

Management Discussion and Analysis

During the year ended 31st December, 2003, the Group continued to focus on the manufacture and sale of mould bases and trading of special mould steel and related products.

The Group recorded turnover of approximately HK\$1,210 million and earnings of approximately HK\$157 million for the year.

MOULD BASE MANUFACTURING AND MARKETING

The Group's businesses in the Southern Region of China have progressed steadily. As a result of the expansion of Heyuan plants, production operates smoothly, reinforcing the productivity of the Group.

The Guangzhou factory, which devotes to produce high precision mould base, has experienced a continuous growth of sales orders from overseas clients due to the increasing awareness of LKM brand in the U.S.A. and among the European countries.

Besides performing logistic and support role to all plants in China, the Dongguan plant continues to develop its mould components business and high value-added services including vacuum heat treatment, mould repair-welding services and Physical Vapor Deposition (PVD) coating services, it does not only offer more comprehensive services to customers but also provides a reliable source of income to the Group.

Turning to the Shanghai plant, China, operation becomes more matured after the completion of factory expansion. Productivity has been boosted up significantly with an upward growth in sales turnover.

Comparatively speaking, the market size of South East Asian countries is small, and renders relatively less contribution to the Group. Nevertheless, positive enhancement in cost effectiveness has been reported after merging the plants in Singapore and Malaysia, showing improvement both in sales and profit performance.

After restructuring, the Japan office has recorded surplus account. Moreover, the Group has enlarged its market share in Japan with the help of increasing popularity of LKM brand in the local market.

Business of the plant in Taiwan progressed in a steady pace. Sales performance has been gradually improved and loss has been minimized; soon, it will offer positive contribution to the Group.

The Group has been actively setting up sales outlets and offices in the Guangdong Province and the Eastern region of China, with an aim to provide high quality and direct services to those privately owned enterprises within the regions. Such market strategy has proved to be successful, reflected by favorable response from customers and the increase in sales figures.

TRADING OF MOULD STEEL

Regarding the imported mould steel business, the Group has accelerated its sales by providing quality products and technical services package to the market, notable results has been achieved with sales going up. Whereas the quality steel from China launched by the Group has also catered the needs of the market and customers. Since the beginning of the year 2003, the carbon steel price has been rising spirally with unstable supply to the market. In response to this, the Group has paid close attention to the prevailing market situation, acts timely to secure an optimum stock level in meeting the needs of our production and customers. Inevitably, the Group had adjusted its product price twice in light of the market situation.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2003, the Group had a net cash deficit of approximately HK\$199 million. The Group had cash balance of approximately HK\$442 million. Most of the cash balance was placed in USD short term deposits with major banks in Hong Kong.

The Group adopted conservative measures to hedge any exchange fluctuation and incurred approximately HK\$2 million losses on foreign exchange during the year ended 31st December, 2003.

As at 31st December, 2003, the Group had capital commitments of approximately HK\$29 million in respect of the acquisition of property, plant and equipment, which are financed by internal resources.

GEARING RATIO

Total debts were approximately HK\$641 million, equal to approximately 75% of shareholders' funds of approximately HK\$854 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2003, the Group employed a total of approximately 6,000 employees, including approximately 5,700 employees in its PRC production sites and approximately 300 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

CONTINGENT LIABILITIES

The Company gave guarantees of approximately HK\$1,109 million to financial institutions in respect of banking facilities granted to subsidiaries.