



LUNG KEE (BERMUDA) HOLDINGS LIMITED

Stock Code : 255

INTERIM REPORT 2006



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INDEPENDENT INTERIM 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 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 reports, 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 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, 2006.

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong, 8th September, 2006

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, 2006 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

		Six months ended 30th June,	
	Notes	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Turnover	3	992,907	898,834
Other income		6,751	10,388
Changes in inventories of finished goods and work in progress		29,165	15,196
Raw materials and consumables used		(519,629)	(417,736)
Employee benefits expenses		(177,313)	(145,999)
Depreciation and amortisation of property, plant and equipment		(69,938)	(55,068)
Impairment loss recognised in respect of goodwill		—	(9,060)
Impairment loss recognised in respect of patents and trademarks		—	(1,056)
Other expenses		(169,449)	(137,806)
Finance costs		(14,504)	(9,227)
Profit before taxation	4	77,990	148,466
Taxation	5	(14,142)	(21,790)
Profit for the period		63,848	126,676
Attributable to:			
Equity holders of the Company		62,215	124,124
Minority interests		1,633	2,552
Profit for the period		63,848	126,676
Dividends paid	6	68,180	61,952
Earnings per share	7		
— Basic		10.04 cents	20.04 cents
— Diluted		10.04 cents	20.03 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

	Notes	30th June, 2006 (unaudited) HK\$'000	31st December, 2005 (audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	8	35,700	35,700
Property, plant and equipment	8	800,913	708,280
Prepaid lease payments — non-current portion		43,656	39,313
Deposits paid for acquisition of property plant and equipment		19,037	16,883
		899,306	800,176
Current assets			
Inventories		601,519	531,036
Trade and other receivables	9	516,327	469,751
Bills receivable	9	47,365	48,564
Prepaid lease payments — current portion		1,014	914
Taxation recoverable		4,994	4,979
Bank balances and cash		144,953	150,582
		1,316,172	1,205,826
Current liabilities			
Trade and other payables	10	254,271	295,378
Bills payable	10	30,866	40,847
Dividend payable		26	14
Taxation payable		43,191	46,806
Unsecured bank borrowings	11	459,616	310,206
Bank overdraft		104	1,797
Floating rate notes	12	—	150,000
		788,074	845,048

		30th June, 2006 (unaudited) HK\$'000	31st December, 2005 (audited) HK\$'000
	Note		
Net current assets		528,098	360,778
Total assets less current liabilities		1,427,404	1,160,954
Non-current liabilities			
Unsecured bank borrowings	11	250,000	—
		1,177,404	1,160,954
CAPITAL AND RESERVES			
Share capital	13	62,001	61,968
Reserves		1,088,755	1,074,529
Equity attributable to equity holders of the Company		1,150,756	1,136,497
Minority interests		26,648	24,457
		1,177,404	1,160,954

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

	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, 2005	61,881	112,208	(3,636)	11,966	1,496	51,017	756,609	991,541	20,862	1,012,403
Effects of changes in accounting policies	—	—	3,636	(11,966)	—	—	8,330	—	—	—
At 1st January, 2005 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 operations 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 paid 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
Exchange differences arising from translation of foreign operations recognised directly in equity	—	—	—	—	19,542	—	—	19,542	620	20,162
Profit for the period	—	—	—	—	—	—	116,737	116,737	2,504	119,241
Total recognised income and expense for the period	—	—	—	—	19,542	—	116,737	136,279	3,124	139,403
Shares issued on exercise of share options	15	461	—	—	—	—	—	476	—	476
Interim dividend paid	—	—	—	—	—	—	(55,767)	(55,767)	—	(55,767)
Transfer	—	—	—	—	—	24,475	(24,475)	—	—	—
At 31st December, 2005	61,968	114,992	—	—	20,439	75,492	863,606	1,136,497	24,457	1,160,954
Exchange differences arising from translation of foreign operations recognised directly in equity	—	—	—	—	19,142	—	—	19,142	558	19,700
Profit for the period	—	—	—	—	—	—	62,215	62,215	1,633	63,848
Total recognised income and expense for the period	—	—	—	—	19,142	—	62,215	81,357	2,191	83,548
Shares issued on exercise of share options	33	1,049	—	—	—	—	—	1,082	—	1,082
Final dividend paid for the year ended 31st December, 2005	—	—	—	—	—	—	(68,180)	(68,180)	—	(68,180)
At 30th June, 2006 (unaudited)	62,001	116,041	—	—	39,581	75,492	857,641	1,150,756	26,648	1,177,404

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

	Six months ended 30th June,	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Net cash (used in) from operating activities	(22,814)	57,388
Net cash used in investing activities		
Purchase of property, plant and equipment	(162,096)	(126,059)
Proceeds on disposal of property, plant and equipment	4,318	2,003
Other investing cash flows	1,665	3,335
	(156,113)	(120,721)
Net cash from (used in) financing activities		
New bank borrowings raised	424,402	64,179
Repayments of bank borrowings	(35,535)	(179,763)
Repayment of floating rate notes	(150,000)	—
Dividend paid	(68,180)	(61,952)
Other financing cash flows	1,094	409
	171,781	(177,127)
Net decrease in cash and cash equivalents	(7,146)	(240,460)
Cash and cash equivalents at the beginning of the period	148,785	441,672
Effect of foreign exchange rates changes	3,210	(2,733)
Cash and cash equivalents at the end of the period	144,849	198,479
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents, being		
Bank balances and cash	144,953	198,479
Bank overdrafts	(104)	—
	144,849	198,479

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2006

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 on the historical cost basis, except for certain properties, which are measured at fair values, 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, 2005.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”), which are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied any of the new standards, amendments or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

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

Six months ended 30th June, 2006

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
TURNOVER			
External sales	909,975	82,932	992,907
RESULTS			
Segment results	99,395	10,338	109,733
Unallocated corporate income			6,751
Unallocated corporate expenses			(23,990)
Finance costs			(14,504)
Profit before taxation			77,990
Taxation			(14,142)
Profit for the period			63,848

Six months ended 30th June, 2005

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
TURNOVER			
External sales	808,024	90,810	898,834
RESULTS			
Segment results	160,667	17,293	177,960
Unallocated corporate income			10,388
Unallocated corporate expenses			(30,655)
Finance costs			(9,227)
Profit before taxation			148,466
Taxation			(21,790)
Profit for the period			126,676

4. PROFIT BEFORE TAXATION

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

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
Impairment loss on trade and other receivables (included in other expenses)	2,357	7,487
Cost of inventories recognised as an expense	752,174	600,705
Gain on disposal of property, plant and equipment	(1,629)	(579)
Interest income	(1,665)	(3,335)

5. TAXATION

	Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	28	60
Taxation in jurisdictions outside Hong Kong	14,114	21,730
	14,142	21,790

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

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 People's Republic of China (the "PRC"), certain PRC subsidiaries enjoyed a 50% reduction on PRC enterprise income tax during the period.

Pursuant to an approval by local tax authority, a subsidiary of the Company is granted advanced-technology exemption from 50% PRC enterprise income tax reduction for three years with the period commencing 1st January, 2005.

6. DIVIDENDS

On 18th May, 2006, a dividend of HK11 cents per share was paid to shareholders as final dividend for the year ended 31st December, 2005 (2005: HK10 cents per share).

The Directors have determined that an interim dividend of HK4.5 cents per share (2005: HK9 cents per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 29th September, 2006.

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,	
	2006 HK\$'000	2005 HK\$'000
Earnings		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	62,215	124,124
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	619,827,403	619,329,823
Effect of dilutive potential ordinary shares on exercise of share options of the Company	74,543	290,693
Weighted average number of ordinary shares for the purposes of diluted earnings per share	619,901,946	619,620,516

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

At 30th June, 2006, the Directors considered the carrying amounts 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. Consequently, no fair value gains or losses has been recognised in the current period.

During the period, the Group incurred expenditures of approximately HK\$44,871,000 on the construction in progress in the PRC.

In addition, the Group spent approximately HK\$92,705,000 and HK\$12,019,000 on acquisition of plant and machinery, furniture and equipment, respectively, for the purpose of expanding the Group's business.

9. 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\$445,862,000 (31st December, 2005: HK\$431,803,000).

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
0 to 60 days	313,927	305,277
61 to 90 days	102,732	92,754
Over 90 days	76,568	82,336
	493,227	480,367

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

Included in trade and other payables are trade payables of approximately HK\$129,741,000 (31st December, 2005: HK\$151,856,000).

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
0 to 60 days	104,801	137,007
61 to 90 days	27,527	25,483
Over 90 days	28,279	30,213
	160,607	192,703

11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$424,402,000 (2005: HK\$64,179,000) which were used for repayment of the floating rate notes and general working capital requirement. Included in the amounts of new bank loans raised, approximately HK\$250,000,000 is not repayable within one year and the remaining balance is repayable within one year. The loans bear interest ranging from 3.78% to 5.54%.

In addition, the Group repaid bank loans amounting to approximately HK\$35,535,000 (2005: HK\$179,763,000) during the period.

12. FLOATING RATE NOTES

The floating rate notes were fully repaid in 2006.



13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Issued and fully paid		
At 1st January, 2006	619,677,303	61,968
Exercise of share options	<u>328,000</u>	<u>33</u>
At 30th June, 2006	<u>620,005,303</u>	<u>62,001</u>

14. CAPITAL COMMITMENTS

As at 30th June, 2006, the Group had capital expenditures amounting to approximately HK\$63,470,000 (31st December, 2005: HK\$147,140,000) 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, 2006 was approximately HK\$993 million (2005: approximately HK\$899 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2006 was approximately HK\$62 million (2005: approximately HK\$124 million). Basic earnings per share for the six months ended 30th June, 2006 was HK10.04 cents (2005: HK20.04 cents)

Throughout the reviewed period, the Group's profit for the six months ended 30th June, 2006 is substantially lower than that of the same period in the year of 2005. The decrease in profit can be attributed to the slow-down in business growth of the Asian manufacturing sector and the increasing production cost in China. Furthermore, the Group is expanding and restructuring its plants in China, thus resulting a short-term increase in the operating cost.

In terms of the external market situation, the slow-down of economy in the United States and Western European countries has forced the industrialized nations to induce protection towards their mould industries. As a result, local mould makers, one of the basic customer segments of the Group, suffered unexpectedly slow growth in the sales. Facing the sluggish market situation, customers held back machining jobs previously contracted out to the Group to absorb their own excessive production capacity. As a result, the average contract value of non-standard mould bases was reduced, imposing pressure on the average selling price of the Group's products. Consequently, despite the Group has registered a satisfactory growth in its turnover, its profit growth rate has not been relatively raised during the reviewed period.

From the macro viewpoint, oil and energy price has remained at a high level, causing drastic fluctuation on industrial material prices and transportation costs. As the living standard in China improves, the wage level is uplifted simultaneously. Coupled with the unstable material prices that go up and down suddenly, the Group's total costs are pushed up.

Viewing internally, the Group's expansion of the Heyuan plant in Guangdong province, China is now in progress. Though plant and production facilities are still under installation and testing, they are contributing to the increase of depreciation cost on plant and machinery. It will take time to witness the return on capital investment during this expansion period. Furthermore, in order to improve the Group's productivity in the long run, production facilities of the Dongguan plant in Guangdong province is being merged into the Heyuan plant. To carry out such

merger, relocation cost is incurred and it takes time for both manpower and machineries to be smoothly coordinated after the restructuring. Short term negative impact on the production efficiency is inevitable during this period.

In light of the above factors, the Group's profitability performance is not up to satisfactory level during the period under review.

Prospects

Being clouded with uncertainties in the prices of oil and raw materials together with the increasing interest rate, the Group is expected to face challenges in its business operations. Despite the fact that the rising production cost cannot be levied on customers in this stage, the Group still holds a cautiously optimistic view towards its future business development for the reasons below.

The future economic development of China is still promising. As the foreign branded automobile manufacturers have opened up factories in China, more parts and components are being produced locally; the rapid growth of the automobile industry will further boost up the demand for automobile parts and components. As a consequent, the Group's business in China has much room for continuous development. It is anticipated that markets in the Eastern and Northern China have great potential for further growth whereas the market in Southern China still maintains a steady progress. Facing such market opportunity, the Group will continuously develop its distribution and logistics network. Capitalizing on the advantage of its economy of production scale and comprehensive logistics network, the LKM products can be delivered to its customers promptly. By securing larger market coverage, the Group can further fortify its competitive position.

Though the raw material market still fluctuates sharply, it is expected the prices of both imported mould steels and those produced within China will be gradually stabilized, thus the Group will be in a better position to formulate appropriate material procurement strategies. The Group will strive to control its production cost by improving production workflow. The Group will also strengthen its training for management and technical employees to establish a more effective and competitive workforce. The eventual aim of the Group is to maintain high quality with optimal costs.

The expansion of Heyuan plant in Guangdong province is expected to be completed by the end of this year with the additional production capacity commenced by stages. The production facilities and manpower of Dongguan plant will be fully merged into Heyuan plant during the same period. The production capacity of the Heyuan plant, after its expansion and merger with the production facilities of Dongguan plant, will be much enlarged and the production system more efficient and

streamlined. Moreover, through the restructuring of human resource, the management and technical skills of the staff will become more sophisticated. The Group is confident that enhanced productivity and improved overall performance will be achieved in the year of 2007.

Looking ahead, the business environment remains very challenging. The Group will uphold its positive and proactive attitude in meeting every challenge. Being equipped with ample experience and sustaining its pragmatic principles, the Group is expected to maintain a steady growth in its future business.

Liquidity and Financial Resources

As at 30th June, 2006, the Group had a net cash deficit of approximately HK\$565 million. The Group had cash balance of approximately HK\$145 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$710 million, equal to approximately 62% of equity attributable to equity holders of the Company of approximately HK\$1,151 million.

Employees and Remuneration Policies

As at 30th June, 2006, the Group employed a total of approximately 11,770 employees, including approximately 11,430 employees in its PRC production sites and approximately 340 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 HK4.5 cents per share (2005: HK9 cents per share) in respect of the six months ended 30th June, 2006 to be payable on or about 17th October, 2006 to shareholders whose names appear in the Register of Members of the Company on 29th September, 2006.

Closure of Register of Members

The Register of Members of the Company will be closed from 28th September, 2006 to 29th September, 2006, 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 27th September, 2006.

Shareholders whose securities accounts with The Central Depository (Pte) Limited in Singapore are credited with shares in the Company as at 5:00 p.m. on 27th September, 2006 will be entitled to the interim dividend.

Directors' Interests in Shares

As at 30th June, 2006, 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 Issuers (the "Model Code"):

Interests in the Company

Name of director	Capacity	Number of shares held		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	55.63%
Siu Yuk Lung (Notes 1, 3 & 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	344,908,631	55.63%
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, 2006.

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, 2006, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 118,000, representing about 0.02% 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, 2006	Exercised during the period	At 30th June, 2006			
						HK\$
Category 1: Directors						
Liu Wing Ting, Stephen	150,000	(150,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total	150,000	(150,000)	—			
Category 2: Employees						
Total	296,000	(178,000)	118,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total all categories	446,000	(328,000)	118,000			

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was about HK\$5.

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, 2006, 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	40.16%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.45%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.45%
Commonwealth Bank of Australia (Note)	Interest of controlled corporation	54,427,608	8.78%

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, 2006.

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, 2006.



Code on Corporate Governance Practices

The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the review period.

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 review period.

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, 8th September, 2006