MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30th June, 2006 was approximately HK$993 million (2005: approximately HK$899 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2006 was approximately HK$62 million (2005: approximately HK$124 million). Basic earnings per share for the six months ended 30th June, 2006 was HK10.04 cents (2005: HK20.04 cents)

Throughout the reviewed period, the Group's profit for the six months ended 30th June, 2006 is substantially lower than that of the same period in the year of 2005. The decrease in profit can be attributed to the slow-down in business growth of the Asian manufacturing sector and the increasing production cost in China. Furthermore, the Group is expanding and restructuring its plants in China, thus resulting a short-term increase in the operating cost.

In terms of the external market situation, the slow-down of economy in the United States and Western European countries has forced the industrialized nations to induce protection towards their mould industries. As a result, local mould makers, one of the basic customer segments of the Group, suffered unexpectedly slow growth in the sales. Facing the sluggish market situation, customers held back machining jobs previously contracted out to the Group to absorb their own excessive production capacity. As a result, the average contract value of non-standard mould bases was reduced, imposing pressure on the average selling price of the Group's products. Consequently, despite the Group has registered a satisfactory growth in its turnover, its profit growth rate has not been relatively raised during the reviewed period.

From the macro viewpoint, oil and energy price has remained at a high level, causing drastic fluctuation on industrial material prices and transportation costs. As the living standard in China improves, the wage level is uplifted simultaneously. Coupled with the unstable material prices that go up and down suddenly, the Group's total costs are pushed up.

Viewing internally, the Group's expansion of the Heyuan plant in Guangdong province, China is now in progress. Though plant and production facilities are still under installation and testing, they are contributing to the increase of depreciation cost on plant and machinery. It will take time to witness the return on capital investment during this expansion period. Furthermore, in order to improve the Group's productivity in the long run, production facilities of the Dongguan plant in Guangdong province is being merged into the Heyuan plant. To carry out such merger, relocation cost is incurred and it takes time for both manpower and machineries to be smoothly coordinated after the restructuring. Short term negative impact on the production efficiency is inevitable during this period.

In light of the above factors, the Group's profitability performance is not up to satisfactory level during the period under review.

Prospects

Being clouded with uncertainties in the prices of oil and raw materials together with the increasing interest rate, the Group is expected to face challenges in its business operations. Despite the fact that the rising production cost cannot be levied on customers in this stage, the Group still holds a cautiously optimistic view towards its future business development for the reasons below.

The future economic development of China is still promising. As the foreign branded automobile manufacturers have opened up factories in China, more parts and components are being produced locally; the rapid growth of the automobile industry will further boost up the demand for automobile parts and components. As a consequent, the Group's business in China has much room for continuous development. It is anticipated that markets in the Eastern and Northern China have great potential for further growth whereas the market in Southern China still maintains a steady progress. Facing such market opportunity, the Group will continuously develop its distribution and logistics network. Capitalizing on the advantage of its economy of production scale and comprehensive logistics network, the LKM products can be delivered to its customers promptly. By securing larger market coverage, the Group can further fortify its competitive position.

Though the raw material market still fluctuates sharply, it is expected the prices of both imported mould steels and those produced within China will be gradually stabilized, thus the Group will be in a better position to formulate appropriate material procurement strategies. The Group will strive to control its production cost by improving production workflow. The Group will also strengthen its training for management and technical employees to establish a more effective and competitive workforce. The eventual aim of the Group is to maintain high quality with optimal costs.

The expansion of Heyuan plant in Guangdong province is expected to be completed by the end of this year with the additional production capacity commenced by stages. The production facilities and manpower of Dongguan plant will be fully merged into Heyuan plant during the same period. The production capacity of the Heyuan plant, after its expansion and merger with the production facilities of Dongguan plant, will be much enlarged and the production system more efficient and streamlined. Moreover, through the restructuring of human resource, the management and technical skills of the staff will become more sophisticated. The Group is confident that enhanced productivity and improved overall performance will be achieved in the year of 2007.

Looking ahead, the business environment remains very challenging. The Group will uphold its positive and proactive attitude in meeting every challenge. Being equipped with ample experience and sustaining its pragmatic principles, the Group is expected to maintain a steady growth in its future business.

Liquidity and Financial Resources

As at 30th June, 2006, the Group had a net cash deficit of approximately HK$565 million. The Group had cash balance of approximately HK$145 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK$710 million, equal to approximately 62% of equity attributable to equity holders of the Company of approximately HK$1,151 million.

Employees and Remuneration Policies

As at 30th June, 2006, the Group employed a total of approximately 11,770 employees, including approximately 11,430 employees in its PRC production sites and approximately 340 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.