

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st March, 2001.

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 and appropriations of the Company for the year are set out in the consolidated income statement on page 22.

An interim dividend of 6 cents per share amounting to HK\$28,899,000 was paid to shareholders during the year. The directors now recommend the payment of a final dividend of 9 cents per share payable to shareholders registered on 9th August, 2001, amounting to approximately HK\$43,320,000 and the retention of the remaining profit of the Group for the year of approximately HK\$57,387,000.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 59.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group constructed factory premises and staff quarters at a cost of approximately HK\$19 million. The Group continued its plant expansion policy and expended approximately HK\$76 million on new plant and machinery 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.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st March, 2001 are set out on pages 60 to 63 of the annual report.

SHARE CAPITAL

Details of the Company's share capital are set out in note 22 to the financial statements.

SHARE OPTIONS SCHEME

Details of the share option scheme and the movement in the number of share options during the year are set out in note 23 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 25% to the total purchases for the year. The Group's five largest suppliers accounted for 49% 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.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st March, 2001 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Company has an audit committee which consists of Messrs. Liu Wing Ting, Stephen, JP and Lee Tat Yee, independent non-executive directors and Mr. Chan Chun Sing, Colin, non-executive director. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

DIRECTORS AND SERVICE CONTRACTS

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

In accordance with Clauses 87(1) and 169(2) of the Company's Bye-Laws, Mr. Fung Wai Hing and Dr. Lee Tat Yee retire from office by rotation and, being eligible, offer themselves for re-election.

DIRECTORS AND SERVICE CONTRACTS (Cont'd)

The term of office for each independent non-executive director is the period 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 51, 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 31 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 a honorary citizen of Dongguan City, PRC.

Mr. Siu Yuk Lung, aged 48, 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 29 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.

Mr. Mak Koon Chi, aged 43, has been an executive director of the Company since December 1992 and is a senior member and past Chairman of the Society of Manufacturing Engineers (Hong Kong Chapter). Mr. Mak is responsible for policy making and 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 40, has been an executive director of the Company since December 1992 and is responsible for the policy making and the 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 Society of Accountants and the Chartered Association of Certified Accountants. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

Mr. Fung Wai Hing, aged 48, 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, especially machinery trading.

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

Non-executive director

Mr. Chan Chun Sing, Colin, aged 47, 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. He has been an independent non-executive director of the Company since December 1992 and became a non-executive director in November 2000.

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 49, 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 Society of Accountants and the Chartered Association of Certified Accountants. He has wide experience in auditing, taxation and financial management in various fields and industries. He has been an independent non-executive director of the Company since December 1992 and is the Chairman of the audit committee.

Dr. Lee Tat Yee, aged 51, 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. He has been an independent non-executive director of the Company since December 1992.

Others

Mr. Chng Hee Kok, aged 53, is an independent non-executive director of Lung Kee Metal Holdings Limited ("LKMH"), a subsidiary of the Company, which is listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"), formerly Stock Exchange of Singapore Limited. Mr. Chng obtained a Bachelor of Engineering (Mechanical), First Class Honours Degree and a Master of Business Administration Degree from the National University of Singapore in 1972 and 1984 respectively. He has also received several merit awards, including the Institution of Engineers, Singapore, Gold Medal (1972) and the Distinguished Engineering Alumni Award (1991). He is the Chief Executive Officer of NTUC Club Investment Pte. Ltd. He is also a Member of Parliament for the East Coast GRC, Singapore.

Mr. Lee Joo Hai, aged 45, is an independent non-executive director of LKMH. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and the Institute of Certified Public Accountants of Singapore. He has extensive experience in accounting, auditing, taxation, company secretarial work, investigation and share valuations with exposure to US, Japan, UK and other EC countries' accounting and auditing reporting requirements. He is presently a partner in a public accounting firm.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

At 31st March, 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies and in the share options of the Company were as follows:

Name of director	Number of ordinary shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Siu Tit Lung (Notes 1, 2 and 4)	30,431,093	—	—	246,093,750
Siu Yuk Lung (Notes 1, 3 and 4)	30,431,093	—	—	246,093,750
Mak Koon Chi	2,500,000	—	—	—
Wai Lung Shing	2,500,000	—	—	—
Fung Wai Hing	390,625	—	—	—

Notes:

- (1) Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 27,602,968 shares in the Company and each owned a further 2,828,125 shares in the Company registered in their own name.
- (2) 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 46,875,000 shares in the Company.
- (3) 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 46,875,000 shares in the Company.
- (4) 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 199,218,750 shares in the Company.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (Cont'd)

- (5) At 31st March, 2001, certain directors had personal interests in options to subscribe for shares in the Company granted under the share option scheme of the Company as follows:

Name of director	Number of share options			Exercisable period	Exercise price per share HK\$
	At 1st April, 2000	Adjustment during the year*	At 31st March, 2001		
Siu Tit Lung	300,000	75,000	375,000	1st May, 1998 to 30th April, 2001	1.492*
	300,000	75,000	375,000	3rd September, 1998 to 2nd September, 2001	0.964*
	600,000	150,000	750,000		
Siu Yuk Lung	300,000	75,000	375,000	1st May, 1998 to 30th April, 2001	1.492*
	300,000	75,000	375,000	3rd September, 1998 to 2nd September, 2001	0.964*
	600,000	150,000	750,000		
Mak Koon Chi	300,000	75,000	375,000	1st May, 1998 to 30th April, 2001	1.492*
	300,000	75,000	375,000	3rd September, 1998 to 2nd September, 2001	0.964*
	300,000	75,000	375,000	29th September, 1999 to 28th September, 2002	0.440*
	400,000	100,000	500,000	26th October, 1999 to 25th October, 2002	0.580*
	1,300,000	325,000	1,625,000		
Wai Lung Shing	300,000	75,000	375,000	1st May, 1998 to 30th April, 2001	1.492*
	300,000	75,000	375,000	3rd September, 1998 to 2nd September, 2001	0.964*
	300,000	75,000	375,000	29th September, 1999 to 28th September, 2002	0.440*
	400,000	100,000	500,000	26th October, 1999 to 25th October, 2002	0.580*
	1,300,000	325,000	1,625,000		
Fung Wai Hing	300,000	75,000	375,000	1st May, 1998 to 30th April, 2001	1.492*
	300,000	75,000	375,000	3rd September, 1998 to 2nd September, 2001	0.964*
	300,000	75,000	375,000	29th September, 1999 to 28th September, 2002	0.440*
	400,000	100,000	500,000	26th October, 1999 to 25th October, 2002	0.580*
	1,300,000	325,000	1,625,000		

- * During the year, the Company issued bonus shares to its shareholders on a one for four basis and, accordingly, the number of share options outstanding and their exercise price had been adjusted.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (Cont'd)

During the year, the Directors were not granted any share options of the Company and the Directors have not exercised any share options of the Company.

Details of the Company's share option scheme are set out in note 23 to the financial statements.

- (6) At 31st March, 2001, two directors had personal interests in options to subscribe for shares in LKMH, a subsidiary of the Company, granted under the share option scheme of LKMH as follows:

Name of director	Number of share options					Exercisable period	Exercise price per share* S\$
	At 1st April, 2000	Granted during the year	Exercised during the year	Adjustment during the year*	At 31st March, 2001		
Mak Koon Chi	450,000	—	—	112,500	562,500	15th January, 1999 to 14th January, 2003	0.564*
	450,000	—	450,000	—	—	14th August, 1999 to 13th August, 2003	0.220
	450,000	—	—	112,500	562,500	23rd December, 2000 to 22nd December, 2004	0.592*
	—	450,000	—	112,500	562,500	7th August, 2001 to 6th August, 2005	0.508*
	<u>1,350,000</u>	<u>450,000</u>	<u>450,000</u>	<u>337,500</u>	<u>1,687,500</u>		
Wai Lung Shing	450,000	—	—	112,500	562,500	15th January, 1999 to 14th January, 2003	0.564*
	450,000	—	450,000	—	—	14th August, 1999 to 13th August, 2003	0.220
	450,000	—	—	112,500	562,500	23rd December, 2000 to 22nd December, 2004	0.592*
	—	450,000	—	112,500	562,500	7th August, 2001 to 6th August, 2005	0.508*
	<u>1,350,000</u>	<u>450,000</u>	<u>450,000</u>	<u>337,500</u>	<u>1,687,500</u>		

- * During the year, LKMH issued bonus shares to its shareholders on a one for four basis and, accordingly, the number of share options outstanding and their exercise price has been adjusted.

- (7) At 31st March, 2001, Siu Tit Lung and Siu Yuk Lung jointly held 1,875,000 shares in LKMH and each owned a further of 500,000 shares in LKMH.
- (8) At 31st March, 2001, Messrs. Mak Koon Chi and Wai Lung Shing each held 562,500 shares in LKMH.

In addition, Siu Tit Lung and Siu Yuk Lung hold non-voting deferred shares in certain of the Company's subsidiaries as set out in note 33 to the financial statements.

Save as disclosed above, and other than certain nominee shares in subsidiaries held in trust for the Group, at 31st March, 2001, (i) none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance; and (ii) none of the directors or their spouses or children under 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than the share option schemes 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

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.

CONNECTED TRANSACTIONS

(1) During the year, the Group had the following transactions with non-wholly owned subsidiaries:

	HK\$
Sales	55,487,321
Purchases	14,936,881
Transfer of property, plant and equipment	8,837
Rental income	2,719,378
Rental expenses	2,567,969
Cost sharing	20,660,372

(2) At 31st March, 2001, joint and several guarantees were given by the Group, together with the relevant minority shareholders, to two non-wholly owned subsidiaries as follows:

- Sky Lucky Steel Limited to the extent of HK\$1,000,000; and
- Sky Lucky Metal Limited to the extent of HK\$11,000,000.

(3) At 31st March, 2001 one of the directors of Lung Kee Metal Japan Company Limited ("LKM Japan") had given a personal guarantee to banks to the extent of HK\$6,510,000 for LKM Japan at no charge.

(4) During the year, the Group purchased materials from JMS Engineering Co., Ltd. ("JMS") amounting to approximately HK\$34,273,000. One of the controlling shareholders of JMS is also a director of LKM Japan.

(5) At 31st March, 2001, banking facilities of the Group amounting to HK\$46,499,000 were guaranteed jointly and severally by JMS and LKMH without charge.

CONNECTED TRANSACTIONS (Cont'd)

The independent non-executive directors have reviewed the above connected transactions and in their opinion, the above transactions entered into by the Group were:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and
- (d) within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest in 10% or more in the issued share capital of the Company as at 31st March, 2001.

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.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK\$58,000.

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.

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, 22nd June, 2001