

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30th June, 2005 was approximately HK\$899 million (2004: approximately HK\$771 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2005 was approximately HK\$124 million (2004: approximately HK\$109 million). Basic earnings per share for the six months ended 30th June, 2005 was HK20.04 cents (2004: HK17.78 cents)

As benefited from sustained economic growth, with robust demand for consumer products in China, the manufacturing industry in mainland enjoyed remarkable development, in particular, the automobile parts and component industry. As a result, the sales revenue of the Group achieved a steady growth during the period under review. In the meantime, the mould steel materials price began to fall from its highest level, allowing the production cost of the Group to stabilize. In views of the above factors, the Group continued to record a satisfactory result during the first half of this financial year.

The core business of the Group developed in China reported a continuous growth. The Heyuan plant in Guangdong Province, China, after expansion of its operation, has now become the largest production base of the Group. Equipped with continuously enhanced production skills and with better co-ordinated development of production facilities and work force, the productivity of the Group was further improved. To cope with the increasing demand for high precision mould bases both in overseas and China market, the Guangzhou plant in Guangdong Province, has already strengthened its high precision mould base production capacity in capturing such promising market opportunity. Turning to the Dongguan plant in Guangdong Province, continued effort will be dedicated to developing its mould-related components business, with an aim to satisfy the customers needs for "one-stop" services, adding a profitable source of income to the Group.

The Shanghai plant in China achieved a promising growth both in productivity and turnover after the completion of its factory expansion. Further, the operation of the Taizhou plant in Zhejiang Province, has developed smoothly and its business has progressed steadily, bringing reasonable return to the Group.

The development of overseas operations remained stable. However, as compared with the China market, the growth pace of the overseas market was relatively slow, attributed directly to the economic performance of these markets.

The mould steel business has achieved a reasonable growth. As a result of gradual depreciation of alloy prices, the price of mould steel, both for imported and domestically produced in China, has slightly gone down from its highest level. During the period under review, the material price has become relatively stable.

Prospects

Continuous boom in the retail business and manufacturing industry in China is expected due to its persistent economic growth. Therefore, plastic and mould industries will still enjoy growth. In addition, manufacturing skill of Chinese mould makers has become more sophisticated, which helps to promote the exporting of mould products. As a result, it triggers off an increase in the demand for high quality mould base and mould steel, in fulfilling the higher quality standards as required by overseas customers. With competitive advantages and goodwill enjoyed by "LKM" in the mould base industry, the Group looks forward to a favorable growth in its future business development.

The Board of Directors of the Group has devised a long-term development strategy, in expanding its investment in China, which further fortifying its business position in China. The Group has escalated its investment in its Heyuan plant, Guangdong Province, for further expansion including new workshops, living and accommodation zone and other supportive facilities. It is expected that the expansion project will be completed in the first quarter of next year, when trial production begins. Through this investment project, the Group does not only uplift its production scale as a whole in order to embrace the market opportunity, but also create a solid foundation for future development; the aim is to upgrade its product quality and production skill up to international leading level, and to supply the most competitive quality products and mould related services to the worldwide mould manufacturing market.

Continuous effort will be made to enlarge its sales and distribution networks in China. The Group plans to set up offices in the potential industrial cities in Northern China. These offices will serve as sales centers, warehouses and logistic centers, to reinforce business relationship with customers in those areas.

However, unfavorable factors do exist in the worldwide business environment. The unstable oil price leads to sharp price fluctuation in plastic materials, posing a direct threat to the plastic manufacturing sector. The Group expects such negative impact is only on a short-term basis, but the Group will be cautious to the changes of the material market, in order to devise appropriate counter policies. Impact of the appreciation of Renminbi on the Group is considered as positive, since most of its businesses focus on the domestic sales within the China territory.

Looking ahead, the Group will continue to develop its core, as well as other related businesses, to improve continuously its management and production system, and to upgrade its services standard, in order to attain more promising results and to sustain its leading position in the mould making industry.

Liquidity and Financial Resources

As at 30th June, 2005, the Group had cash balance of approximately HK\$198 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$522 million, equal to approximately 49% of equity attributable to equity holders of the Company of approximately HK\$1,056 million.

Employees and Remuneration Policies

As at 30th June, 2005, the Group employed a total of approximately 9,180 employees, including approximately 8,830 employees in its PRC production sites and approximately 350 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.