

It is my pleasure to present the results of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2005.

BUSINESS REVIEW

The Group's turnover in the year ended 31st December, 2005 was approximately HK\$1,899 million (2004: approximately HK\$1,600 million). Profit attributable to equity holders of the Company in the year ended 31st December, 2005 was approximately HK\$241 million (2004: approximately HK\$220 million). Basic earnings per share in the year ended 31st December, 2005 was HK38.88 cents (2004: HK35.81 cents).

Throughout the year of 2005, being the reviewed business period, the performance of external economic environment was not up to expectation. Record high oil price and increasing interest rate in the United States caused a drastic fluctuation on raw material prices and transportation costs, consequently both the production cost and wage level of the manufacturing sector in China were boosted. Furthermore, the business growth in the manufacturing sector was slowed down, resulting a fall in selling price. In the meantime, the Group continued its expansion and absorbed its cost during the investment period. As a result, despite the Group had achieved a satisfactory growth in its turnover, its profit growth decreased during the review period.

PROSPECTS

The worldwide business environment is clouded with uncertainties such as fluctuation of oil price, soaring of interest rate in the United States, and the fear of the outbreak of bird flu. However, the Group is still confident in the business development in China. With the persistent growth in GDP in China, the surge in domestic demand has activated continuous boom in the retail business and the manufacturing industry within the territory. Moreover, China has adopted a domestic demand-driven approach to boost economic growth; thus, incessant economic development is anticipated. Besides, the appreciation of Renminbi has positive impact on the Group's business, as it concentrates mainly on the domestic sales in China. Based on these factors, the Group holds a cautious yet optimistic view towards its future business development.

The latest development of the Heyuan plant in Guangdong province, including the new workshop and the living area, is expected to be completed within the year of 2006. To match with the establishment of the new production unit, the Group will enhance its internal control system, and reorganize its production process, in order to achieve better cost saving and higher production efficiency, with an aim to sharpen its competitiveness. At the same time, the Group will embrace new market opportunities through its new product and service mix.

In view of the inflated wage level of the work force due to the increased affluence of the local population, the Group will adopt an appropriate human resources policy to upgrade its manpower quality by ongoing training programs; effort will also be made to improve the living environment and leisure facilities of its employees. By retaining more qualified staff, the Group will build a more effective production and management team.

Although high oil price has caused shortage and possible instability in power supply, the Heyuan plant enjoys a stable supply of electricity. As the new production unit in Heyuan starts to operate in the later part of 2006, it will further improve the productivity of the Group, and its contribution is expected to be reflected in the result of the year 2007.

In line with the increase in productivity, continuous effort will be made to strengthen its sales and logistics networks in China. The Group plans to open up sales offices and logistics points in areas with high concentration of mould manufacturers, as well as potential industrial cities in Northern China. By utilizing the proficient and large production capacity of its plants in Southern China, together with the support of efficient transportation network, it is believed that LKM products can be manufactured and distributed speedily to customers in various parts of China.

In response to the unstable price fluctuation of both imported mould steel and China made steel, the Group will pay special attention to market changes and procure ample stock at reasonable prices to meet its production needs. Moreover, the Group will adjust its product price as appropriate to cope with the changes in material costs.

The Board of Directors would like to take this opportunity to express our thanks to all staff for their dedication and contribution to the Group's endeavor of continuous improvement. Also, sincere gratitude is extended to our shareholders and business partners for their enormous support. Looking ahead, the Group will sustain its practical attitude in seeking progressive changes and strive to uplift its management and production capacity, to fortify its status in China and the international market.

Siu Tit Lung
Chairman

Hong Kong, 31st March, 2006