

Chairman's Statement

It is my pleasure to present the annual results of Lung Kee (Bermuda) Holdings Limited and its subsidiaries (the "Group") for the year ended 31st March 2001.

The Group recorded turnover of approximately HK\$986 million and earnings of approximately HK\$130 million for the year, representing an increase of 10.82% and 17.82% over the previous year respectively.

BUSINESS REVIEW

Affected by external economic factors as a whole, the European and US economies have gradually slowed down while the Asia Pacific economies have been under pressure. This has also restricted the growth of turnover and profit of the Group.

Production capacities of the Group's plants in China have maintained a certain degree of growth in line with the overall development of the Group. Production lines of standard mould bases of the plant in Heyuan have got onto the right track and are now producing medium size non-standard mould bases with part of its capacity, but production flow, use of techniques, staff training and so on are pending coordination, its operation is expected to become mature by the end of this year. The Dongguan plant continued to produce high quality tailor-made mould bases and also act as the support centre of the Group in China, playing an important role in resources deployment and coordination, which enables a more smooth and standardised operations of the Group in China. The plant in Guangzhou mainly produces high quality mould bases for export and the number of clients is on the rise. The Group is also purchasing additional facilities and improving techniques to meet the market demand in Europe and the USA. Thanks to the increase of foreign investments in eastern China, turnover of the plant in Shanghai continued to increase, contributing a stable income to the Group.

The Group's oversea markets also registered a steady growth. Owing to its strengths of "Quick Delivery and High Quality", the Lung Kee LKM has become a favourite brand in the Japanese market and has been growing steadily in terms of sales volume in Japan. As to the operations in Singapore and Malaysia, they have kept up with their last year's figures and have made a contribution to the Group, though economies in Southeast Asia remain weak.

Following the diversification of products and introduction of value-added services, sales of mould steel products continued to increase, contributing a stable income to the Group.

PROSPECTS

The operation of the second phase of our Heyuan plant in China will fully mature by the end of this year that further enhances the Group's overall productivity. It is expected that the business of mould base exports in Guangzhou will grow continuously, and therefore in respect of the increasing orders for exports, the Group has purchased more land for further development of the second phase of our plant.

As China joining the WTO becomes imminent, the Group has formulated extensive strategic plans including enhancing product qualities, providing best-quality customer service, ameliorating with techniques to strengthen production efficiency, and training for professionals, so as to meet clients' needs and capitalise on the market opportunities in the mainland. In pace with the reform and opening up of domestic enterprises in the mainland, it is expected that there will be a larger room for development in the mould base industry in China while market competition will become keen gradually. Adhering to the principles of pragmatism and steady growth, the Group strives to enhance competitiveness with its own strength and to face every challenge positively for the continuous growth in business.

On-line trading has been initiated and well received as customer enquiries have come from different regions. The Group will secure its global reputation with Internet application to develop new business initiatives.

The Group is acquiring a Taiwan-based mould base company in the notion of leveraging on the Taiwanese market to market Lung Kee branded products directly. This initiative is set to perfect our marketing network in Asia.

In addition, the Group will strengthen its horizontal development by continuing to develop spare parts of mould bases and promote spare parts of high quality mould bases and hot runner mould system throughout Europe and the USA.

As to the sales of mould steel, the Group will introduce more international standard products, such as some quality steel types from the USA and France, with a view to diversifying and fine tuning our mould steel product and thus further strengthening our sales and development of mould steel.

Looking ahead, the growth of Europe and US economies may remain slow while demands for products from Asia will grow. Meanwhile, the Board anticipates that competition in local markets will become more intense and the Group is set to face extraordinary challenges. In light of that, the Board will stick to its cautious attitude and principle, as always, to strengthen our foundation and enhance our competitiveness, thereby ensuring the momentum of our future business.

Siu Tit Lung
Chairman

Hong Kong, 22nd June, 2001