

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the first half of the financial year of 2004, the Group recorded a good result in terms of both turnover and profit growth.

The tremendous domestic demand for plastic products in China triggered off the boom of manufacturing industries, partly fueled by the prominent growth of automobile parts manufacturing industry, within the territory of China; as a result, the Group registered a significant growth in business. In response to the surge of mould steel price, the Group had reasonably adjusted its product prices, which also helped to boost the turnover figure. With fully-fledged production skill, the Group's productivity has been further enhanced, allowing the Group to accommodate robust demand in the market. All these favorable factors contributed to the fruitful results as achieved by the Group during the first half of this financial year.

Through continuous effort of the factories in Southern China, agreeable return has been resulted. The new workshops of the Heyuan plant were subsequently switched into full operation. Part of the production previously conducted in Dongguan has been merged into the Heyuan plant for centralization purpose, enabling the Group to reengineer its production processes, and to manage its work force in a more effective way, benefiting from an increase in scale of production with a rise in productivity and effectiveness. Turning to the Guangzhou factory, production capacity has been increased to cater for an upward growth of overseas demand in high precision mould bases. The Dongguan plant has dedicated in developing its mould-related components business, to reinforce one-stop services to customers, with an aim to widen the source of income to the Group.

As a result of the second phase expansion, Shanghai plant has made promising progress, with satisfactory growth in turnover. For the new plant located in Taizhou, Zhejiang Province, most of its construction work has been completed; and the installation of machineries and infrastructure has been progressed smoothly, targeting to start production at the end of this year.



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Overseas operations maintained a stable growth. Apart from the economic recovery of Japan market, the LKM brand has been widely accepted by local customers, rendering steady progress of business in Japan. After restructuring, the Taiwan plant has operated smoothly and started to bring positive contribution to the Group. With the stable economic performance of the South East Asian countries, the Malaysia and the Singapore operations showed mild improvement in business, as compared with the same period of the last financial year.

To seek new market opportunity, the Group has already set up fourteen direct sales outlets and offices in the Guangdong Province and the Eastern Region of China, mainly serving privately owned enterprises and sole proprietors within the regions. Benefiting from the close contact with different target segment of customers, the Group succeeded in establishing a substantial number of small to medium sized new customers, thus enlarging the customer base of the Group as a whole.

Following the successful launch of quality mould steels from China together with the adjustment on steel prices, the pressure from the increase in steel cost has been partly alleviated; the mould steel business has reported mild growth. With the continuous growth of mould market in China, the imported quality mould steel business will maintain a steady development. Entering the second quarter of the year, the mould steel prices has become more stable, after the announcement of adopting macro-economic control on the market by the China government.

The macro-economic control policy as imposed by the China government certainly affects some businesses; nevertheless, it only has minor impact on the Group's business as a whole. Moreover, the operation of the Group's plants in China has not been affected by the unstable electricity supply throughout the China region since the Group's plants are not located at those regions significantly affected by heavy shortage of electricity supply. In addition, all plants are equipped with in-house electricity generators. As a result, there is no negative impact on the factory operation.



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### Prospects

The domestic economy of China is growing fast. Moreover, China is also generally recognized as the world's most suitable production and sub-contracting base. Under these two favorable conditions, the plastic and mould manufacturing industries in China will enjoy sustained growth. It is expected that the mould industry in China will enter into another high growth cycle. The Group, being equipped with ample experience in mould base industry, sophisticated technical skills, advanced production facilities, together with a worldwide renowned "LKM" brand, has received favorable support and acceptance from international manufacturers with production plants established in China. Looking ahead, the Group expects promising growth in its business.

The Board of Directors of the Group will grasp such ample market opportunities by further strengthening its business in China to meet both customers and market needs. The Group will devise a long term strategic plan for reinforcing its overall management, improving its production planning, upgrading its manpower quality and investing its production facilities and so on. Continuous effort will be spent in reinforcing its sales and distribution networks in China, targeting initially on rapid developing areas in the Eastern Region in China. By setting up additional sales offices, the Group can have close contact with customers and acquire updated market information, eventually enlarging its market share in Eastern China. Furthermore, the Group will prepare itself for further launch of business in the Northern Region in China. Being benefited by the continuous move of production plants from Japan and Korea to Northern China, the development of plastic industry in provinces of Shandong, Hebei and Liaoning has been accelerated; even some of its major cities will gradually be transformed into manufacturing hub for the automobile industry. In views of such market opportunity, the Group will seriously consider the further development in Northern China.

Though the recent skyrocketed oil price has not posed a direct threat on the mould base industry, the Group will still pay attention to the trend of raw material market especially its impact on plastic industry. Nevertheless, in short term, the plastic materials are not easily substituted. The future is still cautiously optimistic.

Looking ahead, the Group will continue to develop actively its core production and other related businesses. Furthermore, the Group will strive its best to uplift quality and technology of the mould industry in China to achieve the international standard, advancing its status in the international markets.



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### **Liquidity and Financial Resources**

As at 30th June, 2004, the Group had cash balance of approximately HK\$398 million. Most of the cash balance was placed in HKD and USD short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$671 million, equal to approximately 73% of shareholders' funds of approximately HK\$914 million.

### **Employees and Remuneration Policies**

As at 30th June, 2004, the Group employed a total of approximately 6,500 employees, including approximately 6,200 employees in its PRC production sites and approximately 300 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.