

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. Its subsidiaries are principally engaged in the manufacture and marketing of mould bases and the trading of metal and parts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 22.

An interim dividend of HK8 cents per share amounting to approximately HK\$49,130,000 was paid to shareholders during the year. The directors now recommend the payment of a final dividend of HK10 cents per share payable to shareholders registered on 9th May, 2005, amounting to approximately HK\$61,928,000.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial periods is set out on page 62.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2004 were revalued by an independent firm of professional property valuers on an open market value basis. Details of movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditures in respect to factory premises and staff quarters at a cost of approximately HK\$52 million. The Group continued its plant expansion policy and expended approximately HK\$96 million on new plant and machinery and approximately HK\$23 million on furniture, fixtures and fittings during the year. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of the investment properties of the Group at 31st December, 2004 are set out on pages 63.

SHARE CAPITAL

Details of the Company's share capital are set out in note 28 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Since the Group has a very wide customer base, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total turnover for the year.

The Group's largest supplier contributed 14% to the total purchases for the year. The Group's five largest suppliers accounted for 42% of the total purchases for the year.

At no time during the year did a director, an associate of a director or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Siu Tit Lung (Chairman)

Siu Yuk Lung (Managing Director)

Mak Koon Chi

Wai Lung Shing

Fung Wai Hing

Non-executive director

Chan Chun Sing, Colin

Independent non-executive directors

Liu Wing Ting, Stephen, JP

Lee Tat Yee

Lee Joo Hai (with effect from 30th September, 2004)

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Messrs. Mak Koon Chi and Wai Lung Shing retire from office by rotation and, being eligible, offer themselves for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-Laws, Mr. Lee Joo Hai, who was appointed by the Company with effect from 30th September, 2004, will retire at the Company's forthcoming annual general meeting and, being eligible, offer himself for re-election.

The term of office for each non-executive director and independent non-executive directors is the year up to his retirement by rotation in accordance with the Company's Bye-Laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Siu Tit Lung, aged 54, elder brother of Mr. Siu Yuk Lung, has been the chairman of the Company since December 1992 and is a co-founder of the Group. Mr. Siu is responsible for the overall strategic planning and corporate development of the Group. He has over 35 years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also an honorary citizen of Dongguan City and Heyuan City in the People's Republic of China (the "PRC").

Mr. Siu Yuk Lung, aged 51, younger brother of Mr. Siu Tit Lung, has been the managing director of the Company since December 1992 and is a co-founder of the Group. Mr. Siu is responsible for policy making and the corporate management of the Group. He has over 33 years of experience in metal trading and mould base manufacturing. He has, since 1995, been serving as a member of the Executive Committee of the Hong Kong Mould Association. He is also an honorary citizen of Heyuan City in the PRC.

Mr. Mak Koon Chi, aged 46, has been an executive director of the Company since December 1992 and is a past Chairman of the Society of Manufacturing Engineers (Hong Kong Chapter) and a senior member of The Hong Kong Institute of Directors. Mr. Mak is responsible for policy making, marketing and manufacturing of the Group and has many years of experience in mould base manufacturing. Mr. Mak graduated from Murdoch University with a Master of Business Administration Degree.

Mr. Wai Lung Shing, aged 43, has been an executive director of the Company since December 1992 and is responsible for the policy making, finance and administration functions of the Group. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from the University of Warwick with a Master of Business Administration Degree. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Directors. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

Mr. Fung Wai Hing, aged 52, has been an executive director of the Company since August 1997 and is responsible for policy making and trading business of the Group. Mr. Fung graduated from the University of Birmingham with a Master of Science Degree in Industrial Management and from the University of Hong Kong with a Master of Business Administration Degree. He is currently one of the directors and past president of the Institute of Industrial Engineers (Hong Kong Chapter). He is also a senior member of the Society of Manufacturing Engineers (Hong Kong Chapter). He has extensive experience in the trading business.

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Non-executive director

Mr. Chan Chun Sing, Colin, aged 50, brother-in-law of Messrs. Siu Tit Lung and Siu Yuk Lung, has been appointed to the Board of the Company since December 1992. He is a non-executive director of the Company. Mr. Chan graduated from the University of Toronto with a Bachelor of Science (Hons.) Degree in Engineering and from the Chinese University of Hong Kong with a Master of Business Administration Degree. He has many years of experience in the information technology industry.

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 52, has been an independent non-executive director of the Company since December 1992. Mr. Liu has been practising as a certified public accountant for many years and is a founder director of Hong Kong Aids Foundation Limited and a member of the Prince of Wales Hospital Governing Committee of the Hospital Authority. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has wide experience in auditing, taxation and financial management in various fields and industries. He is the Chairman of the Audit Committee and Remuneration Committee of the Company.

Dr. Lee Tat Yee, aged 57, has been an independent non-executive director of the Company since December 1992. Dr. Lee obtained his doctorate degree from the University of Queensland and is a Chartered Engineer of the Engineering Council in the United Kingdom. Dr. Lee is currently a director of the Technology Support Centre of the University of Hong Kong specialising in quality assurance management systems.

Mr. Lee Joo Hai, aged 49, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Institute of Certified Public Accountants of Singapore and a member of the Singapore Institute of Directors. He has extensive experience in accounting and auditing. He is presently a partner of a public accounting firm in Singapore. He is the Chairman of the Nomination Committee of the Company.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2004, the directors and their associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Interests in the Company

Name of director	Capacity	Number of shares held		Number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1, 2 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	—	344,908,631	55.74%
Siu Yuk Lung (Notes 1, 3 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	—	344,908,631	55.74%
Mak Koon Chi	Beneficial owner	2,843,750	—	—	2,843,750	0.46%
Wai Lung Shing	Beneficial owner	2,843,750	—	—	2,843,750	0.46%
Fung Wai Hing	Beneficial owner	1,457,031	—	—	1,457,031	0.24%
Chan Chun Sing, Colin	Beneficial owner	150,000	—	—	150,000	0.02%
Liu Wing Ting, Stephen	Beneficial owner	—	—	150,000	150,000	0.02%
Lee Tat Yee	Beneficial owner	—	—	150,000	150,000	0.02%

Notes:

- Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 32,631,288 shares in the Company and each owned a further 4,660,156 shares in the Company registered in their own names.
- Rickdee Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Tit Lung other than Mr. Siu Tit Lung himself are beneficiaries, held 58,593,750 shares in the Company.
- Robin Hill Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Yuk Lung other than Mr. Siu Yuk Lung himself are beneficiaries, held 58,593,750 shares in the Company.
- Pan Island Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Messrs. Siu Tit Lung and Siu Yuk Lung other than Messrs. Siu Tit Lung and Siu Yuk Lung themselves are beneficiaries, held 249,023,437 shares in the Company.

DIRECTORS' INTERESTS IN SHARES (Cont'd)**Interests in associated corporations of the Company**

Name of director	Nature of interests	Name of associated corporation	Number of shares held	Percentage of issued share capital of the class
Siu Tit Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%
Siu Yuk Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%

All the interests disclosed above represent long positions in the shares and underlying shares of the Company or its associated corporations.

The details of the directors' interests in the share options granted by the Company are stated in the following section "Share Options".

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the Group, none of the directors and their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31st December, 2004.

SHARE OPTIONS

Particulars of the Company's share option scheme and other details are set out in note 30 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2004	Granted during the year	Exercised during the year	At 31st December, 2004			
Category 1: Directors							
Siu Tit Lung	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Siu Yuk Lung	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Mak Koon Chi	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Wai Lung Shing	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Fung Wai Hing	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Chan Chun Sing, Colin	—	150,000	(150,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Liu Wing Ting, Stephen	—	150,000	—	150,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Lee Tat Yee	—	150,000	—	150,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total	—	2,950,000	(2,650,000)	300,000			
Category 2: Employees							
Total	—	3,050,000	(2,034,000)	1,016,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total all categories	—	6,000,000	(4,684,000)	1,316,000			

The closing price of the Company's shares immediately before the date on which the options were granted was HK\$3.30.

The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$4.55.

The fair value of the options granted in the current year measured as at the date of grant on 25th May, 2004 was HK\$5,040,000. The following significant assumptions were used to derive the fair value using the Binomial Lattice Model:

- Expected life of options is 3 years;
- Expected volatility of 45% per annum (based on historical share price movement);
- Expected annual dividend yield of 5% per annum (based on historical dividend payments);

SHARE OPTIONS (Cont'd)

- Hong Kong Exchange Fund Notes rate was 2.8% per annum;
- No option holders will leave the Company before the exercise period commences;
- Option holders will leave the Company at a rate of 1% per annum during the exercise period; and
- Option holders will exercise when the share price is at least 100% higher than the exercise price.

The Binomial Lattice Model requires the input of highly subjective assumptions, including the volatility of share price and dividend yield. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Number of shares/ underlying shares held	Percentage of Company's issued share capital
Pan Island Investments Limited	Beneficial owner	249,023,437	40.24%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.47%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.47%
Commonwealth Bank of Australia (Note)	Interest of controlled corporation	61,841,608	9.99%

Note: Commonwealth Bank of Australia had an interest of 61,841,608 shares in the Company, through its wholly-owned subsidiaries, namely, Colonial First State Group Ltd, Colonial Holding Company (No. 2) Pty Limited, Colonial Holding Company Pty Ltd, Colonial Ltd, The Colonial Mutual Life Assurance Society Ltd, First State Investments (UK Holdings) Limited, First State Investment Management (UK) Limited and SI Holdings Limited.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December, 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option scheme disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

At no time during the year, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or Laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive directors, Messrs. Liu Wing Ting, Stephen, Lee Tat Yee and Lee Joo Hai, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has assessed the independence of the independent non-executive directors. The Nomination Committee and the Company consider all of the independent non-executive directors are independent.

AUDIT COMMITTEE

An Audit Committee was established by the Company in 1998 to review and supervise the Company's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors and the non-executive director. Mr. Liu Wing Ting, Stephen, is the chairman of the Audit Committee.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company in 2004 to establish policies, review and determine the remuneration of the directors and the senior management. The Remuneration Committee, comprises the three independent non-executive directors and the non-executive director of the Company. Mr. Liu Wing Ting, Stephen is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

A Nomination Committee was established by the Company in 2004 to make recommendations to the Company so as to ensure that all nominations are fair and transparent. The Nomination Committee comprises the three independent non-executive directors and the non-executive director of the Company. Mr. Lee Joo Hai is the chairman of the Nomination Committee.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Siu Yuk Lung
DIRECTOR

Hong Kong, 1st April, 2005