

MANAGEMENT DISCUSSION AND ANALYSIS**Business Review and Prospect**

The slow down of U.S. economy beginning this year has triggered off the global economic downturn. Clouded by a series of unfavorable political and economic factors, most of clients' export businesses to U.S. and European markets have remained stagnant. As a result, the growth of the Group business has also been adversely affected.

Plants in mainland China have maintained a stable development. The productivity of the second phase of Heyuan plant has increased steadily. However, due to the keen market competition, the selling price of the products has to be adjusted accordingly in line with the market expectation. As stimulated by the continued economic growth in eastern China, the performance of Shanghai plant has been satisfactory.

The Group is experiencing differing results on the overseas markets. Owing to the slow recovery pace in South East Asian economies, the performance of both Singapore and Malaysia businesses is not able to meet the Group's target. For the Japanese market, sales volume has been recorded a new high and the LKM brand has gradually gained a good reputation in the market. Furthermore, improvements have taken place in the newly acquired company in Taiwan. Besides producing standard mould base, new production lines for tailor made mould base have been added in order to offer a more comprehensive service to clients. The penetration into Korean market has also progressed satisfactorily with sales turnover reaching the target volume.

The Group's mould parts business, which mainly promotes the quality mould parts and hot runner mould system throughout U.S. and European countries, has achieved a steady growth. This lays a solid foundation for the Group in developing its horizontally integrated business.

As the market demand for imported mould steel decreases, the sales of mould steel business falls short of expectation. However, the introduction of multiple value-added services to the market has been encouraging. Favorable responses towards heat treatment and welding services are well received and this further enhances the confidence of clients on the "one-stop" services provided by the Group.

Capital investments from countries like Singapore, Japan and Taiwan have been directed continually to eastern China to establish new factories. This resulted in an increase demand for plastic parts that in turn contributed to the booming of the plastic industry. The business potential of the fast growing eastern China market looks particularly attractive. The Group will capitalize on such business opportunity by extending the Shanghai plant in coming year to reinforce the production capacity in securing sales in eastern China.



LUNG KEE (BERMUDA) HOLDINGS LIMITED

Turning to the overseas market, with accumulated yearly efforts, LKM products has succeeded in penetrating the U.S. and European markets. Increasingly clients show confidence and willingness to purchase the Group's products. The LKM brand is expected to be widely accepted in both markets.

The Group will have a strategic change in marketing its steel products. More variety of high quality steel products will be promoted to cater different market needs and demand. Moreover, the Group will take a progressive move in developing the eastern China market to capture larger market share.

The entrance of China into WTO has brought unprecedented business opportunities to the market. Increasing foreign investments are attracted into the Chinese market. Domestic enterprises in China have also undergone reform in strengthening their competitiveness. These factors contribute to higher demand in quality mould base and steel products for production. Moreover, following the opening of the mainland market to the world, the mould business will grow. However, it is also anticipated that market competition will become more intense at the same time. Nevertheless, the Group is well prepared in grasping any promising opportunity in the fast growing market in China.

The uncertainty of the U.S. economy has affected the global economy. On the other hand, China's entry into WTO has offered enormous business opportunities to the world. Looking ahead, the coming year will be full of challenges. The Group will still adopt a prudent and realistic attitude in facing these challenges. With the accumulated valuable experience, flexibility in managing changes, a long established goodwill and close relationship with clients, the Group is confident and has the ability to sustain its established position in the industry.

Liquidity and Financial Resources

As at 30th September, 2001, the Group had cash balance of approximately HK\$394 million. Most of the cash balance was placed in HK\$ and US\$ short-term deposits with major banks in Hong Kong.

Total debts were approximately HK\$399 million, equal to approximately 58% of shareholders' fund of approximately HK\$686 million.

Employees and Remuneration Policies

As at 30th September, 2001, the Group employed a total of approximately 4,400 employees, including approximately 4,000 employees in its PRC production sites and approximately 400 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.