



LUNG KEE (BERMUDA) HOLDINGS LIMITED

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LUNG KEE (BERMUDA) HOLDINGS LIMITED

INDEPENDENT REVIEW REPORT

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To the Board of Directors of
LUNG KEE (BERMUDA) HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 4 to 16.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting



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policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 27th August, 2004

FINANCIAL RESULTS

The directors (the "Directors") of Lung Kee (Bermuda) Holdings Limited (the "Company") are pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2004 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2004

		Six months ended 30th June,	
		2004	2003
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Turnover		771,080	560,671
Other operating income		23,928	20,149
Changes in inventories of finished goods and work in progress		32,687	5,388
Raw materials and consumables used		(416,790)	(245,170)
Staff costs		(115,495)	(93,408)
Depreciation and amortisation of property, plant and equipment		(40,309)	(40,650)
Amortisation of goodwill		(10,860)	(10,860)
Amortisation of patents and trademarks		(333)	—
Other operating expenses		(101,177)	(90,357)
Profit from operations	4	142,731	105,763
Finance costs		(9,295)	(16,714)
Gain on disposal of a subsidiary		—	2,329
Profit before taxation		133,436	91,378
Taxation	5	(22,328)	(14,420)
Profit after taxation		111,108	76,958
Minority interests		(1,941)	(1,658)
Net profit for the period		109,167	75,300
Dividend	6		
Proposed interim dividend of HK8 cents per share (2003: HK5.6 cents per share after adjusting for bonus share issue)		49,130	34,210
Earnings per share	7		
— Basic		17.78 cents	12.37 cents
— Diluted		17.77 cents	12.32 cents

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CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2004

	Notes	30th June, 2004 (unaudited) HK\$'000	31st December, 2003 (audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	8	23,100	23,100
Property, plant and equipment	8	481,919	457,487
Intangible assets		1,389	1,722
Goodwill		19,215	30,075
Negative goodwill		—	(22)
		525,623	512,362
Current assets			
Inventories		423,105	360,919
Bills receivable		35,438	32,411
Trade and other receivables	9	480,626	472,276
Taxation recoverable		8,549	10,542
Bank balances and cash		397,814	442,247
		1,345,532	1,318,395
Current liabilities			
Trade and other payables	10	186,406	235,216
Bills payable		27,650	36,970
Taxation payable		58,077	51,359
Obligations under finance leases		14	26
Unsecured bank borrowings	11	521,335	491,413
Dividend payables		8	19
		793,490	815,003
Net current assets		552,042	503,392
Total assets less current liabilities		1,077,665	1,015,754
Non-current liabilities			
Obligations under finance leases		—	2
Floating rate notes	12	150,000	150,000
		150,000	150,002
Minority interests		13,731	11,769
		913,934	853,983
CAPITAL AND RESERVES			
Share capital	13	61,412	49,130
Reserves		852,522	804,853
		913,934	853,983

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital HK\$'000 (Note 13)	Share premium HK\$'000	Goodwill reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1st January, 2003	48,684	104,512	(3,636)	11,966	587,251	1,257	750,034
Final dividend declared for the period ended 31st December, 2002	—	—	—	—	(24,342)	—	(24,342)
Share issued on exercise of share options	187	2,094	—	—	—	—	2,281
Exchange differences arising from translation of foreign currency financial statements not recognised in the condensed consolidated income statement	—	—	—	—	—	130	130
Net profit for the period	—	—	—	—	75,300	—	75,300
At 30th June, 2003	48,871	106,606	(3,636)	11,966	638,209	1,387	803,403
Exchange differences arising from translation of foreign currency financial statements not recognised in the condensed consolidated income statement	—	—	—	—	—	(139)	(139)
Share issued on exercise of share options	259	2,896	—	—	—	—	3,155
Net profit for the period	—	—	—	—	81,955	—	81,955
Interim dividend paid	—	—	—	—	(34,391)	—	(34,391)
At 31st December, 2003	49,130	109,502	(3,636)	11,966	685,773	1,248	853,983
Final dividend declared for the year ended 31st December, 2003	—	—	—	—	(49,130)	—	(49,130)
Bonus shares issued	12,282	(12,282)	—	—	—	—	—
Exchange differences arising from translation of foreign currency financial statements not recognised in the condensed consolidated income statement	—	—	—	—	—	(86)	(86)
Net profit for the period	—	—	—	—	109,167	—	109,167
At 30th June, 2004	61,412	97,220	(3,636)	11,966	745,810	1,162	913,934

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th June, 2004*

	Six months ended 30th June,	
	2004	2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash from (used in) operating activities	35,357	(17,036)
Net cash used in investing activities	(61,705)	(67,226)
Net cash (used in) from financing activities	(18,038)	142,125
Net (decrease) increase in cash and cash equivalents	(44,386)	57,863
Cash and cash equivalents at the beginning of the period	442,247	563,029
Effect of foreign exchange rates changes	(47)	49
Cash and cash equivalents at the end of the period	397,814	620,941



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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2004

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2003.

3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions — mould base and metal & parts. These divisions are the basis on which the Group reports its primary segment information.

Six months ended 30th June, 2004

	Mould base HK\$'000	Metal & parts HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER				
External sales	688,341	82,739	—	771,080
Inter-segment sales	—	76,552	(76,552)	—
	688,341	159,291	(76,552)	771,080
Inter-segment sales are charged at prevailing market rates.				
RESULTS				
Segment results	121,641	14,604	—	136,245
Unallocated corporate income				6,486
Profit from operations				142,731

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Six months ended 30th June, 2003

	Mould base HK\$'000	Metal & parts HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER				
External sales	489,851	70,820	—	560,671
Inter-segment sales	—	127,920	(127,920)	—
	<u>489,851</u>	<u>198,740</u>	<u>(127,920)</u>	<u>560,671</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS

Segment results	<u>85,260</u>	<u>13,362</u>	<u>—</u>	<u>98,622</u>
Unallocated corporate income				<u>7,141</u>
Profit from operations				<u>105,763</u>

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Loss on disposal of property, plant and equipment	528	412
Interest income	(3,986)	(7,141)
Exchange gain	(1,086)	(1,242)

5. TAXATION

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits tax, current period	127	163
Taxation in jurisdictions outside Hong Kong		
— current period	22,999	14,828
— overprovision in prior year	(798)	—
	22,201	14,828
Deferred taxation	—	(571)
	22,328	14,420

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

Taxation in jurisdictions outside Hong Kong is calculated based on the applicable rates in those jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. In the current period, certain PRC subsidiaries enjoyed a 50% reduction on PRC income tax.



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6. DIVIDENDS

On 13th May, 2004, a dividend of HK8 cents per share after adjusting for bonus share issue was paid to shareholders as final dividend for the year ended 31st December, 2003 (final dividend for the period of nine months from 1st April, 2002 to 31st December, 2002: HK4 cents per share after adjusting for bonus share issue).

The Directors have determined that an interim dividend of HK8 cents per share (2003: HK5.6 cents per share after adjusting for bonus share issue) should be paid to the shareholders of the Company whose names appear in the Register of Members on 17th September, 2004.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

		Six months ended 30th June,	
		2004	2003
		HK\$'000	HK\$'000
Earnings			
Earnings for the purposes of basic and diluted earnings per share		109,167	75,300
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share		614,123,303	608,644,954
Effect of dilutive potential ordinary shares on exercise of options of the Company		52,058	2,415,576
Weighted average number of ordinary shares for the purposes of diluted earnings per share		614,175,361	611,060,530

The adjustment to comparative basic and diluted earnings per share, arising from bonus share issue, is as follows:

	Basic	Diluted
	HK cents	HK cents
Reported figure before adjustment	15.46	15.40
Adjustment arising from bonus share issue	(3.09)	(3.08)
Restated	12.37	12.32

8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

In the opinion of the Directors, there was no material difference between the carrying amount and the market value of the investment properties as at 30th June, 2004.

During the period, the Group incurred expenditure of approximately HK\$34,356,000 on the properties under construction in the PRC.

In addition, the Group spent approximately HK\$21,873,000, HK\$6,653,000 and HK\$4,048,000 on acquisition of plant and machinery, furniture and equipment and other assets respectively, for the purpose of expanding the Group's business.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$438,432,000 (31st December, 2003: HK\$383,074,000) and an aged analysis of which is as follows:

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
0 to 60 days	256,473	236,843
61 to 90 days	98,838	79,541
Over 90 days	83,121	66,690
	438,432	383,074

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$73,744,000 (31st December, 2003: HK\$113,624,000) and an aged analysis of which is as follows:

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
0 to 60 days	56,243	86,752
61 to 90 days	2,878	9,148
Over 90 days	14,623	17,724
	73,744	113,624

11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$134,126,000 (2003: HK\$49,941,000), which were used for general working capital. The loans bear interest at market rates and are repayable within one year.

In addition, the Group repaid bank loans amounting to approximately HK\$103,010,000 (2003: HK\$11,927,000) during the period.

12. FLOATING RATE NOTES

The floating rate notes are due in 2006. They carry interest at Hong Kong Inter-bank Borrowing Rate plus 1% and are guaranteed by the Company.

13. SHARE CAPITAL

	Authorised at		Issued and fully paid at	
	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Ordinary shares of HK\$0.1 each				
At beginning of the period/year	60,000	60,000	49,130	48,684
Increase during the period	40,000	—	—	—
Shares issued on exercise of share options	—	—	—	446
Bonus shares issued (<i>Note</i>)	—	—	12,282	—
At end of the period/year	100,000	60,000	61,412	49,130

Note:

Pursuant to the annual general meeting held on 3rd May, 2004, a bonus issue of shares on the basis of one share for every four shares held was approved. 122,824,660 bonus shares were issued under the bonus issue and the amount HK\$12,282,466 was capitalised from the Company's share premium account.

The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

14. CAPITAL COMMITMENTS

As at 30th June, 2004, the Group had capital expenditure amounting to approximately HK\$86,488,000 (31st December, 2003: HK\$29,103,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.



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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.

OTHER INFORMATION**Review of Interim Financial Statements**

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discuss internal controls and financial reporting matters including the review of the unaudited interim financial statements.

Interim Dividend

The Directors have declared an interim dividend of HK8 cents per share (2003: HK5.6 cents per share after adjusting for bonus share issue) in respect of the six months ended 30th June, 2004 to be payable on or about 5th October, 2004 to shareholders whose names appear in the Register of Members of the Company on 17th September, 2004.

Closure of Register of Members

The Register of Members of the Company will be closed from 16th September, 2004 to 17th September, 2004, both days inclusive, during which period no share transfer will be effected.

In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office of the Company, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 15th September, 2004.

Shareholders in Singapore whose securities accounts with The Central Depository (Pte) Limited are credited with share in the Company as at 5:00 p.m. on 15th September, 2004 will be entitled to the interim dividend.

Directors' Interests in Shares

As at 30th June, 2004, the directors and their associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Interests in the Company

Name of Director	Capacity	Number of shares held		Number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1, 2 & 4)	Beneficial owner and founder of discretionary trust	36,791,444	307,617,187	500,000	344,908,631	56.16%
Siu Yuk Lung (Notes 1, 3 & 4)	Beneficial owner and founder of discretionary trust	36,791,444	307,617,187	500,000	344,908,631	56.16%
Mak Koon Chi	Beneficial owner	2,343,750	—	500,000	2,843,750	0.46%
Wai Lung Shing	Beneficial owner	2,343,750	—	500,000	2,843,750	0.46%
Fung Wai Hing	Beneficial owner	957,031	—	500,000	1,457,031	0.24%
Liu Wing Ting, Stephen	Beneficial owner	—	—	150,000	150,000	0.02%
Chan Chun Sing, Colin	Beneficial owner	—	—	150,000	150,000	0.02%
Lee Tat Yee	Beneficial owner	—	—	150,000	150,000	0.02%

Notes:

- (1) Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 32,631,288 shares in the Company and each owned a further 4,160,156 shares in the Company registered in their own names.

- (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 58,593,750 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 58,593,750 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 249,023,437 shares in the Company.

Interests in associated corporations of the Company

Name of Director	Nature of interests	Name of associated corporation	Number of shares held	Percentage of issued share capital of the class
Siu Tit Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%
Siu Yuk Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%

All the interests disclosed above represent long position in the shares and underlying shares of the Company or its associated corporations.

The details of the directors' interests in the share options granted by the Company are stated in the following section "Share Options".

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the Group, none of the directors and their associates has any interests or short positions in

any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

A share option scheme was adopted by the Company pursuant to a resolution passed on 9th September, 2002 (the "2002 Scheme"). Under the 2002 Scheme, the board of directors of the Company or a duly authorised committee (the "Board") may grant options to (i) any executive or non-executive directors of the Group (or any persons proposed to be appointed as such) or any employees of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of the Group; (iii) any consultants and professional advisers to the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees of substantial shareholder of the Company, as absolutely determined by the Board (the "Participants"), to subscribe for shares in the Company. The 2002 Scheme was set up for the primary purpose to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants, and will expire on 8th September, 2012.

At 30th June, 2004, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 6,000,000, representing about 0.98% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the 2002 Scheme, unless prior approval from the Company's shareholders is obtained. Without prior approval from the Company's shareholders, the number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within a period of 28 days from the date of grant, upon payment of HK\$1 per grant. An option period is a period to be determined by the Board at its absolute discretion and notified by the Board to each Participant who accepts the option offer as being the period during which an option may be exercised, such period to expire not later than 10 years after the date of the grant of the share option ("Option Period"). Options may be exercised in accordance with the terms of the 2002 Scheme at any time during the Option Period after the option has been granted. The exercise price is determined by the Board, and shall be at least the highest of the nominal value of the Company's share, the closing price of the Company's shares on the date of grant and the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

The following table discloses movements in the Company's share options during the period:

	Number of share options					Date of grant	Exercisable period	Exercise price per share
	At 1st January, 2004	Granted during the period	Exercised during the period	Cancelled during the period	At 30th June, 2004			
								HK\$
Category 1: Directors								
Siu Tit Lung	—	500,000	—	—	500,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Siu Yuk Lung	—	500,000	—	—	500,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Mak Koon Chi	—	500,000	—	—	500,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Wai Lung Shing	—	500,000	—	—	500,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Fung Wai Hing	—	500,000	—	—	500,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Liu Wing Ting, Stephen	—	150,000	—	—	150,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Chan Chun Sing, Colin	—	150,000	—	—	150,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Lee Tat Yee	—	150,000	—	—	150,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total	—	2,950,000	—	—	2,950,000			

Number of share options								Exercise price per share HK\$
At 1st January, 2004	Granted during the period	Exercised during the period	Cancelled during the period	At 30th June, 2004	Date of grant	Exercisable period		
Category 1: Directors and senior management								
—	3,050,000	—	—	3,050,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30	
Category 2: Employees								
—	3,050,000	—	—	3,050,000				
Total all categories	— 6,000,000	—	—	6,000,000				

The fair value of the options granted in the current period measured as at the date of grant on 25th May, 2004 was HK\$5,040,000. The following significant assumptions were used to derive the fair value using the Binomial Lattice Model:

- Expected life of options is 3 years;
- Expected volatility of 45% per annum (based on historical share price movement);
- Expected annual dividend yield of 5% per annum (based on historical dividend payments);
- Hong Kong Exchange Fund Notes rate was 2.8% per annum;
- No option holders will leave the Company before the exercise period commences;
- Option holders will leave the Company at a rate of 1% per annum during the exercise period; and
- Option holders will exercise when the share price is at least 100% higher than the exercise price.

The Binomial Lattice Model requires the input of highly subjective assumptions, including the volatility of share price and dividend yield. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the period. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Save as disclosed above, none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

Substantial Shareholders

As at 30th June, 2004, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Number of shares/ underlying shares held	Percentage of Company's issued share capital
Pan Island Investments Limited	Beneficial owner	249,023,437	40.55%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.54%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.54%
Commonwealth Bank of Australia (Note)	Interest of controlled corporation	61,841,608	10.07%

Note:

Commonwealth Bank of Australia had an interest of 61,841,608 shares in the Company, through its wholly-owned subsidiaries, namely, Colonial First State Group Ltd, Colonial Holding Company (No. 2) Pty Limited, Colonial Holding Company Pty Ltd, Colonial Ltd, The Colonial Mutual Life Assurance Society Ltd, First State Investments (UK Holdings) Limited, First State Investment Management (UK) Limited and SI Holdings Limited.



LUNG KEE (BERMUDA) HOLDINGS LIMITED

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th June, 2004.

Purchase, Sale or Redemption of Securities

There was no purchase, sale or redemption of shares or other securities of the Company by the Company or any of its subsidiaries during the six months ended 30th June, 2004.

Code of Best Practice

During the six months ended 30th June, 2004, the directors are not aware of any information that would indicate that the Company was not in compliance with the "Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors.

All the directors declared that they had complied with the Model Code throughout the period.

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, 27th August, 2004