

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year of 2011 has been extremely difficult to the Group. Despite of the completion of the short-term measures taken by the countries to boost economy, the world economy did not see a rapid recovery. Instead, it has actually become weaker. The weak overseas market made a direct impact on the export business, and also affected some of the Group's customers whose attention is on the overseas market. The situation in China was not optimistic either. The high inflation increased the costs for enterprises, causing difficulties in their operation. The subsequent tightening monetary policy to control inflation caused financing difficulties for many SMEs which in turn decreased their purchasing power, especially in terms of fixed assets. In general, the operation environment in 2011 was tough. However, it was fortunate that, through the untiring efforts of all the employees, the turnover is managed to maintain at a similar level with that of last year. Other indicators that reflect corporate health (such as turnover days, repayment capability and debt ratio) remained healthy and stable. Unfortunately, the profit has dropped significantly which affected the investors' return.

Among our businesses, other than the machinery business and trading business that had moderate growth or stable performance, the plastic products and processing business recorded only an operating profit of approximately HK\$1,640,000 due to lower gross profit margin in spite of an increased turnover. Similarly, the operating profit of the printed circuit board business was significantly dropped to approximately HK\$7,416,000 as affected by the lower gross profit margin.



WELLTEC Ge Series Hybrid 98-Electric@ Plastic Injection Moulding Machine

Manufacturing Business

Machinery

In the second half of 2011, the downward trend in both domestic and international market had a negative impact on the performance of this business to a certain extent, resulting in an overall sales for the full year of approximately HK\$1,092,911,000 similar to last year, which accounted for approximately 45% of the consolidated turnover of the Group. The profit in the period was approximately HK\$48,319,000.

During the first half of 2011, as the inflation in China remained high, the Central Government has gradually put more efforts on macroeconomic control to tighten money supply. As a result, most SMEs discontinued investing in fixed assets due to financing difficulties since the middle of the year. Additionally, with other factors including the European sovereign debt crisis, the gloomy economic outlook in developed countries, and the increased labour cost in China, together with the appreciation of the RMB exchange rate, customers tended to be conservative and temporarily postponed their equipment purchase plans. In response to the downturn in demand for the second half of the year, the Group has adjusted its products and customers mix for this business in a timely manner, and upgraded the functions of the main product lines to enhance cost-effectiveness, as well as altered marketing strategies for medium to large users. Accordingly, this business maintained a relatively stable sales performance in the second half of the year regardless of the poor market conditions.

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On the other hand, factors such as energy saving and emission reduction plans implemented by the State, increased public environment awareness, and increased electricity tariff for industrial use have fueled the sales of servo-driven energy-saving machinery. The sales of GREENLINE Se-series servo-driven energy saving injection moulding machines, the core product of this business, accounted for nearly 70% of the overall sales. The Se servo-driven hydraulic control system has extended its application to the products of hydraulic presses (CMSe series) and rubber injection machines (RVSe series), and has succeeded in product serialization. The clamping force of this product ranges from 200T to 3000T and it has received good market response, which can provide another new growth point for the future performance of this business. Regarding the CNC sheet-metal processing machines, through the close strategic cooperation between our in-house engineering research and development team and suppliers of key OEM components, we overcame the technical difficulties and manufacturing cost problems, and have successfully developed the full servo-electric CNC turret punch press ES series with higher cost-performance. In early November, the ES230B model was successfully showcased on the China International Industry Fair 2011. Its features, such as extremely high cost-performance, high energy saving efficiency, low noise and lower maintenance cost, were highly appraised by both new and existing customers.

The Group attaches great importance to technology research and development and product innovation and has obtained five patents for invention and eight patents for utility models during the year. Among which, the patent for the invention of extrusion-injection process technique for large plastic products has been commercialized, such that we have successfully launched the DONGHUA USe Series ultra-large shot volume plastic injection moulding machine (capable of moulding products of 300 kilograms or less at a time). The specific target market of this model includes the production of large plastic pipe fittings for municipal use and ultra-large plastic containers special for environment industry.



DONGHUA USe Series Ultra-large Shot Volume Plastic Injection Moulding Machine

In respect of deepening and exploration of the market, the Group has enlarged the coverage of pre-sale and after-sale services in second-tier cities in inland areas of China for this business during the year. Although the export business was affected by the international economic fluctuations, the consolidated export volume still reached an increase of nearly 40% as compared with last year. Developing countries remained the main sales market, especially regions in South America, South Asia, North Africa, and the Middle East. During the year, we have completed assembling and producing Se-series servo-driven energy saving machines of less than 1000T in JH-WELLTEC, our joint venture in India, with all indicators in line with expectations.



JH-WELLTEC delivered the first 750Se PIMM to the Indian customer

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Dongguan new production base started operation formally in May 2011

In respect of the production base distribution, immediately following our South China production base in Dongcheng District of Dongguan City officially put into use in May 2011, the East China production base occupying 113 acres located in Wuxi National Innovative and High Technology Industrial Development Zone has been fully relocated and was put into use in November 2011.

This factory consists of a complex of approximately 8,300 square meters and three production workshops of approximately 36,500 square meters in total. During the year, we added a number of imported CNC machining centers for this business. Consequently, we expect that the consolidated production capacity from these two production bases is to be further increased by approximately 25%. The Group will make timely adjustments on the production arrangement in respect of South and East China in order to adapt to the changes in the demand from the geo-markets in China.

Plastic Products and Processing

During the period under review, sales of plastic products and processing business was approximately HK\$466,494,000, representing an increase of about 13% as compared with the same period of last year and accounted for approximately 19% of the Group's consolidated turnover. Due to the rising material price and labour cost, this business only recorded an operating profit of approximately HK\$1,640,000 for the year.

Benefiting from the State's subsidy policy for home appliance products in rural areas of China and being driven by the increase in Blue-ray A/V product exports, the household electrical appliance and A/V product processing business recorded a growth of approximately 10% as compared with the same period of last year. However, due to the rising material prices and labour cost, the overall operating profit decreased. In addition, under the electricity consumption policy of Guangdong Province, the business's overall electricity cost was increased. In consideration of this, the Group has actively intensify the use of energy-saving injection moulding machines and implemented lean manufacturing process improvement plan in order to reduce electricity cost. The Group's production base in Hefei City of Anhui Province, which covers an area of 48 acres, will be opened in early 2012. The first phase of the new factory is 8,100 square meters, with 42 plastic processing equipments in total. This production base will help improving the overall operational efficiency and productivity; not only can it meet greater customer demand, it will also help in developing new businesses in the area of East China. On the other hand, the production base in Dongguan has successfully transformed from the original material processing factory into a wholly-owned enterprise, and it has the domestic sales right which will help in developing new businesses in China. During the period under review, we have successfully secured multiple orders of plastic processing for portable A/V and multimedia player products, which has laid foundations for the business to tap on the rapidly growing market of portable multimedia products.



Plastic Casing
of Micro CD System

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The food packaging and cutlery business recorded a growth of 16% as compared with the same period of last year. However, due to the rising material prices and labour cost, it only recorded an operating profit that is similar to the same period of last year. During the period under review, the business focused mainly on improving product quality and controlling the hygienic conditions for production in order to meet the stringent requirements of high-end customers on food packaging and cutlery. Additionally, under the influence of the State's policies, some large and medium-scale food enterprises in China also began to abandon the concept of low-cost purchasing. Instead, they are paying more attention on the hygiene, safety, quality and scale of suppliers. These changes are favorable to the development of this business. Besides plastic food packaging products, the prosperity in confectionery market in China also brought a substantial growth to the candy stick business. Furthermore, as the types of milk products and dairy products gradually multiplied on the market, the high quality blow moulding process of this business can provide safer and more appealing bottle containers that satisfy customer needs.



Plastic Food Containers

For the optic and lighting products business, during the period under review, the sales amount has increased by approximately 21%, among which the increase of LED lights amounted to approximately 41% as compared with the same period of last year, revealing that the overall LED lights market has been growing rapidly. After the Group's LED lights production plant in Dongguan obtained quality certification from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, we have started producing and supplying products to customers in China. At the same time, we have been assisting existing customers in developing numerous new products for domestic and international sales. On the other hand, we have already mastered the core technology of LED lights with the Group's own research and development on the optical lens and control circuit of LED lamps. During the period under review, the sales of optic products increased approximately 22%. The business has been actively promoting domestic sales and designing new products for the European and American markets. However, the overall results of the optic and lighting products business was still unable to turn a profit during the period under review because of the rising price of raw materials and the difficulty to make upward price adjustments of OEM-based LED lights since the prices are subject to customers.



LED Lighted Metal Linen Tester (6x)

BioChef, the Group's self-designed environmental-friendly brand kitchen ware, received desirable feedback after its launch to the market. We have now mastered the physical characteristics and production process of environmental degradable materials. In the middle of 2011, the Group established a new company – Ecoventure International Limited. This company is responsible for the business planning and marketing of these products and it is actively developing the overseas market. During the period under review, BioChef has launched various new products to meet customer needs for environmental-friendly kitchen ware, and has also hired industrial product designers to produce kitchen ware that fits the European and American markets.



BioChef Kitchen Ware

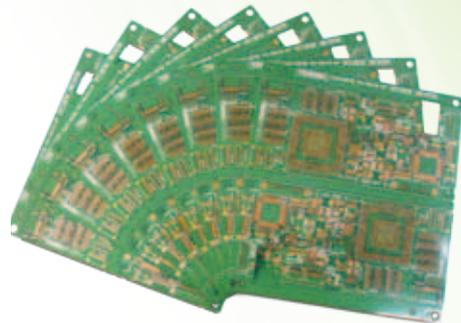
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The business has been adopting operational strategies set forth at the beginning of the year; strategy of transforming processing to production and product development based on environmental-friendly concepts, including the use of energy-efficient production technology to reduce carbon emission, active reduction of surface coating processes, and research and development of environmental-friendly kitchen ware series and core technology of energy-saving LED lights.

Printed Circuit Board

For the printed circuit board business, the sales of 2011 was approximately HK\$435,723,000, representing a decrease of approximately 18% as compared with the same period of last year, and accounted for approximately 18% of the Group's consolidated turnover, while operating profit for the period was approximately HK\$7,416,000.

During the period under review, an earthquake that took place in Japan in March made a significant impact on the electronics supply chain; the printed circuit board was the first product group to be affected, which resulted in a decreased utilization rate of production equipments. Moreover, factors such as soaring raw material prices and rises in labour costs like staff salary and housing provident fund, all resulted in rallying operating costs and declining profits. Additionally, under the influence of European sovereign debt crisis and the continuous credit crunch, both industrial and commercial enterprises worldwide were experiencing difficulties in financing and the export business in Asia was greatly affected. The procurement plan of some of our main customers tended to be more conservative which caused a decrease in the number of orders for the business and the annual results therefore failed to meet the expected target.



6-layer HDI PCB



Plastic Fasteners

Trading Business

Industrial Consumables

The trading business during the year under review accounted for a turnover of approximately HK\$417,945,000, representing a decrease of about 4% as compared with the same period of last year and accounted for approximately 17% of the Group's consolidated turnover. The operating profit for the period was approximately HK\$30,963,000. The wages and rental costs in 2011 increased significantly which in turn increased operating cost, and the gross profit margin decreased due to the intensified market competition. Fortunately, the appreciation of RMB has offset part of the increased cost; therefore the operating profit was able to remain at the similar level as last year.

The changes of external economies were rapid and large in 2011; following the economic recovery of 2010 and on the momentum of business boom, our performance in the upper half of 2011 was better than expected. However, under the impact of the tsunami that hit Japan in March and as the European debt problems intensified, together with the substantial monetary tightening in China to control properties prices and inflation, not only did the overseas market drop rapidly, the domestic market was obviously slowing down as well. Consequently, our business dropped sharply in the second half of the year. Fortunately, our main market of the trading business was in China and because we were able to concentrate on the environmental-friendly and energy-saving aspect and the needs of factory automation, the sales of servo-driven hydraulic pump increased by approximately 12% and the sales of frequency converter for lifts also increased by approximately 52%. With the growth of special stainless steel wires and that we seized the upward trend in the demand for these products, we were able to reduce the negative impact during the market decline.

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Other businesses

Electronic Watt-Hour Meters and Related Businesses

Shenzhen Haoningda Meters Co., Ltd. (“Haoningda”), an associate of the Group in Shenzhen, has been focusing on the fields of electrical instrumentation, microelectronics and components over the years. It is a national high-tech enterprise which incorporates research, development, production, sales and services. It concentrates on the research and development and production of intelligent energy metering instrumentation products, meter reading system and energy metering automated management system. This brand and its innovative spirit have already been widely recognized. Haoningda received the “Guangdong Famous Trademark” and continued to hold the honor of “Shenzhen Top Brand” during the period under review. Moreover, it was recognized as a municipal level research and development center of Shenzhen which was an affirmation for the research and development achievements and market position of Haoningda. During the period, Haoningda recorded a satisfactory growth and in recent years, it is committed in the development of “smart power grid” and “The internet of things”, which is an investment project of the Group with great potentials.

BUSINESS PROSPECTS

Looking forward to 2012, on the machinery front, domestic inflation in China will dominate the turn of macro-control policies but the domestic political and economical macro-situation and keynote will remain relatively stable. There will be a tendency to normalization in Europe’s debt crisis with the weak economic recovery in developed countries. Therefore, the Group will continue to employ the operational strategy of mainly concentrating on the China domestic market and will consider the export market as a secondary focus. As the State continues the policy direction of “adjusting the structure, stabilizing the growth, controlling the price,” we believe that the economy will be able to maintain a growth rate that is relatively stable in the medium and long term. In the short term, however, it will still be influenced by the market downturn atmosphere of the fourth quarter of 2011 and in the first quarter of 2012, customers continue to have a wait-and-see attitude toward the investment in new equipments, which will have a certain impact on the overall market demand. As energy saving, emission reduction, industrial upgrade and labour costs are rising at a steady trend, it is expected that the market demand for energy-saving machinery, automated machinery, and old equipment replacement will be able to maintain a certain level of growth.



DEKUMA RVSe Series Servo-driven Energy Saving Rubber Injection Machine



Toshiba BSF-150B CNC Milling and Boring Machine in Wuxi new production base

The machinery business will continue to employ “steady growth” as the overall strategy, and will use product deepening and market development as the marketing mix strategy. In respect of the research and development and the production and marketing of products, “environmental-friendly, energy-saving, and precision” will continue to be the leading direction. At the same time, we will enhance the automation and network function, as well as sales services in order to increase market share. When labour cost increases inevitably, the business will improve the optimization of various activities in the value added chain in order to maintain its competitive advantages. The Group is prudently optimistic about the future of the machinery manufacturing business.

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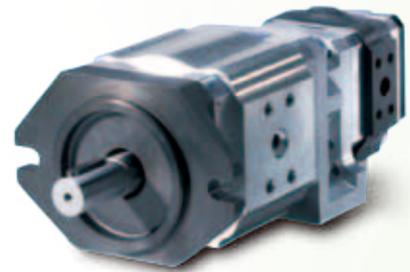
LED Portable Lamp

For the plastic processing business, strategies of green manufacturing and product set forth in 2011 will continue to be carried out in 2012, including the implementation of ISO14000 certification, continued investment and transformation of production equipments and processes in order to reduce carbon emission, research and development of biodegradable plastic that is applicable in different fields and new products. In the business development respect, strategies include opening up the European and American markets for BioChef environmental-friendly kitchen ware, promoting original design and manufacturing (ODM) of LED lights, and expanding the processing business of dairy product packaging and portable multimedia player products. The overall market condition in 2012 is expected to be in fluctuation and will experience pressure due to the rising costs. The business will actively adopt different measures to optimize cost control and increase production efficiency, as well

as to enhance quality control and human resources training. Through the strategy adjustments in 2011, the business will be stronger in areas of independent research and development as well as marketing abilities. We hope that this business can make a difference in the high standard, high value-added and high growth market, and to make desirable contributions to the Group's profit in 2012.

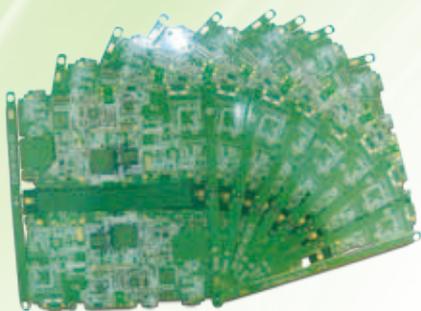
For the trading business, it is expected that many countries in Europe and America will continue to experience debt problems, hindering the global economic recovery and thus the overseas market performance will continue to be weak. In China, the State's macro-control policies to cool down the overheated economy have already begun to work; therefore it is believed that the State will gradually start to ease the monetary tightening to maintain the steady industrial development accordingly. The State's policies to stimulate domestic demand will continue and the annual economy will maintain a steady growth. The domestic market will continue to be the main focus of the trading business, it is estimated that there will be a slight growth in the business for the whole year.

The performance of the first quarter in 2012 will have an obviously drop due to the weak condition continuing from last year; nevertheless, since the market has a certain degree of backlog demand and together with the government's economic policies, we believe that the performance of this business will have a more optimistic growth entering the second half of the year.



High Pressure Internal Gear Pump

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8-layer HDI PCB

For the printed circuit board business, it is expected that the operating environment will be tougher in the coming year. Currently, besides the production of the traditional multilayer boards, the business has already started to produce high-density boards that are more efficient and bring about more benefits. In 2012, not only will we be actively obtaining support from existing customers, we will also expand the new customer base of high-density circuit boards. Moreover, the business will continue its efforts in improving the production processes in order to reduce waste and defective products, as well as saving materials to reduce production cost.

In conclusion, looking into the macroeconomic environment of 2012, there are still many uncertainties. Manufacturing and exporting businesses will experience the worst ordeal since the financial crisis back in 2009. It is expected that the market slump will continue for the coming six months, the chance for a turning point will not come until the second half of the year. In addition, the Group will continue to face challenges brought by factors such as the rising price of raw materials, the appreciation of RMB, and the rising labour cost. Nevertheless, we are well prepared to welcome these challenges. In respect of operation, we will put more efforts on the optimization of cost control. We will continue with research and development and quality improvement. We will further reduce operating costs and risks, and will improve the Group's competitive position. On the other hand, the market demand for energy-saving products, biodegradable products and environmental-friendly products is growing steadily, and the Group's development of different businesses in this area have achieved desirable outcomes, therefore we will continue to move toward this direction and create even more business opportunities for the Group.

The Board deeply believes that with the asset base, the prudent financial management, the diverse product portfolio, the production bases and sales points that cover a wide range of areas that the Group has established through these years; and together with the advantage of our innovative production skills and equipments, these will create a long-accumulated strength that helps us in overcoming all challenges and adversities. Furthermore, the persistent efforts in optimizing internal management and training of human resources, the continuous enhancement and improvement of the ERP information management system, together with the deployment of a consistent, prudent and pragmatic financial management will continue to be the key to advancement for the Group. The Board and the Management will certainly pay close attention to the macroeconomic and market changes to take countermeasures accordingly. We will also embrace future challenges, preserve profitable growth and generate desirable returns to stakeholders.

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Financial Statistical Highlights

	2011 HK\$'000	2010 HK\$'000
Operating results		
Turnover	2,416,690	2,426,658
Profit from operations	59,757	105,274
Profit before taxation	49,665	310,727
Profit attributable to equity holders of the Company	26,579	275,671
Earning per share – Basic (cents)	3.72	38.82
Earning per share – Diluted (cents)	3.70	38.73
Dividend per share (cents)	0.50	1.50
Dividend payout	13%	4%
Financial position at year end		
Total assets	2,828,914	2,699,588
Fixed assets	765,983	565,830
Quick assets	995,481	1,133,108
Net current assets	429,335	543,470
Shareholders' funds	1,401,455	1,310,315
Net asset value per share (cents)	195	184
Financial statistics		
Current ratio	1.40	1.45
Quick asset ratio	0.82	0.95
Gearing ratio	0.02	0.01
Total debt ratio	0.44	0.45