

Interim Report 2005



Lung Kee (Bermuda) Holdings Limited

CONTENTS

INDEPENDENT REVIEW REPORT	2
CONDENSED CONSOLIDATED INCOME STATEMENT	4
CONDENSED CONSOLIDATED BALANCE SHEET	5
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	7
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	8
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	9
MANAGEMENT DISCUSSION AND ANALYSIS	21
OTHER INFORMATION	24

INDEPENDENT REVIEW REPORT



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 20.

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 Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 Institute of Certified Public Accountants. A review consists principally of making enquiries of Group's management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting 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, 2005.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 9th September, 2005

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, 2005 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

		Six months ended 30th June,	
		2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
	Notes		
Turnover	4	898,834	771,080
Other operating income		5,901	6,189
Changes in inventories of finished goods and work in progress		15,196	32,687
Raw materials and consumables used		(417,736)	(399,051)
Staff costs		(145,999)	(115,495)
Depreciation and amortisation of property, plant and equipment		(55,068)	(40,309)
Amortisation of goodwill		—	(10,860)
Amortisation of patents and trademarks		—	(333)
Impairment loss recognised in respect of goodwill		(9,060)	—
Impairment loss recognised in respect of patents and trademarks		(1,056)	—
Other operating expenses		(137,806)	(101,177)
Finance costs		(9,227)	(9,295)
Profit before taxation	5	143,979	133,436
Taxation	6	(17,303)	(22,328)
Profit for the period		126,676	111,108
Attributable to:			
Equity holders of the Company		124,124	109,167
Minority interests		2,552	1,941
Profit for the period		126,676	111,108
Dividends	7		
Proposed interim dividend of HK9 cents per share (2004: HK8 cents per share)		55,758	49,130
Earnings per share	8		
— Basic		20.04 cents	17.78 cents
— Diluted		20.03 cents	17.77 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2005

	Notes	30th June, 2005 (unaudited) HK\$'000	31st December, 2004 (audited and restated) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	9	28,000	28,000
Property, plant and equipment	9	587,632	515,874
Prepaid lease payments — non-current portion		40,466	42,204
Intangible assets		—	1,056
Goodwill		—	9,060
		656,098	596,194
Current assets			
Inventories		498,074	467,567
Trade and other receivables	10	513,559	443,958
Bills receivable	10	40,137	44,045
Prepaid lease payments — current portion		934	934
Taxation recoverable		4,943	3,373
Bank balances and cash		198,479	441,672
		1,256,126	1,401,549
Current liabilities			
Trade and other payables	11	224,777	230,105
Bills payable	11	36,068	52,800
Obligations under finance leases		—	2
Unsecured bank borrowings	12	372,363	493,016
Floating rate notes	13	150,000	—
Dividend payables		23	9
Taxation payable		52,151	59,408
		835,382	835,340

		30th June, 2005	31st December, 2004
		(unaudited) HK\$'000	(audited and restated) HK\$'000
	Note		
Net current assets		420,744	566,209
Total assets less current liabilities		1,076,842	1,162,403
Non-current liabilities			
Floating rate notes	13	—	150,000
		1,076,842	1,012,403
CAPITAL AND RESERVES			
Share capital		61,953	61,881
Reserves		993,556	929,660
Equity attributable to equity holders of the Company		1,055,509	991,541
Minority interests		21,333	20,862
		1,076,842	1,012,403

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	PRC statutory reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2004	49,130	109,502	(3,636)	11,966	1,248	37,415	648,358	853,983	11,769	865,752
Exchange differences arising from translation of foreign currency financial statements recognised directly in equity	—	—	—	—	(86)	—	—	(86)	21	(65)
Profit for the period	—	—	—	—	—	—	109,167	109,167	1,941	111,108
Total recognised income and expense for the period	—	—	—	—	(86)	—	109,167	109,081	1,962	111,043
Bonus shares issued	12,282	(12,282)	—	—	—	—	—	—	—	—
Final dividend declared for the year ended 31st December, 2003	—	—	—	—	—	—	(49,130)	(49,130)	—	(49,130)
At 30th June, 2004 (unaudited)	61,412	97,220	(3,636)	11,966	1,162	37,415	708,395	913,934	13,731	927,665
Exchange differences arising from translation of foreign currency financial statements recognised directly in equity	—	—	—	—	334	—	—	334	(68)	266
Profit for the period	—	—	—	—	—	—	110,946	110,946	2,936	113,882
Total recognised income and expense for the period	—	—	—	—	334	—	110,946	111,280	2,868	114,148
Partial disposal of a subsidiary	—	—	—	—	—	—	—	—	4,263	4,263
Shares issued on exercise of share options	469	14,988	—	—	—	—	—	15,457	—	15,457
Interim dividend paid	—	—	—	—	—	—	(49,130)	(49,130)	—	(49,130)
Transfer	—	—	—	—	—	13,602	(13,602)	—	—	—
At 31st December, 2004	61,881	112,208	(3,636)	11,966	1,496	51,017	756,609	991,541	20,862	1,012,403
On adoption of HKFRSs (Note 3)	—	—	3,636	(11,966)	—	—	8,330	—	—	—
As restated	61,881	112,208	—	—	1,496	51,017	764,939	991,541	20,862	1,012,403
Exchange differences arising from translation of foreign currency financial statements recognised directly in equity	—	—	—	—	(599)	—	—	(599)	(81)	(680)
Profit for the period	—	—	—	—	—	—	124,124	124,124	2,552	126,676
Total recognised income and expense for the period	—	—	—	—	(599)	—	124,124	123,525	2,471	125,996
Shares issued on exercise of share options	72	2,323	—	—	—	—	—	2,395	—	2,395
Final dividend declared for the year ended 31st December, 2004	—	—	—	—	—	—	(61,952)	(61,952)	—	(61,952)
Dividend paid to minority interests	—	—	—	—	—	—	—	—	(2,000)	(2,000)
At 30th June, 2005 (unaudited)	61,953	114,531	—	—	897	51,017	827,111	1,055,509	21,333	1,076,842

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2005

	Six months ended 30th June,	
	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Net cash from operating activities	57,388	35,357
Net cash used in investing activities	(120,721)	(61,705)
Net cash used in financing activities	(177,127)	(18,038)
Net decrease in cash and cash equivalents	(240,460)	(44,386)
Cash and cash equivalents at the beginning of the period	441,672	442,247
Effect of foreign exchange rates changes	(2,733)	(47)
Cash and cash equivalents at the end of the period	198,479	397,814

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2005

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 Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas:

(1) Share-based Payments

HKFRS 2 “Share-based Payment” requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for

other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In accordance with the relevant transitional provision, the Group has not applied HKFRS 2 to those share options granted on or before 7th November, 2002 and those share options that were granted after 7th November, 2002 but were vested before 1st January, 2005. Because there were no unvested share options at 1st January, 2005, comparative figures for 2004 need not be restated.

(2) Business Combinations

HKFRS 3 "Business Combination", is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In accordance with HKFRS 3, goodwill is measured at cost less accumulated impairment losses after initial recognition. In previous periods, goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of approximately HK\$3,636,000 has been transferred to the Group's accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st April, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of approximately HK\$11,966,000 previously recorded as capital reserves, with a corresponding increase in accumulated profits at 1st January, 2005.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. Because the revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1st January, 2005, comparative figures for 2004 have not been restated.

(3) Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has been applied retrospectively and the financial impact on the Group is set out in note 3.

(4) Investment Properties

In previous periods, the Group's investment properties were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. The Group has also applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. Because the Group did not have any investment property revaluation reserve at 1st January, 2005, the adoption of HKAS 40 did not result in any transfer between the reserve accounts.

(5) Financial Instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects on the Group as a results of implementation of HKAS 32 and HKAS 39 are related to the measurements of financial assets and financial liabilities.

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in

accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group’s accumulated profits.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above are a decrease in amortisation of goodwill of approximately HK\$9,060,000 for the current period (2004: Nil).

The effects on the balance sheet of the changes in the accounting policies described in note 2 above are as follows:

	As at 31st December, 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31st December, 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1st January, 2005 (restated) HK\$'000
Balance sheet items					
Property, plant and equipment	559,012	(43,138)	515,874	—	515,874
Prepaid lease payments	—	43,138	43,138	—	43,138
Goodwill reserve	(3,636)	—	(3,636)	3,636	—
Capital reserve	11,966	—	11,966	(11,966)	—
Accumulated profits	756,609	—	756,609	8,330	764,939

4. SEGMENT INFORMATION

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

Six months ended 30th June, 2005

	Mould bases HK\$'000	Metal & parts HK\$'000	Total HK\$'000
TURNOVER			
External sales	808,024	90,810	898,834
RESULTS			
Segment results	130,293	17,012	147,305
Unallocated corporate income			5,901
Finance costs			(9,227)
Profit before taxation			143,979
Taxation			(17,303)
Profit for the period			126,676

Six months ended 30th June, 2004

	Mould bases HK\$'000	Metal & parts HK\$'000	Total HK\$'000
TURNOVER			
External sales	688,341	82,739	771,080
RESULTS			
Segment results	122,629	13,913	136,542
Unallocated corporate income			6,189
Finance costs			(9,295)
Profit before taxation			133,436
Taxation			(22,328)
Profit for the period			111,108

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
(Gain) loss on disposal of property, plant and equipment	(579)	528
Interest income	(3,335)	(3,986)
Net exchange gain	(715)	(1,086)

6. TAXATION

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax, current period	60	127
Taxation in jurisdictions outside Hong Kong		
— current period	21,730	22,999
— overprovision in prior year	—	(798)
	21,730	22,201
Reinvestment tax credit	(4,487)	—
	17,303	22,328

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the periods.

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

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), certain of 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.

Pursuant to an approval by local tax authority, a subsidiary of the Company is entitled to a benefit of approximately HK\$4,487,000 (equivalent to approximately RMB4,779,000) in respect of its reinvestment made in a subsidiary. The amount is presented as a reinvestment tax credit

7. DIVIDENDS

On 19th May, 2005, a dividend of HK10 cents per share was paid to shareholders as final dividend for the year ended 31st December, 2004, (2004: HK8 cents per share, after adjusting for bonus share issue in 2004).

The Directors have determined that an interim dividend of HK9 cents per share (2004: HK8 cents per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 30th September, 2005.

8. EARNINGS PER SHARE

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

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Earnings		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	124,124	109,167
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	619,329,823	614,123,303
Effect of dilutive potential ordinary shares on exercise of options of the Company	290,693	52,058
Weighted average number of ordinary shares for the purposes of diluted earnings per share	619,620,516	614,175,361

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

At 30th June, 2005, the Directors considered the carrying amount of the Group's investment properties carried at fair values and estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no fair value adjustments has been recognised in the current period.

During the period, the Group incurred expenditure of approximately HK\$10,623,000 on the construction in progress in the PRC.

In addition, the Group spent approximately HK\$106,685,000, HK\$5,570,000 and HK\$3,180,000 on acquisition of plant and machinery, furniture and equipment and other assets, respectively, for the purpose of expanding the Group's business.

10. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

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\$437,127,000 (31st December, 2004: HK\$382,657,000).

An aged analysis of trade receivables and bills receivables are as follows:

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
0 to 60 days	316,597	287,451
61 to 90 days	114,306	93,771
Over 90 days	46,361	45,480
	477,264	426,702

11. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

Included in trade and other payables are trade payables of approximately HK\$98,407,000 (31st December, 2004: HK\$104,484,000).

An aged analysis of trade payables and bills payables are as follows:

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
0 to 60 days	82,859	115,498
61 to 90 days	26,086	27,996
Over 90 days	25,530	13,790
	134,475	157,284

12. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$64,179,000 (2004: HK\$134,126,000) 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\$179,763,000 (2004: HK\$103,010,000) during the period.

13. 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.

14. CAPITAL COMMITMENTS

As at 30th June, 2005, the Group had capital expenditure amounting to approximately HK\$144,221,000 (31st December, 2004: HK\$119,594,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30th June, 2005 was approximately HK\$899 million (2004: approximately HK\$771 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2005 was approximately HK\$124 million (2004: approximately HK\$109 million). Basic earnings per share for the six months ended 30th June, 2005 was HK20.04 cents (2004: HK17.78 cents)

As benefited from sustained economic growth, with robust demand for consumer products in China, the manufacturing industry in mainland enjoyed remarkable development, in particular, the automobile parts and component industry. As a result, the sales revenue of the Group achieved a steady growth during the period under review. In the meantime, the mould steel materials price began to fall from its highest level, allowing the production cost of the Group to stabilize. In views of the above factors, the Group continued to record a satisfactory result during the first half of this financial year.

The core business of the Group developed in China reported a continuous growth. The Heyuan plant in Guangdong Province, China, after expansion of its operation, has now become the largest production base of the Group. Equipped with continuously enhanced production skills and with better co-ordinated development of production facilities and work force, the productivity of the Group was further improved. To cope with the increasing demand for high precision mould bases both in overseas and China market, the Guangzhou plant in Guangdong Province, has already strengthened its high precision mould base production capacity in capturing such promising market opportunity. Turning to the Dongguan plant in Guangdong Province, continued effort will be dedicated to developing its mould-related components business, with an aim to satisfy the customers needs for "one-stop" services, adding a profitable source of income to the Group.

The Shanghai plant in China achieved a promising growth both in productivity and turnover after the completion of its factory expansion. Further, the operation of the Taizhou plant in Zhejiang Province, has developed smoothly and its business has progressed steadily, bringing reasonable return to the Group.

The development of overseas operations remained stable. However, as compared with the China market, the growth pace of the overseas market was relatively slow, attributed directly to the economic performance of these markets.

The mould steel business has achieved a reasonable growth. As a result of gradual depreciation of alloy prices, the price of mould steel, both for imported and domestically produced in China, has slightly gone down from its highest level. During the period under review, the material price has become relatively stable.

Prospects

Continuous boom in the retail business and manufacturing industry in China is expected due to its persistent economic growth. Therefore, plastic and mould industries will still enjoy growth. In addition, manufacturing skill of Chinese mould makers has become more sophisticated, which helps to promote the exporting of mould products. As a result, it triggers off an increase in the demand for high quality mould base and mould steel, in fulfilling the higher quality standards as required by overseas customers. With competitive advantages and goodwill enjoyed by "LKM" in the mould base industry, the Group looks forward to a favorable growth in its future business development.

The Board of Directors of the Group has devised a long-term development strategy, in expanding its investment in China, which further fortifying its business position in China. The Group has escalated its investment in its Heyuan plant, Guangdong Province, for further expansion including new workshops, living and accommodation zone and other supportive facilities. It is expected that the expansion project will be completed in the first quarter of next year, when trial production begins. Through this investment project, the Group does not only uplift its production scale as a whole in order to embrace the market opportunity, but also create a solid foundation for future development; the aim is to upgrade its product quality and production skill up to international leading level, and to supply the most competitive quality products and mould related services to the worldwide mould manufacturing market.

Continuous effort will be made to enlarge its sales and distribution networks in China. The Group plans to set up offices in the potential industrial cities in Northern China. These offices will serve as sales centers, warehouses and logistic centers, to reinforce business relationship with customers in those areas.

However, unfavorable factors do exist in the worldwide business environment. The unstable oil price leads to sharp price fluctuation in plastic materials, posing a direct threat to the plastic manufacturing sector. The Group expects such negative impact is only on a short-term basis, but the Group will be cautious to the changes of the material market, in order to devise appropriate counter policies. Impact of the appreciation of Renminbi on the Group is considered as positive, since most of its businesses focus on the domestic sales within the China territory.

Looking ahead, the Group will continue to develop its core, as well as other related businesses, to improve continuously its management and production system, and to upgrade its services standard, in order to attain more promising results and to sustain its leading position in the mould making industry.

Liquidity and Financial Resources

As at 30th June, 2005, the Group had cash balance of approximately HK\$198 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$522 million, equal to approximately 49% of equity attributable to equity holders of the Company of approximately HK\$1,056 million.

Employees and Remuneration Policies

As at 30th June, 2005, the Group employed a total of approximately 9,180 employees, including approximately 8,830 employees in its PRC production sites and approximately 350 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 discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements.

Interim Dividends

The Directors have declared an interim dividend of HK9 cents per share (2004: HK8 cents per share) in respect of the six months ended 30th June, 2005 to be payable on or about 18th October, 2005 to shareholders whose names appear in the Register of Members of the Company on 30th September, 2005.

Closure of Register of Members

The Register of Members of the Company will be closed from 29th September, 2005 to 30th September, 2005, 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 28th September, 2005.

Shareholders in Singapore whose securities accounts with The Central Depository (Pte) Limited are credited with shares in the Company as at 5:00 p.m. on 28th September, 2005 will be entitled to the interim dividend.

Directors' Interests in Shares

As at 30th June, 2005, 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 (the "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	37,291,444	307,617,187	—	344,908,631	55.67%
Siu Yuk Lung (Notes 1, 3 & 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	—	344,908,631	55.67%
Mak Koon Chi	Beneficial owner	2,843,750	—	—	2,843,750	0.46%
Wai Lung Shing	Beneficial owner	2,843,750	—	—	2,843,750	0.46%
Fung Wai Hing	Beneficial owner	1,457,031	—	—	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 4,660,156 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 as at 30th June, 2005.

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, 2005, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 590,000, representing about 0.1% 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, 2005	Exercised during the period	At 30th June, 2005			
						HK\$
Category 1: Directors						
Liu Wing Ting, Stephen	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	300,000	(150,000)	150,000			
Category 2: Employees						
Total	1,016,000	(576,000)	440,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total all categories	1,316,000	(726,000)	590,000			

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$5.005.

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, 2005, 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	40.20%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.46%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.46%
Commonwealth Bank of Australia (Note)	Interest of controlled corporation	54,427,608	8.79%

Note: Commonwealth Bank of Australia had an interest of 54,427,608 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.

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, 2005.

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, 2005.

Code on Corporate Governance Practices

The Company complied with all requirements set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, with deviation from Code provision A.4.2 in respect of the rotation of directors, throughout the review period. Relevant amendment to the Bye-Laws of the Company to comply with Code provision A.4.2 had been proposed at the earliest opportunity after the announcement of the Code, and such amendment was approved by shareholders at the annual general meeting of the Company held on 9th May, 2005.

Model Code

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

Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the period.

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, 9th September, 2005