise in both investment and domestic spending. As such, market condition will compare favourably with that of 2005. Nevertheless, unfavourable factors like persistently high prices of raw materials, a strong RMB and escalating interest rates are expected to intensify competition especially for general purpose injection moulding machines. Under the circumstances, the Group will seek to consolidate our market share with hi-tech and moulding machines with special application while actively striving to open up overseas markets for these products. Parallel to this, efforts will be made to improve the market penetration of our new products like high productivity multi-layer blow-moulding machines, CNC turret punches and rubber injection machinery, reinforce our collaboration with Japan UBE Industries Ltd., and familiarize manufacturers of up-market automobile parts with our injection moulding machines.

To maintain our profitability, management of the plastic products and processing business will be optimized to reduce loss and wastage. In particular, Enterprises Resources Planning, the latest management software system with special application in plastic processing, has been used to reinforce and upgrade our management.

Nurturing of talents, especially at the middle and senior levels, is also a priority for the Group. Although 2006 is not expected to be entirely rosy, we strongly believe that with the devotion of our staff, our business will continue to progress steadily so that reasonable return can be achieved for our stakeholders.

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	2005	2004 (As restated)
Financial Statistical Highlights	HK\$'000	HK\$'000
<b>Operating results</b>		
Turnover	1,650,729	1,665,687
Profit from operations	51,629	47,698
Profit before taxation	80,300	65,482
Profit attributable to equity holders of the Company	54,222	41,460
Earning per share – Basic ( <i>cents</i> )	7.67	5.87
Earning per share – Diluted ( <i>cent</i> )	N/A	N/A
Dividend per share ( <i>cent</i> )	1.5	1
Dividend payout	20%	17%
<b>Financial position at year end</b>		
Total assets	1,876,786	1,812,175
Fixed assets	418,449	448,920
Quick assets	742,511	695,335
Net current assets	286,608	240,719
Shareholders' Funds	725,295	662,622
Net assets value per share ( <i>cents</i> )	103	94
<b>Financial statistics</b>		
Current ratio	1.30	1.26
Quick asset ratio	0.76	0.74
Gearing ratio	0.06	0.09
Total debt ratio	1.39	1.50